

BHP BILLITON LTD
Form 6-K
March 19, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

March 19, 2015

BHP BILLITON LIMITED
(ABN 49 004 028 077)
(Exact name of Registrant as specified in its charter)

BHP BILLITON PLC
(REG. NO. 3196209)
(Exact name of Registrant as specified in its charter)

VICTORIA, AUSTRALIA
(Jurisdiction of incorporation or organisation)

ENGLAND AND WALES
(Jurisdiction of incorporation or organisation)

171 COLLINS STREET, MELBOURNE,

NEATHOUSE PLACE, VICTORIA, LONDON,

VICTORIA 3000 AUSTRALIA
(Address of principal executive offices)

UNITED KINGDOM
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:
x Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934: Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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SOUTH32 LIMITED INFORMATION MEMORANDUM

In relation to the application for admission of South32 Limited to the official list of ASX

1 PURPOSE OF INFORMATION MEMORANDUM

This Information Memorandum has been prepared by South32 Limited ABN 84 093 732 597 (**South32**) in connection with its application for:

(a) admission to the official list of ASX; and

(b) South32 Shares to be granted official quotation on the stock market conducted by ASX.

The Information Memorandum will only apply if the Demerger is approved and implemented. This Information Memorandum:

is not a prospectus or disclosure document lodged with ASIC under the Corporations Act;

does not constitute or contain any offer of South32 Shares for subscription or purchase or any invitation to subscribe for or buy South32 Shares; and

is dated 16 March 2015.

2 INCORPORATION OF SOUTH32 LISTING DOCUMENT

(a) Capitalised terms defined in the Listing Document which is included as Appendix 1 to this Information Memorandum (**South32 Listing Document**) have the same meaning where used in this Information Memorandum (unless the context requires otherwise).

(b) The entire South32 Listing Document, and any supplementary booklets issued in connection with the Demerger, are taken to be included in this Information Memorandum.

3 ASX LISTING

3.1 INFORMATION MEMORANDUM CONTENTS

The South32 Directors believe that this Information Memorandum contains all the information which would have been required under section 710 of the Corporations Act if the Information Memorandum were a prospectus in respect of an offering by South32 of the same number of South32 Shares as will be transferred to BHP Billiton Shareholders under the Demerger and for which quotation on ASX will be sought.

3.2 ASIC AND ASX TAKE NO RESPONSIBILITY FOR THE INFORMATION MEMORANDUM

Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Information Memorandum. The fact that ASX may admit South32 to the official list of ASX should not be taken in any way as an indication of the merits of an investment in South32.

4 CAPITAL RAISINGS

South32 had 450,000,004 shares on issue as at 14 March 2015, being the latest practicable date prior to the publication of this document. As part of implementing the Demerger:

South32 intends to carry out a share split, such that the actual number of South32 Shares at the time of implementation of the Demerger will be equal to the number of BHP Billiton Limited Shares on issue on the Record Date;

BHP Billiton Plc will be issued with a number of South32 Shares so that it will hold a number of South32 Shares equal to the number of BHP Billiton Plc Shares on issue on the Record Date (or a subsidiary of BHP Billiton Plc will be issued with those South32 Shares and on-transfer them to BHP Billiton Plc); and

BHP Billiton Limited will subscribe for an additional South32 Share for cash consideration, in the manner described in Section 14.4(c) of the South32 Listing Document.

Otherwise than as set out above, South32 has not raised any capital for the three months before the date of this Information Memorandum, and will not need to raise any capital for three months after the date of this Information Memorandum.

However, South32 may, if the Demerger proceeds, issue South32 Shares to officers and employees in the three months after the date of this Information Memorandum under its proposed employee incentive schemes as described in Sections 8.2(b), 8.2(c) and 8.7 of the South32 Listing Document.

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5 DISCLOSURE OF INTERESTS

5.1 DIRECTORS

Except as set out in this Information Memorandum, no director or proposed director of South32 or an entity in which any such director or proposed director is a member or partner has at the date of this Information Memorandum, or within two years before the date of this Information Memorandum had, any interests in the promotion of South32 or in any property acquired or proposed to be acquired by South32 and no amounts, whether in cash or securities or otherwise, have been paid or agreed to be paid by any person to any director or proposed director, or to any entity in which a director or proposed director is a member or partner, either to induce them to become, or to qualify them as, a director, or otherwise for services rendered by them or by the entity in connection with the promotion or formation of South32.

5.2 EXPERTS

Except as set out in this Information Memorandum, no expert named in this Information Memorandum or entity in which any such expert is a partner or member has any interest in the promotion of South32 or in any property acquired or proposed to be acquired by South32 and no amounts, whether in cash or securities or otherwise, have been paid or agreed to be paid by any person to any such expert or to any entity in which any such expert is a partner or member for services rendered by him or her or the entity in connection with the promotion or formation of South32.

6 CONSENTS

Section 15.22 of the South32 Listing Document sets out the parties that have consented to be named in the South32 Listing Document and the nature of the consent given by those parties.

7 SUPPLEMENTARY INFORMATION

South32 will issue a supplementary Information Memorandum if it becomes aware of any of the following between the date of this Information Memorandum and the date the South32 Shares are quoted on ASX:

a material statement in this Information Memorandum being misleading or deceptive;

a material omission from this Information Memorandum;

a significant change affecting a matter included in this Information Memorandum; or

a significant new matter arising that would have been required to be included in this Information Memorandum if it had arisen before the date of this Information Memorandum.

8 AUTHORISATION

Signed by, or (with written authorisation) on behalf of, each director and proposed director of South32:

David Crawford AO

Graham Kerr

Keith Rumble

Xolani Mkhwanazi

Dated: 16 March 2015

APPENDIX 1

SOUTH32 LISTING DOCUMENT

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1 SUMMARY

The information in this document has been prepared to meet the disclosure requirements associated with the admission to trading of South32's ordinary shares on the ASX, JSE and LSE (as noted in Section 15.10(b), ASIC has granted an exemption from the prospectus provisions in the Corporations Act and this document is not a prospectus under the Corporations Act). It therefore reflects and meets the disclosure requirements of three jurisdictions.

The form and content of the summary below are prescribed by European Union Regulation and are required to be included for the purposes of the admission of the South32 Shares to trading on the LSE. The statements in Section A.1 in relation to claims based on the summary are only applicable where claims are brought on the basis of the UK Prospectus and do not alter the rights or liabilities of any person in relation to the information memorandum for the purposes of the listing of South32 Shares on the ASX or the pre-listing statement for the purposes of the listing of South32 Shares on the JSE.

Summaries are made up of disclosure requirements known as Elements. These Elements are numbered in Sections A E (A.1 E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of not applicable.

SECTION A INTRODUCTION AND WARNING

A.1 Warning

This summary should be read as an introduction to this document. Any decision to invest in South32 Shares should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this document or it does not provide, when read together with other parts of this document, key information in order to aid investors when considering whether to invest in such securities.

A.2 Any consents to and conditions regarding use of this document

Not applicable.

SECTION B ISSUER

B.1 Legal and commercial name of the company

South32 Limited

B.2 Domicile and legal form of the company

South32 is a public company incorporated in Australia on 12 July 2000 (formerly known as BHP Coal Holdings Pty Limited) and registered under the Corporations Act.

B.3 Description of South32's current operations and principal activities

Following implementation of the Demerger, South32 will be a globally diversified metals and mining company with a portfolio of assets producing alumina, aluminium, coal, manganese, nickel, silver, lead and zinc. South32 will have multiple large assets, the majority of which are competitively positioned in the first or second quartile of their respective industry cost curves. South32's operated assets will have the advantage of having historically been managed and maintained in accordance with BHP Billiton's standards and practices.

South32's portfolio will comprise of the South32 Businesses, which are:

Worsley Alumina: an 86 per cent interest in an integrated bauxite mining and alumina refining operation located in Western Australia, Australia;

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South Africa Aluminium: a 100 per cent interest in the Hillside smelter near Richards Bay, South Africa. The business previously included the Bayside smelter, which was closed in FY2014, and Bayside casthouse. An agreement has been reached for the sale of the assets comprising the Bayside casthouse (the sale is subject to certain regulatory and other conditions, which are expected to be fulfilled in the first half of CY2015);

Mozal Aluminium: a 47.1 per cent interest in the Mozal Aluminium smelter located near Maputo, Mozambique;

Brazil Aluminium: a 14.8 per cent interest in the Mineração Rio do Norte open-cut bauxite mine (**MRN Mine**), as well as a 36 per cent interest in the Alumar alumina refinery and a 40 per cent interest in the Alumar aluminium smelter (together with certain interests in ancillary facilities and lands);

South Africa Energy Coal: a 90 per cent interest in four operating energy coal mines in the Witbank region in the Mpumalanga province of South Africa;

Illawarra Metallurgical Coal: a 100 per cent interest in three underground metallurgical coal mines located near Wollongong in New South Wales, Australia;

Australia Manganese: a 60 per cent interest in the Groote Eylandt Mining Company (**GEMCO**) open-cut manganese mine and the Tasmanian Electro Metallurgical Company (**TEMCO**) manganese alloy plant. GEMCO is located in the Northern Territory, Australia near port facilities at Milner Bay, and TEMCO is located in Tasmania, Australia, near the Bell Bay wharf;

South Africa Manganese: a 44.4 per cent effective interest in the Mamatwan open-cut mine and the Wessels underground mine (collectively known as the **Hotazel Mines**) and a 60 per cent interest in the Samancor Manganese Metalloys alloy plant (**Metalloys**). The Hotazel Mines are located near the town of Kuruman, South Africa;

Cerro Matoso: a 99.94 per cent interest in an open-cut lateritic nickel mine and ferronickel smelter located near Montelibano, in the Córdoba Department in northern Colombia;

Cannington: a 100 per cent interest in a silver, lead and zinc underground mine and concentrator operation located in northwest Queensland, Australia, approximately 200 km southeast of Mount Isa.

B.4a Description of significant trends affecting the company and the industries in which it operates

As a company which mines and produces commodities used in a range of manufacturing and industrial processes, South32 is exposed to fluctuations in the prices of its key commodities. Global demand and supply for the commodities the South32 Businesses produce are key drivers of commodity prices, and fluctuations in product demand and supply therefore affect South32's results, including cash flows and asset values.

B.5 Description of the South32 Group and the company's position within it

South32 is an Australian public company, which will be the holding company of the South32 Group. As at the date of this document, South32 is a wholly-owned subsidiary of BHP Billiton Limited. As part of the Demerger, South32 will be separated from the BHP Billiton Group to operate as a standalone entity.

South32 will be headquartered in Perth, Australia, with its Australian operations managed from Perth and African operations managed from a regional head office in Johannesburg, South Africa. South32 will also have a global shared service centre located in Johannesburg, South Africa.

B.6 Interests in the company and voting rights

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), the entire issued share capital of South32 is held by BHP Billiton Limited. Following the Demerger, the shareholders of South32 shall be the same as the shareholders of BHP Billiton as at the relevant Record Date, except where BHP Billiton Shareholders are Ineligible Overseas Shareholders or elect to sell their South32 Shares pursuant to the Sale Facility.

To the knowledge of South32 and BHP Billiton Limited:

BHP Billiton is not (and therefore South32, immediately following the Demerger, will not be) directly or indirectly majority owned or controlled by another corporation or by any foreign government.

Immediately following the implementation of the Demerger, there is no person who, directly or indirectly, jointly or severally, will exercise or could exercise control over South32.

There are no arrangements the operation of which may at a subsequent date result in a change in control of BHP Billiton or South32 (other than as a result of implementation of the Demerger).

No public takeover offers by third parties have been made in respect of BHP Billiton's shares during the current and preceding financial year.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), to the knowledge of South32 and BHP Billiton Limited, there are no persons that are directly or indirectly interested in five per cent or more of the issued shares in BHP Billiton Limited and the following persons are directly or indirectly interested in three per cent or more of the issued shares in BHP Billiton Plc:

Aberdeen Asset Managers Limited, which holds 157,061,561 shares of which it controls voting rights in respect of 127,971,161 shares, representing 6.06 per cent of the BHP Billiton Plc Shares on issue (as notified on 13 March 2015);

BlackRock Inc, which holds and controls voting rights in respect of 213,014,043 shares, representing 10.08 per cent of the BHP Billiton Plc Shares on issue (as notified on 3 December 2009),

and none of the shareholders referred to above has or will have different voting rights from any other holder of South32 Shares in respect of any South32 Shares held by them.

2 **South32** Listing Document

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The table below sets out summary historical combined financial information for the six months ended 31 December 2014 (H1 FY2015) and the six months ended 31 December 2013 (H1 FY2014), which has been extracted from the historical combined financial information of the South32 Group set out in Annexure 2, and for the twelve months ended 30 June 2014 (FY2014), the twelve months ended 30 June 2013 (FY2013) and the twelve months ended 30 June 2012 (FY2012), which has been extracted from the historical combined financial information of the South32 Group set out in Annexure 1.

Table 1.1: Selected summary South32 historical combined financial information

| US\$M | 6 months ended | | 12 months ended June | | |
|---|----------------|---------------|----------------------|---------------|---------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Income statement information | | | | | |
| Revenue | 5,040 | 5,348 | 10,444 | 12,093 | 13,835 |
| Profit/(loss) from operations | 1,251 | 554 | 774 | (963) | 2,060 |
| Profit/(loss) before taxation | 1,214 | 446 | 422 | (1,096) | 2,018 |
| Profit/(loss) after taxation | 738 | 358 | 217 | (1,304) | 1,433 |
| Other financial information^(a) | | | | | |
| Underlying EBITDA | 1,306 | 976 | 2,055 | 2,118 | 2,831 |
| Underlying EBIT | 800 | 510 | 1,070 | 1,154 | 1,926 |
| Underlying Earnings | 534 | 369 | 614 | 755 | 1,258 |
| Cash flow information | | | | | |
| Cash generated from operations | 1,131 | 781 | 2,108 | 2,138 | 2,899 |
| Less interest and tax, net of dividends received | 118 | (288) | (438) | (712) | (506) |
| Net operating cash flows | 1,249 | 493 | 1,670 | 1,426 | 2,393 |
| Capital expenditure | (411) | (394) | (769) | (1,139) | (2,013) |
| Net operating cash flows after capital expenditure | 838 | 99 | 901 | 287 | 380 |
| Balance sheet information | | | | | |
| Current assets | 12,630 | 5,361 | 5,002 | 5,236 | 7,544 |
| Non-current assets | 14,093 | 14,322 | 14,688 | 14,307 | 16,468 |
| Total assets | 26,723 | 19,683 | 19,690 | 19,543 | 24,012 |
| Current liabilities | 1,936 | 2,601 | 2,133 | 2,764 | 3,194 |
| Non-current liabilities | 7,240 | 6,793 | 7,737 | 6,659 | 7,006 |
| Total liabilities | 9,176 | 9,394 | 9,870 | 9,423 | 10,200 |
| Net assets/Total invested capital | 17,547 | 10,289 | 9,820 | 10,120 | 13,812 |

- (a) Underlying Earnings is the key measure that South32 proposes to use to assess the performance of South32, make decisions on the allocation of resources and assess senior management. In addition, the performance of each of the South32 Businesses and operational management will be assessed based on Underlying EBIT. Underlying EBITDA and Underlying EBIT are calculated based on the accounting policies that South32 proposes to use when discussing its operating results in future periods. Refer to note 2 Segment reporting of Annexure 1 for further details of this approach. The accounting policies proposed by South32 for calculating these measures differ from those currently used by BHP Billiton, the key differences being that South32 will adjust for certain items each period, irrespective of materiality, and South32 management will retain the discretion to adjust for other significant non-recurring items that are not considered to reflect the underlying performance of the assets it holds.

1 Summary 3

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The significant changes to South32's financial condition and operating results during or subsequent to the period covered by the historical combined financial information set out above, to the date of this document, are as follows:

reductions in operating costs, including the benefit of a stronger US dollar, have resulted in improved profitability during H1 FY2015;

there was a year on year decrease in revenue in FY2014 of US\$1,649 million and US\$1,742 million in FY2013. The primary cause was a fall in prices for most commodities over these periods, which in turn led to a significant decrease in profit attributable to shareholders;

the fall in commodity prices had an impact on asset values across the period. A decline in export prices for energy coal resulted in impairments booked against the South Africa Energy Coal assets in FY2014 of US\$292 million. The strength in the Australian dollar and weak alumina prices at the time led to a reduction in the asset value of Worsley Alumina in FY2013 of US\$2,190 million;

cost pressures impacted operating margins leading to the cessation of some smelting activities at South Africa Aluminium in June 2014. Closure costs of US\$167 million were recorded in FY2014 in relation to the cessation of production;

as part of a regular portfolio review in June 2012, various operations and projects were either suspended or closed early. These included: the temporary suspension of production at Australia Manganese, the permanent closure of the Metalloys South Plant at South Africa Manganese and the termination of the Samancor Manganese Gabon project, resulting in the recognition of US\$93 million in asset write-downs;

the move to joint control arising from changes to the joint venture arrangements for the Manganese Business effective from 2 March 2015 resulted in a gain of approximately US\$2 billion recorded after 31 December 2014 and the subsequent equity accounting for South32's interest in the Manganese Business;

certain other adjustments resulting from the Internal Restructure in preparation for the Demerger, including tax charges;

as part of the Internal Restructure during H1 FY2015 there was an issue of shares to BHP Billiton Limited of US\$8 billion to capitalise South32 to enable the acquisition of the companies that will comprise the South32 Group. The proceeds were primarily placed on deposit with BHP Billiton.

B.8 Selected pro forma historical financial information

The following is a summary of South32 pro forma historical financial information for the periods, which has been prepared to illustrate the effect:

- (a) on the income statement and cash flow statement of the move to joint control of the Manganese Business and the impact of the Demerger (including adjustments to reflect reversal of intercompany net financing costs and dividends), as if they had occurred on 1 July 2013;
- (b) on the balance sheet, of the move to joint control of the Manganese Business and the Demerger (including adjustments to reflect settlement of intercompany balances between South32 and BHP Billiton and Demerger set up costs to be incurred by South32 after the Demerger takes effect), as if they had occurred on 31 December 2014.

The South32 pro forma historical financial information has been prepared, and is intended, for illustrative purposes only. It addresses a hypothetical situation and therefore does not purport to reflect South32's actual financial performance or the actual financial position that South32 would have achieved if South32 had operated as a standalone entity for the periods presented.

Table 1.2: Selected summary of South32's pro forma historical income statement and cash flow information(a)

| US\$M | 6 months ended December H1 FY2015 | 12 months ended June FY2014 |
|--|---|-----------------------------------|
| Income statement information | | |
| Revenue | 4,089 | 8,344 |
| Profit from operations | 724 | 337 |
| Profit before taxation | 729 | 150 |
| Profit after taxation | 306 | 103 |
| Basic earnings per share (US cents) | 5.75 | 1.93 |
| Other financial information | | |
| Underlying EBITDA | 1,065 | 1,483 |
| Underlying EBIT | 648 | 660 |
| Underlying Earnings | 442 | 446 |
| Underlying basic earnings per share (US cents) | 8.30 | 8.38 |

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| US\$M | 6 months ended December H1 FY2015 | 12 months ended June FY2014 |
|--|---|-----------------------------------|
| Cash flow information | | |
| Cash generated from operations | 929 | 1,419 |
| Dividends received (including equity accounted investments) | 131 | 206 |
| Capital expenditure | (317) | (590) |
| Net operating cash flows before financing activities and tax and after capital expenditure | 743 | 1,035 |

- (a) As described in Section 10.2, no pro forma adjustments have been made to South32's pro forma historical consolidated income statements or cash flow information to reflect the anticipated additional corporate overhead costs or savings of South32 operating as a standalone entity or savings from implementation of South32 regional operating model (refer to Section 11.2(d)).

Table 1.3: Selected summary of South32's pro forma historical balance sheet information

| US\$M | South32 31 December 2014 | Adjustments | South32 pro forma 31 December 2014 |
|--|-----------------------------|----------------|--|
| Balance sheet information | | | |
| Current assets | 12,630 | (10,075) | 2,555 |
| Non-current assets | 14,093 | 1,037 | 15,130 |
| Total assets | 26,723 | (9,038) | 17,685 |
| Current liabilities | 1,936 | (201) | 1,735 |
| Non-current liabilities | 7,240 | (4,240) | 3,000 |
| Total liabilities | 9,176 | (4,441) | 4,735 |
| Net assets/Total invested capital | 17,547 | (4,597) | 12,950 |

B.9 Profit forecast or estimate

Not applicable.

B.10A description of the nature of any qualifications in the Independent Audit Report on the historical combined financial information

Not applicable. There are no qualifications to the Independent Audit Report on the historical combined financial information.

B.11 Working capital

Not applicable. South32 and its Directors are of the opinion that the South32 Group has sufficient working capital for its present requirements, that is for at least the next 12 months following the date of publication of this document.

SECTION C SECURITIES

C.1 Types and class of securities being admitted to trading, including the security identification number

This document has been prepared in connection with the demerger of a selection of BHP Billiton Group's alumina, aluminium, coal, manganese, nickel, silver, lead and zinc assets into a separate company, South32. South32 will apply for admission of its ordinary shares to trading on the ASX, JSE and LSE.

Following the Demerger, South32 is expected to have a primary listing on the ASX and a secondary listing of all the issued South32 Shares in the general mining sector of the main board of the JSE and all the issued South32 Shares will be admitted to the standard segment of the Official List and to trading on the LSE's main market for listed securities.

When admitted to trading on the ASX, JSE and LSE, the South32 Shares will be registered with an ISIN AU000000S320.

South32 will also establish an ADS program, but the South32 American Depositary Shares (**ADSs**) will not be listed on the New York Stock Exchange or any other securities exchange in the United States and will trade over-the-counter.

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C.2 Currency of the securities in issue

The South32 Shares will be denominated in Australian dollars and quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE. South32 ADSs will be denominated in US dollars.

C.3 Number of shares in issue and par value

Immediately following the implementation of the Demerger, the issued share capital of South32 will be equal to the aggregate number of BHP Billiton Limited Shares on issue on the Limited Record Date and BHP Billiton Plc Shares on issue on the Plc Record Date. The South32 Shares will have no par value and, immediately following implementation of the Demerger, all South32 Shares will be fully paid.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), there were 3,211,691,105 BHP Billiton Limited ordinary shares and 2,112,071,796 BHP Billiton Plc ordinary shares on issue.

C.4 Rights of securities

All the South32 Shares will rank pari passu in all respects, there being no conversion or exchange rights attaching thereto, and all of the South32 Shares will have equal rights to participate in capital, dividend and profit distributions by South32.

C.5 Restrictions on the transferability of shares

There are no restrictions on the transferability of the South32 Shares imposed by the South32 Constitution.

C.6 Application for admission to trading on a regulated market

South32 will apply for its ordinary shares to be admitted to trading on the ASX, JSE and LSE.

South32 ADSs will not be listed on the New York Stock Exchange or any other securities exchange in the United States and will trade over-the-counter.

C.7 Dividend policy

The South32 dividend policy will be determined by the South32 Board at its discretion, having regard to South32's first two priorities for cash flow, being a commitment to maintain safe and reliable operations and an intention to maintain an investment grade credit rating through the cycle.

South32 intends to distribute a minimum of 40 per cent of Underlying Earnings as dividends to its 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.

South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system. The extent to which a dividend can be franked will depend on South32's franking account balance (which immediately following the Demerger will be nil) and its level of distributable profits. South32's franking account balance will depend on the amount of Australian income tax paid by South32 following the Demerger. The timing of South32's Australian income tax payments may also impact its capacity to frank any dividend declared for the half year ending 31 December 2015.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances.

South32 does not intend to pay a dividend for the period ending 30 June 2015, which will conclude only one month after the implementation of the Demerger.

SECTION D RISKS

D.1 Key information on key risks specific to South32 and the industries in which it operates

External risks relating to the industries in which South32 operates

The prices South32 obtains for its products are determined by, or linked to, prices in world commodity markets, which have historically been subject to substantial volatility. In addition South32's assets, earnings and cash flows are affected by a wide variety of currencies, with the US dollar being the currency in which the majority of South32's sales are determined, and South32's operating costs are also influenced by the currencies of the countries in which it operates. Fluctuations in commodity prices, currency exchange rates and impacts of ongoing global economic volatility may negatively affect South32's results, including cash flows and asset values.

Actions by governments or political events could have a negative impact on South32 or the South32 Businesses. In particular, South32 or the South32 Businesses could be adversely affected by new or changed government regulations, such as controls on imports, exports and/or prices and changes in fiscal legislation. In addition, South32 or the South32 Businesses could be exposed to the risk of terrorism, civil unrest, nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements, particularly in emerging markets in which the South32 Businesses operate.

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Audits and reviews by administrative bodies, in particular tax authorities, may result in South32 incurring additional tax or royalty payments. South32 is currently the subject of a number of tax-related claims.

Operational risks

South32 Businesses are dependent on access to infrastructure that is economical, and without such access these operations may be disrupted or further development may be prevented. A number of factors could disrupt the availability of the services utilised by the South32 Businesses to transport products to customers, including weather-related problems, rail or port capacity and allocation constraints, key equipment and infrastructure failures and industrial action.

South32 Businesses are dependent on access to water and power that is economical. Such access to water and power may be disrupted or further development may be prevented due to factors such as climate (including drought), changes in allocations, changes in activities or conditions at South32's operations, elections by contract counterparties to cease current arrangements, the term of contractual arrangements ending or changes in government policy.

Unexpected natural or operational catastrophes may adversely impact South32's operations or cause harm to its assets or equipment. In particular, the South32 Businesses rely on access to key port and rail infrastructure which may be subject to port, shipping or rail incidents and include six underground mines that can be exposed to incidents such as fire and explosion, loss of power supply and critical equipment failures.

Business risks

Failure to maintain, realise or enhance existing reserves, discover new reserves or develop new operations could negatively affect South32's future results and financial condition. Production from South32's operations results in existing reserves being depleted over time. The volume and quality of product the South32 Businesses recover may be less than South32 or Competent Persons have estimated. In addition, Mineral Resources and Ore Reserves estimates are expressions of judgement based on knowledge, experience and industry practice, among other things.

Financial risks

South32 is required in its financial statements to include provisions for the expected closure and rehabilitation costs of its operations. Closure and rehabilitation costs require significant judgements and estimates and are therefore subject to change. South32 and its management consider its closure and rehabilitation provisions to be appropriate based on currently available information (including estimated closure dates) and certain assumptions. However, given inherent uncertainties, the future actual expenditure may differ from the amounts currently provided.

One or more of the South32 Businesses may be affected by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover its Ore Reserves or increased operating cost levels.

These may cause South32 to fail to recover all or a portion of its investment in mining assets and may require financial write-downs, adversely impacting financial results.

Sustainability risks

South32 and/or its workforce may be adversely affected by health and safety and environmental risks in respect of its activities. Longer-term health impacts may arise due to the exposure of the South32 workforce to hazardous substances. Potential safety events that may have an adverse impact on South32's operations may occur. In addition South32's operations, by their nature, have the potential to impact biodiversity, land, water resources and related ecosystems including from the discharge of contaminants.

South32's operations are exposed to a range of water and waste water management risks, including water scarcity, water excess, water quality, water discharge or discharge into ground water issues. Some assets are more prone than others to these water management-related risks.

South32 Businesses may be disrupted without the support of the local communities in which they are located. Notwithstanding South32's contributions to the communities in which the South32 Businesses are located, local communities may become dissatisfied with the impact of South32's operations or oppose new development projects, including through litigation, which may affect costs and production, and, in extreme cases, viability of the relevant operation or project.

D.3 Key information on the key risks that are specific to South32 Shares

South32 Shareholders should be aware that there are risks associated with investment in financial products quoted on a stock exchange. Share price movements could affect the value of any investment in South32.

The South32 Shares will be quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE. Dividends in respect of South32 Shares, if any, will be declared in US dollars. Fluctuations in the exchange rate between the US dollar and each of these currencies will affect, among other matters, the local currency value of the South32 Shares and of any dividends.

The rights of South32 Shareholders are governed by Australian law and may differ from the rights available to shareholders under the laws of South Africa, the United Kingdom or the United States.

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SECTION E OFFER

E.1 Proceeds of the issue/offer

Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in South32. BHP Billiton and South32 will not receive any proceeds as a result of the Demerger.

E.2a Reasons for the issue/offer and use of proceeds

Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in South32. South32 will apply for its ordinary shares to be traded on the ASX, JSE and LSE, in connection with the Demerger. South32 will not receive any proceeds as a result of the Demerger.

E.3 Terms and conditions of the offer

Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in South32.

E.4 Interests material to South32/the offer including conflicting interests

Certain South32 Directors and some of the Independent Competent Persons have shareholding interests in BHP Billiton and will therefore have shareholding interests in South32 immediately following the Demerger. South32 does not consider the interests of the Independent Competent Persons to be sufficiently material to compromise their independence. So far as the South32 Directors are aware, no other person involved in the Demerger has any interest, including conflicting ones, that are material to the Demerger.

E.5 Name of persons offering to sell the securities

Lock-up agreements details, including the parties involved and indication of the period of the lock-up

Not applicable.

E.6 Amount and percentage of immediate dilution resulting from the offer

Not applicable.

E.7 Estimated expenses charged to the investor by South32

Not applicable.

8 **South32** Listing Document

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2 RISK FACTORS

In addition to the other information set out in this document, the following risk factors should be carefully considered. The risks and uncertainties described below represent those the South32 Directors consider to be material as at the date of this document. However, these risks and uncertainties are not the only ones facing South32 and the South32 Businesses or relevant to an investment in South32 Shares. Additional risks and uncertainties not presently known to the South32 Directors, or that the South32 Directors currently consider to be immaterial, could also materially and adversely affect the business, results of operations, financial condition and/or prospects of South32. In such case, the market price of the South32 Shares could decline and investors may lose all or part of their investment. Prospective investors in South32 Shares should consider not only the information on key risks summarised in Section 1, but also, among other things, the risks and uncertainties described below.

Many of these are risks to which South32 and the South32 Businesses are already exposed, while others arise or are increased as a result of the Demerger and the ability to take mitigating action may be more limited. Some of these risks may be mitigated by appropriate controls, systems and other actions as further described below, but others will be outside the control of South32 and may not be able to be mitigated.

Investors and prospective investors should consider carefully whether an investment in South32 is a suitable investment in light of the information in this document, their ability to bear risk and the financial resources available to them.

2.1 EXTERNAL RISKS RELATING TO THE INDUSTRIES IN WHICH SOUTH32 OPERATES

(a) Fluctuations in commodity prices and impacts of ongoing global economic volatility may negatively affect South32's results, including cash flows and asset values

The prices South32 obtains for its products are determined by, or linked to, prices in world commodity markets, which have historically been subject to substantial volatility. Commodity prices are affected by underlying global economic and geopolitical factors, industry demand and supply balances, product substitution and national tariffs. In particular, the Chinese market has been a key driver of global materials demand and pricing over the past decade. A slowing in China's economic growth or additional supply has the potential to adversely impact prices for many of South32's products. South32's exposure to a range of commodities and customers operating in different economies, provides a level of diversification to partially protect against this risk.

(b) South32's financial results may be negatively affected by currency exchange rate fluctuations

South32's assets, earnings and cash flows are affected by a wide variety of currencies. The US dollar is the currency in which the majority of South32's sales are determined and its financial results will be reported. Operating costs are influenced by the currencies of those countries where South32 Businesses' mines and processing plants are located and also by those currencies in which the costs of imported equipment and services are determined. The Australian dollar, South African rand, Brazilian real, Colombian peso and US dollar are the most important currencies affecting South32 Businesses' operating costs. Fluctuations in the exchange rates of relevant currencies may impact on South32's financial results.

(c) Actions by governments or political events could have a negative impact on the business

South32 or the South32 Businesses could be adversely affected by new government regulations, such as controls on imports, exports and/or prices. Increasing requirements relating to regulatory and environmental approvals may affect existing operations or potentially cause delays in and adversely affect the expansion of existing operations. South32 could also be adversely affected by changes in fiscal legislation, as South32's operations are based on material long-term investments that are dependent on long-term fiscal stability.

In addition, South32 or the South32 Businesses could be exposed to the risk of terrorism, civil unrest, nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements, changes in laws and policy (including changes in exchange control policies regulating the repatriation of earnings or capital out of the relevant jurisdiction) and governmental reviews and investigations (including historical tax audits), as well as other unforeseeable risks in the jurisdictions in which it operates that could have an adverse impact upon the profitability of an operation. In particular, South32 has operations in emerging markets, where such risks are more prevalent.

Potential government actions, reviews or policies that may have specific application to the South32 Businesses are set out below:

The South African tax policy review by the Davis Commission, the outcomes of which are uncertain and may impact upon the financial results of South32's operations in South Africa.

The Indonesian Government ban on export of unprocessed aluminium and nickel ores, which affects Chinese alumina and nickel pig iron production, may be reversed at any time with potential changes to global supply balances and the prices South32 receives for some of its products.

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Possible amendments to the Mineral and Petroleum Resources Development Act, which are under consideration by the South African Government through the National Assembly. Furthermore, a review of compliance with the Mining Charter is also currently being undertaken by the Department of Minerals and Energy.

In Brazil, the Executive Branch submitted to the Brazilian House of Representatives Bill of Law No 5.807/201 which, if and when approved, will replace the existing Mining Code. Among other changes, the proposed bill of law provides for changes in the procedure for the granting of mineral exploration and concession rights, new rules for the calculation of the Financial Compensation for the Exploitation of Mineral Resources (Compensação Financeira pela Exploração de Recursos Minerais, or CFEM) and the assessment of new taxes on mining activities. A new mining regulatory framework may result in limitations on the term of existing mining concessions and in the tender of mining concessions if they are deemed by the Brazilian government to have strategic and economic importance.

In February 2015, TEMCO was notified of a petition filed with the United States Department of Commerce and the United States International Trade Commission requesting the imposition of antidumping duties on silicomanganese imports of Australian origin (of which TEMCO is the only producer). The petition is being investigated at a preliminary phase by the Department of Commerce and the International Trade Commission and TEMCO intends to co-operate fully in the investigations. TEMCO intends to vigorously contest the claims and strongly defend its position. An adverse outcome could potentially result in the imposition of duties on the sale of TEMCO's product into the United States, which could significantly impact demand for TEMCO's product in that market and, as a result, could impact TEMCO's revenues.

(d) Challenges by administrative bodies, in particular tax authorities, may lead to additional liabilities for South32

Consistent with the general separation principles set out in Section 14.4(b), South32 will assume, and be responsible, for all tax liabilities relating to the South32 Businesses and to the former South32 Businesses, subject to certain exceptions.

Audits and reviews by administrative bodies, in particular tax authorities, may result in South32 incurring additional tax or royalty payments.

Excluding tax exposures that will remain with BHP Billiton, there are certain material claims (or categories of claims) made by tax authorities to which South32 is exposed, which are discussed in further detail below.

In Brazil there are eight separate disputes involving BHP Billiton Metais S.A. (**BMSA**) (a wholly-owned subsidiary of South32), which relate to the payment of Federal and State Value Added Tax, which are currently the subject of proceedings in the Tax Administrative Court. The principal claims relate to non-payment of State Value Added Tax by BMSA on interstate sales of aluminium to customers in the period from 2000 to 2004 and the use of Federal Value Added Tax credits relating to power supply by BMSA. As at the date of this document, the estimated total amount being claimed against BMSA in respect of these eight matters is equal to approximately US\$84 million.

BMSA is also currently disputing an adverse tax assessment in respect of social security contributions in the Tax Administrative Court. The assessment relates to social security contributions not paid by BMSA during 2004 to 2007. BMSA's position that social security contributions in respect of this period are not payable is based on a 1992 Federal Regional Court decision exempting BMSA from payment of the contributions on the basis that the tax was

unconstitutional. The Supreme Court subsequently decided in favour of the constitutionality of the tax in 2007. BMSA contests that the Supreme Court's decision should not apply where a previous judicial decision has exempted payment of the contributions, such as the exemption provided to BMSA pursuant to the Federal Regional Court's decision in 1992. As at the date of this document, the amount claimed in respect of this matter is equal to approximately US\$105 million.

Cerro Matoso SA (**CMSA**) (a 99.94 per cent owned subsidiary of South32) is disputing an adverse assessment by the Colombian Revenue Service made in July 2014 concerning the non-taxation of revenue sales and deductibility of certain costs. The likely timing of the resolution of this matter is currently uncertain. As at the date of this document, the amount claimed in respect of this matter is equal to US\$60 million.

South Africa Energy Coal is disputing an adverse assessment by the South African Revenue Service made in September 2013 concerning the purchase price allocation for a sale of assets that occurred in 2008. The likely timing of the resolution of this matter is currently uncertain. As at the date of this document, the amount claimed in respect of this matter is equal to approximately US\$53 million.

Certain other tax-related claims have been made in respect of the South32 Businesses, which are separate and none of which is considered to be individually material but aggregate to a total of US\$149 million. These comprise tax claims relating to corporate income tax credits and offsets in Brazil and underpayment of royalties and income tax payment shortfalls and certain other matters have been claimed against South32 Businesses in Colombia.

In each of these cases, South32 intends to continue to vigorously contest the matter. While South32 believes that some of these claims may take many years to be resolved, if there is an adverse finding against South32 in these matters it may result in material liabilities for, or reduce future profitability of, South32.

Where South32 considers a claim may result in probable loss, it is reflected in a provision in South32's balance sheet. Where South32 considers that a claim has a lower probability of resulting in loss, South32's exposure may be reflected in a contingent liability disclosure in South32's financial statements (set out in Section 10.8(d) and note 18 Contingent liabilities to the historical combined financial information set out in Annexure 1).

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Given the uncertainty in respect of claims of this nature from tax authorities, and South32's view that it is confident that an outcome favourable to South32 will be achieved in most of these cases, the provisions and contingent liabilities in South32's financial statements do not cover all of, and may not adequately capture, South32's total potential liability in respect of these and similar claims. As a result, the ultimate exposure South32 faces for claims may be greater than that provided for in South32's financial statements or included in its contingent liabilities.

(e) South32's operations are dependent on licences and permits, the obtaining, renewal or maintenance of which may be uncertain or challenging

South32 Businesses generally require governmental licences, permits, authorisations, concessions and other approvals in connection with their activities. Obtaining and complying with the necessary governmental permits and regulations can be particularly complex, costly and time-consuming and are therefore not assured.

The duration, cost and success of permit applications are contingent on many factors, including those outside the control of the South32 Group. Failure to obtain or renew a necessary permit could mean that South32 Businesses would be unable to proceed with the development or continued operation of a mine or project, which in turn may have an adverse effect on the relevant South32 Businesses, results of operations, financial condition or prospects. The permits that South32 Businesses need may not be issued, maintained or renewed either in a timely fashion or at all, which may constrain the ability of South32 Businesses to conduct their mining operations, which in turn may impact South32's financial results.

From time to time, parties may seek to challenge the validity of permits and licences or attempt to interfere with rights granted to South32 Businesses. This may result in the loss of rights held by, or the incurrence of additional cost to, South32 Businesses.

(f) South32 may be exposed to litigation and claims that could result in a significant cost to South32 or affect its operations

South32 is exposed to risks of litigation that may have an adverse effect on South32. There are some actions and claims that have been raised by third parties that are yet to be resolved. South32 may lose such claims and may incur costs in addressing such claims.

CMSA and certain Colombian Government agencies are defendants to proceedings in the Colombian Constitutional Court. The proceedings involve a review of multiple claims that are similar in nature brought by representatives of local communities. The claims, which CMSA and the defendant Government Agencies strongly contest, allege that Amendment No. 4 to Contract 051-96M (which set forth revised conditions for the continued operation of CMSA under its key mining licence in 2012) is not valid on the basis that local communities should have been consulted about the amendment, that CMSA's environmental licence expired when the concessions under which CMSA operated until 30 September 2012 expired (notwithstanding that the environmental licence was issued for the term of the project and the project continues under Contract 051-96M) and that CMSA's operations are impacting the health of the neighbouring communities. First and second instance judgments in respect of one of these actions and a first instance judgment in respect of the other action were issued against the plaintiffs in 2013 and early 2014. The Constitutional Court is now conducting a review of these judgments, with submission of evidence and arguments in the proceedings continuing. A decision in respect of this matter is expected in 2015. An adverse outcome could result in a court order for the temporary suspension or revocation of CMSA's mining or environmental licences, require CMSA to modify its operations to address the alleged health and environmental impacts or require CMSA to undertake a

retrospective community consultation process in relation to Amendment No. 4 under the supervision of the Ministry of the Interior.

A separate action has been brought in respect of the privatisation process conducted for Cerro Matoso. The relief sought is the annulment of the sale of a shareholding of approximately 47.6 per cent in CMSA to BHP Billiton Group (BVI) Limited in 1997 (which, if successful, would require the Colombian Government to reimburse the South32 subsidiary for the amount it paid for the shareholding and to reimburse CMSA for investments made in the Cerro Matoso project after 1997 that have not been amortised as at the date of the judgment). At first instance, a decision was issued by a Civil Judge in favour of CMSA and the other defendants. However, an appeal of the decision at first instance decided that the Colombian administrative courts (which are responsible for considering actions involving government-related law suits) have the appropriate jurisdiction in respect of the matter. An action was therefore commenced in the Council of State (Colombia's highest administrative court dealing with government-related law suits). The basis for the claim has not been stated, the proceedings have not progressed since this action was commenced in October 2008 and notice of the action has not been formally served upon BHP Billiton Group (BVI) Limited, the relevant South32 subsidiary. Illawarra Metallurgical Coal has a long term contract with BlueScope Steel for the supply of metallurgical coal to BlueScope Steel's steelworks located at Port Kembla. BlueScope Steel has made certain claims in relation to the calculation of historical prices under the contract, and in relation to the quality of coal supplied under the contract. Illawarra Metallurgical Coal does not accept the claims made by BlueScope Steel, and a dispute resolution process to resolve these claims has recently commenced.

In each of the cases above, South32 intends to continue to strongly contest the matter. However, if there is an adverse finding it may result in liability for, and/or reduce the future profitability of, South32.

There are also other litigation and arbitration proceedings to which South32 Businesses are exposed, but which are not regarded as material by South32. However, it is possible that South32's assessment of its exposure in respect of these proceedings may change in the future, including as a result of developments in the proceedings or additional information becoming available.

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2.2 OPERATIONAL RISKS

(a) Cost pressures and reduced productivity could negatively impact South32's operating margins and expansion plans

Cost pressures may occur across industries to which South32 Businesses are exposed and affect a variety of inputs into South32's operations, which would negatively impact South32's operating margins.

Labour is a significant input into South32's operations, and labour costs may vary depending on demand and requirements at South32's operations. Labour costs and productivity may also be affected by the actions of labour unions, which may adversely affect workplace flexibility, productivity and costs.

Increased costs of energy and other raw materials used by South32 may also adversely affect South32's earnings.

(b) South32 Businesses are dependent on access to infrastructure that is economical, and without such access these operations may be disrupted or further development may be prevented

South32 Businesses' products are transported to customers by a range of methods, including road, rail and sea. A number of factors could disrupt the availability of these transport services, including weather-related problems, rail or port capacity and allocation constraints, key equipment and infrastructure failures and industrial action, which may limit South32 Businesses' ability to deliver product to customers and may have an impact on productivity and profitability. Furthermore, the cost of accessing required infrastructure may increase (possibly substantially), and South32 Businesses may not be able to pass on the full extent of that cost increase to its customers.

In South Africa, South32 Businesses' access to the rail infrastructure of Transnet (the South African Government-owned rail freight and port provider) is key to its operations. South Africa Manganese and South Africa Energy Coal currently have allocations to access Transnet's rail infrastructure; however, securing future access when current allocations expire (and the terms on which that access may be secured) is uncertain due to capacity constraints and the level of demand from third parties. Transnet has recently allocated volumes for the next five years for manganese export capacity (final terms are still under discussion). The ability of South32 Businesses to develop and expand operations, particularly in South Africa, is impacted by South32's access to infrastructure to support increased output.

(c) South32 Businesses are dependent on access to water and power that is economical, and without such access these operations may be disrupted or further development may be prevented

Water and power are critical to a number of South32's operations. However, continued access, or access on current terms, to water and electricity to support existing activities cannot be guaranteed in the future, due to factors such as climate (including drought), changes in allocations, changes in activities or conditions at South32's operations, elections by contract counterparties to cease current arrangements, the term of contractual arrangements ending or changes in government policy.

The cost and reliability of power supply are risks to the financial position and operations of South32's aluminium smelters, particularly South Africa Aluminium and Mozal Aluminium. Due to ongoing power shortages and reliability issues in the South African power grid, South Africa Aluminium and Mozal Aluminium are, at times, subject to load shedding. In recent years the reliability of electricity supply in South Africa has further deteriorated and the frequency

of load shedding has increased. Eskom, the South African Government-owned power utility, announced a national program of load shedding in January 2015 and has stated that the South African power system is likely to be constrained for the foreseeable future. A temporary increase in the electricity levy has been proposed until the electricity shortage is over. Interruptions to the supply of power to South32's aluminium smelters can result in production losses and damage to plant. More generally, the lack of reliability, and potential increases in the cost, of power supply could significantly affect operations at South Africa Aluminium and Mozal Aluminium for an extended period of time. In addition, Eskom referred the power pricing regime for South Africa Aluminium's power supply contracts to the National Energy Regulator of South Africa for review in October 2012.

Current levels of hydro-generation power plants' water reservoirs in Brazil have increased the risk of electricity rationing occurring. Should electricity rationing occur, the performance and profitability and ongoing operations of the Alumar Smelter could be adversely impacted.

Furthermore, expansion and development of activities of South32 Businesses may be subject to the ability to access sufficient water and power on economic terms. A failure to procure supplies of water and power, or access to water and power infrastructure on economically acceptable terms, could limit the ability of South32 Businesses to expand activities or develop new operations.

(d) Unexpected natural or operational catastrophes may adversely impact South32's operations

Members of the South32 Group have extractive, processing and logistical operations in a number of geographic locations. South32's operations may be subject to accidents or incidents that impact the ability of South32 Businesses to continue operating or cause harm to its assets or equipment.

In particular, South32 Businesses access key port facilities located at Richards Bay in South Africa and Bunbury, Milner Bay, Bell Bay, Townsville and Port Kembla in Australia, together with key rail facilities located at Richards Bay and Bunbury. This port and rail infrastructure may be subject to port, shipping or rail incidents that could temporarily or permanently restrict access.

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South32 Businesses include six underground mines, including four underground coal mines. Mines, particularly underground mines, and associated mining and processing equipment and processing plants can be exposed to incidents such as fire and explosion, loss of power supply and critical mechanical equipment failures. South32 may also be exposed to other incidents that affect operations, including pit wall failures at open-cut mines.

South32's operations may also be subject to unexpected natural catastrophes such as earthquakes, floods, hurricanes and fires. The mine and processing facility at Cannington is located between the confluence of two ephemeral watercourses at the headwaters of the Lake Eyre Basin catchment, and, if flooding were to occur, this could have adverse implications on the operations.

Existing business continuity plans may not provide full protection for all of the costs that arise from such events. The impact of these events could lead to disruptions in production, increased costs and/or loss of facilities, which would adversely affect South32's financial results and prospects. Third party claims arising from these events may also exceed the limit of liability in the insurance policies South32 has in place in respect of such events.

(e) South32 is reliant on non-controlled operators and contractors at some operations

South32 does not control (or solely control) all aspects of each of the South32 Businesses. The Brazil Aluminium assets (MRN and Alumar) are managed by joint venture partners, limiting the level of decision-making power South32 has in respect of these assets. Other South32 Businesses or assets may, in the future, also be managed by joint venture partners. These non-controlled assets may not comply with South32's management and operating standards, controls and procedures, including its health, safety, environment and community (HSEC) standards. Failure to adopt equivalent standards, controls and procedures at these assets could adversely impact South32's reputation and financial results.

South32 is also reliant on the use of contractors and other third parties for exploration, mining and other activities. While the situation is normal practice for the mining and exploration industry and South32 seeks to actively manage these contractors to achieve desired performance levels, to some extent South32 relies on these contractors performing their roles properly and their failure to do so may impact the performance of South32.

(f) Outputs produced from processing are dependent on quality and consistent supply of inputs

Some of South32's activities rely on the processing of raw materials, including some raw materials supplied from South32's own mines, the quality of which is not always consistent. In these activities, the quality and quantity of output, cost of processing and/or time taken to process raw materials may be affected by the quality of raw material supplied and the consistency of supply of inputs, which may in turn impact the financial results achieved by South32.

The grade of minerals produced from mining operations often diminishes over the life of a mine, resulting in lower quality products being produced from mining operations in their later stages.

(g) South32's operations may be affected by unfavourable employee and union relations, which could disrupt its activities

Some of the employees at South32 Businesses are represented by labour unions under various collective labour agreements.

Parts of South32's workforce in certain locations, including Australia, Colombia and South Africa, are members of unions. The South32 Businesses may not be able to satisfactorily renegotiate collective labour agreements when they expire and may face higher wages and changes in benefits.

In addition, existing labour agreements may not prevent strikes or work stoppages in the future, and any strike or other work stoppage could have an adverse effect on the operations and financial results of the South32 Businesses.

(h) Due to the nature of its business and operations, South32 is exposed to the risks of fraud and corruption

As a diversified metals and mining company operating in a number of jurisdictions, South32 is exposed to the risks of fraud and corruption, both within its organisation and in dealing with parties external to the organisation. Some of South32's activities are located in countries where corruption is generally understood to exist.

South32 will seek to fully comply with applicable legislative and regulatory requirements in respect of fraud and corruption in the jurisdictions in which it operates. South32 will also seek to implement internal control systems to limit the occurrence of fraud or corruption. However, there can be no assurance that such procedures and established internal controls will adequately protect South32 against fraudulent or corrupt activity and such activity could have an adverse effect on South32's business, reputation, results of operations, financial condition or prospects. In addition, South32 may suffer from delays or disruption resulting from a refusal to make so-called facilitation payments in some of the countries in which South32 operates.

BHP Billiton's policies on financial sanctions and competition law are currently applicable to South32. Prior to implementation of the Demerger, South32 will establish policies or controls to address trade and financial sanctions and competition law. However, such policies and controls may not prevent instances of dishonesty by employees, contractors or third parties nor guarantee compliance with legal or regulatory requirements. This may lead to regulatory fines, disgorgement of profits, litigation, loss of operating licences or reputational damage.

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(i) South32 will be smaller in scale than BHP Billiton following the Demerger

Following the Demerger, South32 will be an independent entity and much smaller in scale than BHP Billiton. This may result in South32 facing additional costs or risks compared to the position historically, including reduced access to, and less favourable terms in, any future financing facilities and different terms on which it procures goods or services.

(j) The Demerger may fail to realise anticipated benefits for South32

South32 may fail to realise any or all of the anticipated benefits of the Demerger, either in a timely manner or at all. Some of the potential benefits of the Demerger may not be achieved as a result of circumstances outside the control of South32.

(k) Third party consents required as part of the Demerger may not be obtained

The Demerger (or steps associated with the Demerger) may result in breaches or defaults under certain contracts to which South32 is a party, unless relevant counterparty consents are obtained. In addition, there are certain BHP Billiton Group-wide contracts relevant to South32's operations, which BHP Billiton is seeking to assign to South32 or renegotiate so that there are separate contracts for South32 and BHP Billiton.

Although all material contractual consents required to effect the Demerger have been obtained, there are a number of less material consents that have not been obtained as at the date of this document. BHP Billiton has started seeking these consents, but not all counterparties may provide consent (and some counterparties may seek to alter the terms of the relevant contract, as a condition of providing consent). A failure to obtain these consents may result in breaches or defaults under contracts, or an inability to align contractual arrangements to South32 and BHP Billiton as independent entities.

(l) There is potential for delays, unexpected costs or other issues in establishing South32 as a standalone legal entity

As a subsidiary of BHP Billiton prior to the Demerger, South32 has been supported by BHP Billiton's corporate services infrastructure, including the provision of services relating to group accounting, treasury, tax, superannuation, legal, insurance administration, information management and information technology, certain group purchasing and general human resources.

As part of the implementation of the Demerger, South32 will replace these support services with its own internal capability, third party contracts and transitional service agreements as appropriate. During a transitional period of up to 12 months, South32 will be reliant on BHP Billiton for the provision of certain information management-related services.

It may take some time to procure the necessary resources and services and ensure that all processes are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated.

(m) Breaches of South32's information technology security processes may adversely impact South32's business activities

South32 will acquire or develop and maintain, or source from other parties, global information technology systems, consisting of infrastructure, applications and communications networks to support South32's business activities. These systems could be subject to security breaches (for example cyber-crime) resulting in theft, disclosure or corruption of information, including information relating to acquisitions and divestments, strategic decision-making, non-public investment market communications or commercially sensitive information relating to major contracts. Security breaches could also result in misappropriation of funds or disruptions to South32's operations.

(n) Failure to retain and attract key employees to South32 may impact on operations and financial results

The loss of key personnel or the failure to attract, train and recruit sufficiently qualified staff could affect South32's operations, financial condition and growth.

Furthermore, BHP Billiton employees may not accept employment offered by South32 as part of the Demerger, resulting in South32 not retaining the benefit of employees with specialist knowledge of their functions.

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2.3 BUSINESS RISKS

(a) Failure to maintain, realise or enhance existing reserves, discover new reserves or develop new operations could negatively affect South32's future results and financial condition

The volume and quality of product the South32 Businesses recover may be less than South32 or Competent Persons have estimated. Mineral Resource and Ore Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. There are risks associated with such estimates, including that the ore mined may be of a different grade, tonnage or strip ratio from those in the estimates. Mineral Resource and Ore Reserve estimates also depend to some extent on interpretations and geological assumptions, commodity prices, cost assumptions and statistical inferences, which may ultimately prove to have been unreliable.

Consequently, Ore Reserve and Mineral Resource estimates are often regularly revised based on actual production experience or new information and could therefore be subject to change.

Moreover, a decline in the price of commodities that South32 Businesses sell, reduction in recovery rates or ore grades or changes in applicable laws and regulations, including environment, permitting, title or tax regulations, that are adverse to South32, may mean the volumes of product that South32 can feasibly extract may be lower than the Ore Reserve estimates, which may result in a reduction of such estimates.

Furthermore, production from South32's operations results in existing reserves being depleted over time. A failure to discover new reserves, enhance existing reserves or develop new operations in sufficient quantities to maintain or grow the current level of its reserves could negatively affect South32's results or prospects.

The discovery of new mineral deposits does not guarantee that the mining of that deposit would be commercially viable; the size of the deposit, location, access to infrastructure, development and operating costs, commodity prices and recovery rates are all key factors in determining commercial viability. Furthermore, local communities in close proximity to new proposed operations may create additional costs or delays in respect of, or ultimately prevent the commencement or continuation of, those operations.

(b) Increased costs or schedule delays may adversely affect South32's development projects

While significant time and resources have been devoted to project planning, approval and review processes, many of the development projects of South32 Businesses are highly complex and rely on factors that are outside its control, which may result in South32 underestimating the cost or time required to complete a project. In addition, South32 Businesses may fail to manage projects as effectively as anticipated or unforeseen challenges may emerge. Furthermore, the cost of inputs into the development of projects may rise over time or be volatile, making development less economically rewarding.

Increased capital costs or schedule delays at development projects of South32 Businesses will adversely affect such future development projects and impact anticipated financial returns.

2.4 FINANCIAL RISKS

(a) If South32's liquidity and cash flow deteriorate, it could adversely affect South32's access to capital and ability to operate existing assets or fund major capital programs

South32 will target an investment grade credit rating throughout the cycle. However, fluctuations in commodity prices and the ongoing global economic volatility may adversely impact South32's future cash flows. If South32's key financial ratios are not maintained and an investment grade credit rating is not obtained or maintained, its liquidity and cash reserves, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.

(b) Closure and rehabilitation costs require significant judgements and estimates and are therefore subject to change

Closure planning is a key consideration in the planning and development of South32's projects and operations. All operations are required to develop and maintain closure plans, which describe the proposed methods to rehabilitate disturbed land and remediation requirements for contaminated land, and end uses for land and infrastructure.

South32 is required in its financial statements to include provisions for the expected closure and rehabilitation costs of its operations. Those provisions are measured at the expected future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Significant judgements and estimates are involved in forming expectations as to future activities and the amount and timing of future cash flows, having regard to factors 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.

South32 and its management consider its closure and rehabilitation provisions to be appropriate based on currently available information (including estimated closure dates). However, given inherent uncertainties, the future actual expenditure may differ from the amounts currently provided.

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(c) South32 may not recover its investments in mining assets, which may require financial write-downs

One or more of the South32 Businesses may be affected by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover its Ore Reserves or increased operating cost levels. These may cause South32 to fail to recover all or a portion of its investment in mining assets and may require financial write-downs, adversely impacting financial results.

(d) The commercial counterparties the South32 Businesses transact with may not meet their obligations, which may negatively impact South32's financial condition and results

The South32 Group contracts with a number of commercial, governmental and financial counterparties, including customers, suppliers and financial institutions. Counterparties may fail to perform against existing contracts and obligations. Non-supply or changes to the terms of supply of key inputs, such as tyres, mining and mobile equipment and other key consumables, may unfavourably impact costs and production at South32's operations. Furthermore, South32 will need to replace certain services provided under transitional service arrangements entered into with BHP Billiton with agreements with third parties, creating the risk of counterparties failing to meet performance standards that were achieved prior to the Demerger or under transitional services provided by BHP Billiton. These factors could negatively affect South32's Businesses and there can be no assurance that South32 would be successful in attempting to enforce any of its contractual rights through legal action.

(e) South32 may be subject to restrictions on its ability to pay dividends or extract capital out of certain jurisdictions

South32's ability to pay dividends will depend on, among other things, government regulation, the level of distributions, if any, received from South32's operating subsidiaries and associates, and their level of cash balances and access to those cash balances.

Certain of South32's operating subsidiaries may, from time to time, be subject to restrictions on their ability to make distributions to South32 or return cash to it by other means, and there can be no assurance that such restrictions will not have an adverse effect on the market price of South32 Shares.

It is a condition of SARB's approval of South32's inward listing on the JSE, that South32 will have the right to pay dividends from its South African subsidiaries and to remit any such dividends abroad without having to obtain the prior written consent of the FinSurv Department, provided that the payout ratio of dividends from the distributable reserves of the South African subsidiaries shall be no greater than the average payout ratio of dividends from the distributable reserves of non-South African subsidiaries.

(f) South32's insurance coverage may be inadequate to respond to significant events, causing disruptions to its activities or financial loss

South32's insurance coverage with respect to its operations may be inadequate and the occurrence of an event could adversely affect the South32 Businesses, including its operations, financial condition and results or prospects. In addition, South32 may incur liabilities to third parties (in excess of any insurance cover or statutory reserves) arising from negative environmental impacts or other damage or injury.

2.5 SUSTAINABILITY RISKS

(a) Impacts, incidents or accidents and related regulations may adversely affect South32's people, operations, reputation or licence to operate or the environment

There are a number of risks that could adversely affect South32's people, operations, reputation or licence to operate or the environment.

(1) South32 may be adversely affected by health and safety risks in respect of its activities

Health-related risks at South32's operations include potential occupational exposure to noise, manganese, carcinogenic substances, such as silica, diesel particulate matter, nickel, sulphuric acid mist, flourides and coal tar pitch.

Longer-term health impacts may arise due to the exposure of the South32 workforce to these and other hazardous substances. The South32 Businesses have, and have had for a number of years, in place comprehensive health and safety policies and performance requirements that are intended to help mitigate the impact of such exposures.

Risks to fitness-for-work, such as fatigue and impairment from illegal or legal drugs, including alcohol, may also affect South32's operations. South32 Businesses operated by members of the South32 Group are required to develop and implement a fatigue management plan and a risk-based drug and alcohol program. Infectious diseases such as HIV and malaria may also have an adverse impact upon South32's workers or on its communities, primarily in Africa. Because South32 operates internationally, it may be affected by potential pandemic outbreaks.

South32 has controls in place to understand, manage and, where possible, eliminate the safety risks in its business. Potential safety events that may have an adverse impact on South32's operations include fire, explosion or rock fall incidents both in above ground and underground mining operations, personnel conveyance equipment failures or human errors in underground operations, aircraft incidents, incidents involving light vehicles and mining mobile equipment, ground control failures or gas leaks, equipment isolation during repair and maintenance, working from heights or lifting operations.

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Fatal injuries have historically occurred at South32 Businesses' sites and there is a risk of future fatalities. These incidents may result in claims or criminal prosecutions against South32 Businesses.

South32's approach to health and safety is reflected in its controls and procedures, which are intended to eliminate risk wherever possible. However, there can be no assurance that these controls and procedures will always fully protect against these potential future risks.

(2) South32 may be adversely affected by environmental risks in respect of its activities

South32's operations, by their nature, have the potential to impact biodiversity, land, water resources and related ecosystems, including from the discharge of contaminants. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased costs for mitigation, offsets or compensatory actions.

All of South32's operating and closed facilities are required to have comprehensive closure plans in place, which include the proposed methods to rehabilitate disturbed land and remediation requirements for contaminated land, and end uses for land and infrastructure. Changes in circumstances and regulatory or community expectations may result in closure plans requiring change. Furthermore, challenges may be faced in implementing existing closure plans or amendments may be required to closure plans to address new circumstances that come to light or to ensure appropriate rehabilitation and remediation of sites. These factors may impact financial closure provisions and costs at the affected operations.

South32's operations (particularly South Africa Energy Coal) include a number of closed mines and facilities. Implementation of the closure plans for the South Witbank colliery (which is a former operation of South Africa Energy Coal that closed in 1975) remains subject to ongoing review having regard to structural risks relating to the surface area of the former mine (where some sink-holes have formed) and the long-term risk of underground fires spreading from nearby mines owned by third parties.

Incidents that may occur or may have historically occurred at South32's operations may have an adverse environmental impact, including from uncontrolled tailings containment breaches, escape of polluting substances and subsidence from mining activities, (particularly at South32's underground mines, including Illawarra Metallurgical Coal, which has the potential to cause damage to adjacent infrastructure). Certain of South32 Businesses' sites are subject to remediation plans that seek to address known contamination as a result of past activities. Remediation plans for these sites are subject to ongoing review and change, including as a result of engagement with regulatory authorities, landowners and local communities. Changes to the remediation plan may have an impact on the closure provision. Furthermore, as yet undiscovered contamination may be identified or future contamination may occur that requires remediation action that could result in additional costs for South32.

Diesel in ground water has been identified at GEMCO's Milner Bay port facility. The contamination is currently contained and discussions with local landowners and regulators as to the final rehabilitation plan for the contaminated area are ongoing. If this results in any changes to the closure plan or assumptions underlying the current provision, it is possible that the provision for this event will need to change.

(3) Water and waste water management risks have the potential to adversely impact the sustainability of South32's operations

South32 is strongly focused on water and waste water management, as the sustainability of South32's operations relies on South32's ability to obtain an appropriate quality and quantity of water, use it responsibly and manage it appropriately, including taking account of natural supply variations.

South32's operations are exposed to a range of water risks, including water scarcity, water excess, water quality, water discharge or discharge into ground water issues. Some assets are more prone than others to these water management related risks.

Worsley Alumina has implemented a number of projects to address water management risks, including to control, monitor and assign accountability for all aspects of residue management and to improve liquor return to the refinery, reduce additional water use and minimise dust emissions. Contaminated water from Worsley Alumina's operations is stored in site containment facilities from which contaminated water could be released if higher than average rainfall or extreme weather occurs. South32 is considering various mitigation strategies to address this risk.

(4) South32 Businesses may be disrupted without the support of the local communities in which the South32 Businesses are located

Notwithstanding South32's contributions to the communities in which the South32 Businesses are located, local communities may become dissatisfied with the impact of South32's operations or oppose new development projects, including through litigation, which may affect the costs, production, and, in extreme cases, viability of such operations. Community-related risks may include community protests or civil unrest, delays to proposed developments, mistreatment of local communities by South32 employees or contractors and inadvertent breaches of human rights or other international laws or conventions.

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In CY2013, Cerro Matoso faced a community incident relating to a protest by local communities. Following on from this incident, agreement has been reached with the communities regarding the provision of community support and the establishment of a regular forum to engage with the communities located close to Cerro Matoso to better facilitate the resolution of concerns and complaints at an early stage. There remains a risk of community incidents occurring at Cerro Matoso or any other South32 Businesses.

There are also security risks that may impact on South32's operations and people. This security risk includes the prospect of unpredictable actions, such as violence, that may be taken by illegal miners discovered at certain mines, including South Africa Manganese.

(b) Climate change and greenhouse gas effects may adversely impact South32's operations and markets

The South32 Businesses have significant sales of carbon-based energy products. Carbon-based energy is also a significant input in a number of South32's mining and processing operations.

A number of governments and governmental bodies have introduced, or are contemplating introducing, fiscal and/or regulatory change to address the impacts of climate change. Many countries have established, or are contemplating establishing, individual greenhouse gas targets and/or other national mitigation actions.

The South African National Treasury published its Revised Carbon Tax Policy Paper in May 2013 that sets out the South African Government's intention to introduce a carbon tax. The South African Government has proposed a phased implementation of the carbon tax, phase one of which is scheduled to commence on 1 January 2016. Uncertainty exists around the final form of the tax and whether the tax will actually be implemented.

There is a potential gap between the current valuation of fossil fuel reserves on the balance sheets of companies and in global equities markets and the reduced value that could result if a significant proportion of reserves were rendered incapable of extraction in an economically viable fashion due to regulatory or market responses to climate change.

Furthermore, there is the potential impact on South32's financial results of increased input costs caused by measures taken by governments in respect of the use of carbon-based energy. Certain South32 smelting and refining assets are particularly prone to this risk, given they are significant users of electricity produced from coal and natural gas.

The physical impacts of climate change on South32's operations are uncertain and will be specific to the geographic circumstances. These may include changes in rainfall patterns, water shortages, rising sea levels, increased storm intensities or higher temperatures. These effects may adversely impact the productivity and financial performance of South32's operations.

Recently, there has also been activism by certain parties against companies with significant exposures to fossil fuels. Given South32's commodity profile, South32 may be the target of such activism, which could lead to investors being encouraged not to invest in, or to divest their interests in, South32 or other actions being taken that would impact South32's operations, results or share price.

2.6 GENERAL RISKS RELATING TO THE SOUTH32 SHARES

(a) The price of South32 Shares may be subject to broader share market conditions

South32 Shareholders should be aware that there are risks associated with an investment in financial products quoted on a stock exchange. Share price movements could affect the value of any investment in South32.

The value of South32 Shares can be expected to fluctuate depending on various factors, including fluctuations in the domestic and international markets for listed stocks, general worldwide economic conditions, changes in government policies, investor perceptions, movements in interest rates, prices of South32's products, variations in operating costs and costs of replacing capital assets which South32 may require in the future.

In addition, following the Demerger, some BHP Billiton Shareholders may not wish to hold South32 Shares (or may not be permitted to do so under the terms of their investment mandates, including because South32 will not qualify for inclusion in FTSE indices), and may sell the South32 Shares they received under the Demerger. Sales of this sort could create short term selling pressure on the South32 Shares. The sale of South32 Shares by the Sale Agent may also impact the trading price of South32 Shares.

However, it is expected that 100 per cent of the South32 Shares will qualify for inclusion in the S&P/ASX indices, although not all of the South32 Shares will initially be distributed to investors whose portfolios are benchmarked against those indices (as a proportion of South32 Shares will be distributed to shareholders in BHP Billiton Plc). This means that the allocation of shares to shareholders who benchmark their portfolios against the S&P/ASX indices may be less than would be required for them to initially achieve an equivalent portfolio exposure to that benchmark, creating a relative underexposure to South32 in their portfolios. It is reasonable to expect that this underexposure may give rise to demand for South32 Shares, as would demand from shareholders who wish to increase their exposure to South32 for any other reason.

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(b) Future share issues by South32 may dilute existing South32 Shareholders or cause volatility in the price of South32 Shares

The issue of additional shares by South32 or the possibility of such issue may cause the market price of South32 Shares to fluctuate, decline or be lower than might otherwise be the case or result in the dilution of the interests of South32 Shareholders. In addition, future share issues conducted by South32 may adversely affect South32's ability to raise capital in the future or dilute interests of South32 Shareholders.

(c) Exchange rate fluctuations may adversely affect the foreign currency value of South32 Shares and any dividend

The South32 Shares will be quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE. Dividends in respect of South32 Shares, if any, will be declared in US dollars. Fluctuations in the exchange rate between the US dollar and each of these currencies will affect, among other matters, the local currency value of the South32 Shares and of any dividends.

(d) The rights afforded to South32 Shareholders are governed by Australian law. Not all rights available to shareholders under the laws of South Africa, the United Kingdom and the United States will be available to South32 Shareholders

The rights afforded to South32 Shareholders will be governed by Australian law, and these rights differ in certain respects from the rights of shareholders in typical South African, English and United States companies (or companies incorporated in any other jurisdictions).

Under English law, generally speaking, directors may allot shares if authorised to do so by ordinary resolution of the company's members or by the articles of association. In addition, shareholders have pre-emption rights unless those rights are explicitly excluded or disapplied. This means that an issue for cash of equity securities or rights to subscribe for, or convert into, equity securities must be offered in the first instance to the existing equity shareholders in proportion to the respective nominal values of their holdings, unless a special resolution has been passed at a general meeting of shareholders to the contrary. However, South32 will not be subject to the requirements of the Companies Act 2006 to obtain authority from shareholders to allot new shares and to issue equity securities otherwise than on a pre-emptive basis to existing holders of ordinary shares. Any future increase in South32's share capital or granting of rights to subscribe for South32 Shares may be dilutive to South32 Shareholders as they do not have pre-emption rights under the South32 Constitution or Australian law (although shareholders are afforded certain protections against dilution pursuant to the ASX Listing Rules and Corporations Act).

(e) Foreign investors may find it difficult to enforce foreign judgements obtained against South32 and the South32 Directors

The majority of the South32 Directors and officers reside outside South Africa and the United Kingdom. In addition, South32's assets are located in various jurisdictions. As a result, it may not be possible for non-Australian investors to effect service of process on or to enforce judgements obtained against South32, or its directors or officers, in respect of actions commenced in the investor's home jurisdiction.

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20 **South32** Listing Document

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3 IMPORTANT INFORMATION

3.1 GENERAL

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult their own lawyer, financial adviser or tax adviser for legal, financial or tax advice.

The contents of the BHP Billiton website (www.bhpbilliton.com) do not form part of this document and South32 Shareholders and prospective investors should not rely on them. Furthermore, neither BHP Billiton nor South32 does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, or the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Demerger, BHP Billiton or South32. Neither BHP Billiton nor South32 make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

Without prejudice to any obligation of South32 to publish supplementary disclosure pursuant to Section 87G of FSMA and PR 3.4.1 of the UKLA Prospectus Rules, neither the publication of this document nor any distribution of South32 Shares shall, under any circumstances, create any implication that there has been no change in the business or affairs of the South32 Group taken as a whole since the date of this document or that the information contained herein is correct as of any time subsequent to its date.

3.2 PREPARATION OF, AND RESPONSIBILITY FOR, THIS DOCUMENT

South32 and the South32 Directors, whose names appear in Section 8.1(a), accept responsibility for the information contained in this document (the liability of South32 and the South32 Directors being subject to certain indemnities BHP Billiton Limited has agreed to provide to South32, as described in Section 14.4). BHP Billiton Limited accepts responsibility for the information contained in this document save for the information contained in Sections 5.2, 5.3, 5.5, 7.7, 8.1 to 8.6 and 8.8 (as well as information included in other sections of this Document which substantially replicates, derives from or summarises the information referred to in these sections).

To the knowledge of South32, BHP Billiton Limited and the South32 Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

KPMG Financial Advisory Services (Australia) Pty Ltd (**KPMG Transaction Services**) has given, and has not withdrawn, its written consent to be named in this document as Independent Accountant to the South32 Group in relation to the pro forma historical financial information in the form and context in which it is named and the inclusion in this document of its report in Section 12 (Independent Accountant's Assurance Report) in the form and context in which it is included. KPMG Transaction Services has authorised the contents of such report for the purpose of PR 5.5.3R(2)(f) of the UKLA Prospectus Rules.

KPMG and KPMG Inc have given and have not withdrawn their written consent to be named in this document as Auditor to the South32 Group in relation to the historical combined financial information in Annexures 1 and 2 in

the form and context in which they are named and the inclusion in this document of the Independent Audit Report and Independent Review report in Annexures 1 and 2 in the form and context in which they are included. KPMG and KPMG Inc have authorised the contents of such reports for the purpose of PR 5.5.3R(2)(f) of the UKLA Prospectus Rules.

Each of the Independent Competent Persons has given and has not withdrawn their written consent to the inclusion in this document of their report(s), set out in Annexure 6 (Independent Competent Persons Reports) and to the references to their name included herein in the form and context in which it appears and has authorised the contents of those parts of this document, which comprise their report(s). Each of the Independent Competent Persons accepts responsibility for their report(s) as part of this document together with information in this document, which has been extracted directly from their report(s). To the best of the knowledge of each of the Independent Competent Persons (each of whom has taken all reasonable care to ensure that such is the case), the information contained in their report(s) is in accordance with the facts and contains no omission likely to affect the import of such information.

Greenwoods & Herbert Smith Freehills Pty Ltd has reviewed and agrees with and accepts responsibility for Section 13.2 relating to the description given of the tax implications of holding South32 Shares for South32 Shareholders who, among other things, are residents of Australia for Australian tax purposes. Greenwoods & Herbert Smith Freehills Pty Ltd has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.2 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.2. To the best of the knowledge of Greenwoods & Herbert Smith Freehills Pty Ltd (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.2 is in accordance with the facts and contains no omissions likely to affect the import of such information.

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Slaughter and May has reviewed and agrees with and accepts responsibility for Section 13.3 relating to the description given of the United Kingdom tax implications of holding South32 Shares for South32 Shareholders who, among other things, are residents of the United Kingdom for United Kingdom tax purposes. Slaughter and May has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.3 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.3. To the best of the knowledge of Slaughter and May (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.3 is in accordance with the facts and contains no omissions likely to affect the import of such information.

Cleary Gottlieb Steen & Hamilton LLP has reviewed and agrees with and accepts responsibility for the description given of the United States federal income tax laws included in Section 13.4 (except for Section 13.4(b)(4)) of this document relating to the tax implications of holding South32 Shares for certain South32 Shareholders who, among other things, are subject to United States federal income tax on a net income basis with respect to income from the South32 Shares or ADSs. Cleary Gottlieb Steen & Hamilton LLP has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.4 (except for Section 13.4(b)(4)) and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.4 (except for Section 13.4(b)(4)). To the best of the knowledge of Cleary Gottlieb Steen & Hamilton LLP (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.4 (except for Section 13.4(b)(4)) is in accordance with the facts and contains no omissions likely to affect the import of such information.

Ernst & Young Advisory Services (Pty) Ltd has reviewed and agrees with and accepts responsibility for Section 13.5 relating to the description given of the South African taxation implications of holding South32 Shares for South32 Shareholders whose registered address on the South32 Share Register is in South Africa or who are otherwise deemed resident in South Africa for South African tax purposes. Ernst & Young Advisory Services (Pty) Ltd has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.5 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.5. To the best of the knowledge of Ernst & Young Advisory Services (Pty) Ltd (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.5 is in accordance with the facts and contains no omissions likely to affect the import of such information.

Bell Gully has reviewed and agrees with and accepts responsibility for Section 13.6 relating to the description given of the New Zealand tax implications of holding South32 Shares for South32 Shareholders whose registered address on the BHP Billiton Limited Share Register is in New Zealand or who are otherwise deemed resident in New Zealand for New Zealand tax purposes. Bell Gully has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.6 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.6. To the best of the knowledge of Bell Gully (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.6 is in accordance with the facts and contains no omissions likely to affect the import of such information.

3.3 INVESTMENT DECISIONS

This document does not take into account the investment objectives, financial situation or particular needs of any BHP Billiton Shareholder, South32 Shareholder or any other person. This document should not be relied upon as the sole basis for any investment decision in relation to South32 Shares or any other securities, and you should consult your financial, legal, tax or other professional adviser before making any such investment decision.

3.4 FORWARD LOOKING STATEMENTS

Certain statements in this document relate to the future, including forward looking statements relating to South32's financial position and strategy. Forward looking statements can be identified by the use of terminology such as "intend", "aim", "project", "anticipate", "estimate", "plan", "believe", "expect", "may", "should", "will", "continue" or other similar statements discuss future expectations concerning the results of operations or financial condition, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, including the risk factors set out in Section 2, many of which are beyond BHP Billiton's or South32's control, and which may cause the actual results to differ materially from those expressed in the statements contained in this document. South32 Shareholders are cautioned not to put undue reliance on forward looking statements.

Other than as required by law, none of BHP Billiton, South32, their officers or their advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this document will actually occur, in part or in whole.

Additionally, statements of the intentions of the South32 Board and/or Directors reflect the present intentions of the South32 Directors, respectively, as at the date of this document and may be subject to change as the composition of the South32 Board alters, or as circumstances require. Except as required by law, BHP Billiton and South32 disclaim any obligation or undertaking to update or revise any forward looking statement in this document.

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The forward looking statements speak only as at the date of this document. To the extent required by applicable law or regulation (including as may be required by the Corporations Act, ASX Listing Rules, UKLA Prospectus Rules, UKLA Listing Rules, UKLA Disclosure and Transparency Rules, JSE Listings Requirements and Financial Markets Act), South32 will update or revise the information in this document. Otherwise, BHP Billiton and South32 expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The statements above relating to forward looking statements are not intended to qualify the working capital statement set out in Section 15.20 of this document.

3.5 PRESENTATION OF FINANCIAL INFORMATION

This document includes both historical combined financial information and pro forma historical financial information for South32. The basis of preparation of the historical combined financial information is set out in Annexure 1 and the basis of preparation of the pro forma historical financial information is set out in Section 10.2.

The financial information contained in this document has been prepared and presented in accordance with the recognition and measurement requirements of:

Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the Australian Accounting Standards Board;

International Financial Reporting Standards and interpretations as adopted by the European Union;

International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board.

The above accounting standards and interpretations are collectively referred to as **IFRS** in this document.

Information on departures from the disclosure requirements of IFRS is set out in the basis of preparation to the historical combined financial information set out in Annexure 1.

South32 uses the measures in Table 3.1 below which are included in the historical combined financial information in Annexures 1 and 2, in accordance with IFRS 8 Operating Segments .

South32 plans to use the measures of Underlying Earnings, Underlying EBIT and Underlying EBITDA to assess the performance of the South32 Group and the South32 Businesses. Underlying EBITDA and Underlying EBIT are calculated based on the accounting policy that South32 proposes to use when discussing its operating results in future periods. The accounting policy proposed by South32 for calculating these measures differs from that currently used by BHP Billiton, the key differences being that South32 will adjust for certain items each period, irrespective of materiality, and South32 management will retain the discretion to adjust for other significant non-recurring items that are not considered to reflect the underlying performance of the South32 Businesses. Refer to note 2 Segment reporting of Annexure 1 for further details of South32's policy for calculating Underlying Earnings, Underlying EBIT and

Underlying EBITDA. South32 also 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, listed below, are important when assessing the underlying financial and operating performance of South32 and the South32 Businesses.

Table 3.1: IFRS 8 measures

| IFRS 8 measure | Definition |
|-----------------------|---|
| Underlying Earnings | Underlying Earnings is Profit after taxation and earnings adjustments. Earnings adjustments represent items that do not reflect the underlying operations of South32. |
| Underlying EBIT | Earnings before net finance costs, taxation and any earnings adjustments before net finance costs and income tax expense. |
| Underlying EBITDA | Underlying EBIT before depreciation and amortisation. |

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

Table 3.2: Non-IFRS measures

| Non-IFRS measure | Definition |
|-----------------------------|--|
| Adjusted effective tax rate | Comprises total taxation expense excluding the impact of exchange rate movements included in taxation expense, remeasurements of deferred tax assets associated with Minerals Resource Rent Tax (MRRT), non-recognition of tax benefits where the tax benefit resides with BHP Billiton and the tax impacts of amounts excluded from Underlying EBIT divided by Profit before taxation and amounts excluded from Underlying EBIT. |
| Underlying EBIT margin | Comprises Underlying EBIT excluding third party product profit from operations, divided by revenue excluding third party product revenue. |

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| Non-IFRS measure | Definition |
|--------------------------------|--|
| Underlying EBITDA margin | Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue. |
| Margin on third party products | Comprises Underlying EBIT on third party products, divided by third party product revenue. |
| Net debt | Comprises interest bearing liabilities less cash and cash equivalents. |
| Net operating assets | Represents operating assets net of operating liabilities, including the carrying value of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and deferred tax balances. |

3.6 INDEPENDENT COMPETENT PERSONS REPORTS

The Independent Competent Persons Reports, which are set out in Annexure 6, have been prepared by individuals who South32 believes to be sufficiently independent to provide those reports. As disclosed in the Independent Competent Persons Reports, certain of those individuals have some small interests in BHP Billiton Shares. South32 does not consider those interests to be material so as to compromise the independence of the Independent Competent Persons Reports.

The scope of work undertaken by each Independent Competent Person is set out in the relevant Independent Competent Person's Report.

In relation to each Independent Competent Persons Report, no material changes have occurred since the date of the Independent Competent Persons Report the omission of which would make the Independent Competent Person's Report misleading.

3.7 CREDIT RATING

References to investment grade are made with reference to ratings criteria published by one or a combination of credit rating agencies which are registered under Regulation (EC) No. 1060/2009.

3.8 NOTICE TO BHP BILLITON SHAREHOLDERS OUTSIDE AUSTRALIA, THE UNITED KINGDOM AND SOUTH AFRICA

This document does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer.

The Demerger will not be registered with the United States Securities and Exchange Commission under the United States Securities Act of 1933, as amended. BHP Billiton expects South32 to qualify for the exemption from registration under Rule 12g3-2(b) of the Exchange Act, and accordingly the South32 Shares will not be registered under the Exchange Act and South32 will not be subject to the reporting requirements of the Exchange Act.

BHP Billiton Shareholders who are Ineligible Overseas Shareholders will not receive South32 Shares under the Demerger. South32 Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Overseas

Shareholders. Refer to the Shareholder Circular for further information.

3.9 WHERE TO FIND HELP

If you have any additional questions in relation to this document, please call the Shareholder Information Line on:

BHP Billiton Limited Shareholders

1300 582 743 (within Australia) on weekdays between 8:30am and 7:30pm (AEST/ADST);

+61 3 9415 4808 (international) on weekdays between 8:30am and 7:30pm (AEST/ADST).

BHP Billiton Plc Shareholders

UK register

0844 472 7001 (within the United Kingdom) on weekdays between 8:30am and 5:30pm (GMT/BST);

+44 844 472 7001 (international) on weekdays between 8:30am and 5:30pm (GMT/BST).

South African register

086 1100 634 (within South Africa) on weekdays between 8:00am and 4:30pm (SAST);

+27 11 870 8216 (international) on weekdays between 8:00am and 4:30pm (SAST).

BHP Billiton ADS Holders

877 248 4237 (within the United States) on weekdays between 8:30am and 6:00pm (EST/EDT);

+1 781 575 4555 (international) on weekdays between 8:30am and 6:00pm (EST/EDT).

For legal reasons, the Shareholder Information Line will not provide advice on the merits of the Demerger or give any legal, financial or taxation advice, for which you are recommended to consult your own legal, financial or taxation adviser.

Table of Contents**4 KEY TRADING DATES**

The key dates relating to South32 securities trading on the ASX, JSE and LSE are set out below:

Table 4.1: Key trading dates

| Event | Indicative date | ASX | JSE | LSE | Other |
|--|------------------------|-----------------|---|---------------|-----------------------|
| South32 Shares commence trading on the ASX on a deferred settlement basis | 18 May 2015 | 12:00pm AEST | | | |
| South32 Shares commence trading on the JSE on a normal settlement basis | 18 May 2015 | | 9:00am SAST | | |
| South32 Shares commence trading on the LSE on a when-issued basis | 18 May 2015 | | | 8:00am BST | |
| South32 ADSs that will be distributed to BHP Billiton ADS Holders commence trading over-the-counter on a when-issued basis | 18 May 2015 | | | | During the day EDT |
| Transfer of South32 Shares to Eligible BHP Billiton Limited Shareholders (BHP Billiton Limited Distribution Date) | 24 May 2015 | 5:00pm AEST | | | |
| Transfer of South32 Shares to Eligible BHP Billiton Plc Shareholders (BHP Billiton Plc Distribution Date) | 25 May 2015 | | Commencing 7:00am SAST ^(a) | 8:30am BST | |
| Commencement of normal trading of South32 Shares on the LSE | 26 May 2015 | | | 8:00am BST | |

| | | | |
|--|-------------|-----------------|--------------------|
| Distribution of South32 ADSs to BHP Billiton ADS Holders | 29 May 2015 | | During the day EDT |
| South32 ADSs commence regular way trading in the over-the-counter market | 1 June 2015 | | During the day EDT |
| Commencement of normal trading of South32 Shares on the ASX | 2 June 2015 | 10:00am AEST | |

- (a) For the dematerialised holders this will be dependent on the Strate settlements process, commencing 7:00am SAST. Prior to start of trade on JSE (9:00am) for certificated holders.
- All dates and times are indicative only and, among other things, are subject to change. Any changes to the timetable will be announced through the ASX, JSE and LSE and will be notified on BHP Billiton's website at www.bhpbilliton.com/demerger.

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On Demerger, South32 will be a globally diversified metals and mining company with a portfolio of high quality assets producing alumina, aluminium, coal, manganese, nickel, silver, lead and zinc.

South32 will comprise the following South32 Businesses, which are described in more detail in Section 7.1. All financial information shown in Section 5 reflects historical combined financial information for South32 extracted from Annexures 1 and 2.

Diagram 5.1: South32's locations**Table 5.1: Worsley Alumina**

Worsley Alumina (86 per cent interest) is an integrated bauxite mining and alumina refining operation located in Western Australia, Australia. Bauxite ore is mined near Boddington and conveyed to the Worsley Alumina refinery, located near Bunbury. Alumina is railed from Worsley Alumina to Bunbury for export to Worsley Alumina's export customers including South32's Hillside and Mozal Aluminium smelters in southern Africa. Worsley Alumina is one of the largest and lowest-cost alumina refineries in the world, being in the first cost quartile in its industry based on CY2013 production.¹ Worsley Alumina has a resource life of 63 years and a reserve life of 17 years.

| South32's share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|----------------------------------|------------------|------------------|---------------|---------------|---------------|
| Alumina production (kt) | 1,953 | 1,970 | 3,916 | 3,675 | 2,917 |
| Underlying EBITDA (US\$M) | 143 | 108 | 162 | 60 | (67) |

¹ Source: C1 cash cost curve, Wood Mackenzie Alumina refinery costs league, 2014 Q4.

Table of Contents**Table 5.2: South Africa Aluminium**

South Africa Aluminium (100 per cent interest) comprises the Hillside smelter near Richards Bay, South Africa. The business previously included the Bayside smelter, which was closed in FY2014, and the Bayside casthouse. An agreement has been reached for the sale of the assets comprising the Bayside casthouse (the sale is subject to certain regulatory and other conditions, which are expected to be fulfilled during the first half of CY2015). Hillside is the largest aluminium smelter in the Southern Hemisphere and it imports alumina from the Worsley Alumina refinery. Historically, approximately 80 per cent of Hillside's aluminium production has been exported through Richards Bay Port with the balance of Hillside's aluminium production trucked to the Bayside casthouse or to domestic customers. The Hillside smelter extends across the first and second cost quartiles based on CY2013 production.²

| South32's share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|---------------------------|-----------|-----------|--------|--------|--------|
| Aluminium production (kt) | 356 | 415 | 804 | 761 | 719 |
| Underlying EBITDA (US\$M) | 201 | 84 | 190 | 73 | (10) |

Table 5.3: Mozal Aluminium

Mozal Aluminium (47.1 per cent interest) is an aluminium smelter located near Maputo, Mozambique. Alumina is currently supplied to Mozal Aluminium from the Worsley Alumina refinery, which is majority owned by South32. Most of Mozal Aluminium's aluminium is currently exported to Europe through Matola, the port of Maputo. In CY2013, Mozal Aluminium had higher operating costs than the Hillside smelter (which extends across the first and second cost quartiles based on CY2013 production).³

| South32's share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|---------------------------|-----------|-----------|--------|--------|--------|
| Aluminium production (kt) | 135 | 134 | 266 | 264 | 264 |
| Underlying EBITDA (US\$M) | 88 | 17 | 52 | 31 | 51 |

Table 5.4: Brazil Aluminium

Brazil Aluminium comprises South32's interests in the MRN Mine (14.8 per cent interest) as well as its interest in the Alumar alumina refinery (36 per cent interest) and Alumar aluminium smelter (40 per cent interest) (together with certain interests in ancillary facilities and lands). The MRN Mine is located in the Trombetas region in the state of Pará, Brazil and Alumar is located at São Luís in the state of Maranhão, Brazil. The majority of the bauxite produced from the MRN Mine is sold to its shareholders and related parties. South32's share of bauxite produced from the MRN Mine is supplied to the Alumar refinery and most of the alumina produced from the Alumar refinery is exported via the nearby São Marcos Bay facilities, with a small portion transferred to the Alumar smelter. All of Alumar's aluminium production is trucked to domestic customers. Brazil Aluminium's Alumar refinery is in the second cost quartile and the Alumar smelter is in the third cost quartile based on CY2013 production.⁴ MRN Mine has a resource life of 29 years and a reserve life of six years.

| South32's share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|---------------------------|-----------|-----------|--------|--------|--------|
| Alumina production (kt) | 680 | 633 | 1,262 | 1,205 | 1,235 |
| Aluminium production (kt) | 26 | 63 | 104 | 154 | 170 |
| Underlying EBITDA (US\$M) | 140 | 35 | 127 | 44 | 3 |

- 2 Source: C1 cash cost curve, Wood Mackenzie Aluminium smelter costs league, 2014 Q4.
- 3 Based on the C1 cash cost curve, Wood Mackenzie Aluminium smelter costs league, 2014 Q4, Mozal Aluminium was in the first cost quartile based on CY2013 production. Refer to Section 7.1 for historical operating cost data for Mozal Aluminium and South Africa Aluminium.
- 4 Source: C1 cash cost curve, Wood Mackenzie Aluminium smelter costs league, 2014 Q4.

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South Africa Energy Coal (90 per cent interest) operates four energy coal mines in the Witbank region in the Mpumalanga province of South Africa. Approximately 55 per cent of coal produced is sold domestically and the remainder is exported through the Richards Bay Coal Terminal (**RBCT**), in which South32 has a 21 per cent interest. South Africa Energy Coal is the third largest export energy coal producer in South Africa and fifth largest supplier of energy coal domestically. South Africa Energy Coal is in the second cost quartile based on CY2013 production.⁵ Khutala, Klipspruit, Wolvekrans and Middelburg mines have resource lives of 103 (inclusive of undeveloped domains), 12, 42 and 34 years and reserve lives of six, six, 21 and 23 years respectively.

| 100 per cent terms^(a): | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|--|------------------|------------------|---------------|---------------|---------------|
| Energy coal production (kt) | 16,525 | 14,973 | 30,384 | 31,627 | 33,279 |
| Underlying EBITDA (US\$M) | 83 | 54 | 197 | 115 | 416 |

- (a) Production and earnings information for South Africa Energy Coal is shown on a 100 per cent basis. South32's ownership interest in South Africa Energy Coal is 90 per cent, with the remaining 10 per cent held by minority shareholders, the purchase of which was funded with vendor-financed loans (refer to Section 7.1(e)). However, from an accounting perspective, South32's interest in Underlying EBITDA will remain at 100 per cent until such loans are repaid to South32, following which South32's interest in Underlying EBITDA will be 90 per cent.

Table 5.6: Illawarra Metallurgical Coal

Illawarra Metallurgical Coal (100 per cent interest) operates three underground metallurgical coal mines near Wollongong in New South Wales, Australia. Metallurgical coal is trucked to Port Kembla or to BlueScope Steel Limited's (**BlueScope Steel**) Port Kembla steelworks. Illawarra Metallurgical Coal is in the second quartile of the industry margin curve based on CY2013 production⁶ and its mines have resource lives (inclusive of undeveloped domains) of 41, 15 and 43 years and reserve lives of 25, two and nine years for each of Appin, West Cliff and Dendrobium / Cordeaux respectively.

| South32's share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|---|------------------|------------------|---------------|---------------|---------------|
| Metallurgical coal production (kt) | 3,858 | 2,614 | 5,974 | 6,664 | 6,621 |
| Energy coal production (kt) | 880 | 741 | 1,539 | 1,278 | 1,305 |
| Underlying EBITDA (US\$M) | 120 | 70 | 135 | 302 | 818 |

Table 5.7: Australia Manganese

Australia Manganese (60 per cent interest) comprises the GEMCO open-cut manganese mine and the TEMCO manganese alloy plant. GEMCO, which is located in the Northern Territory, Australia, is one of the world's lowest-cost manganese ore producers. It exports to customers approximately 90 per cent of its ore product through port facilities at Milner Bay and the balance of the ore is shipped to the TEMCO manganese alloy plant in Bell Bay, Tasmania, Australia. The majority of TEMCO's alloy production is exported to customers in Asia and North America, with the balance of TEMCO's production being sold to steel customers in Australia and New Zealand. GEMCO is in the first cost quartile based on CY2013 production.⁷ GEMCO has a resource life of 15 years and a reserve life of 11 years.

| 100 per cent terms^(a): | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|--|------------------|------------------|---------------|---------------|---------------|
| Manganese ore production (kt) | 2,499 | 2,438 | 4,776 | 5,027 | 4,306 |
| Manganese alloy production (kt) | 139 | 123 | 269 | 234 | 198 |
| Underlying EBITDA (US\$M) | 215 | 252 | 505 | 499 | 335 |

(a) Production and earnings information for Australia Manganese is shown on a 100 per cent basis. South32's ownership interest in Australia Manganese is 60 per cent. South32's interest in Underlying EBITDA is 60 per cent.

5 Source: C1 cash cost curve, Wood Mackenzie Seaborne export thermal coal, energy adjusted, November 2014.

6 Source: Margin curve (to account for coal quality differentials), Wood Mackenzie Seaborne export metallurgical, November 2014.

7 Source: Site operating costs with value in use adjustment, CRU cost curve, August 2014.

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South Africa Manganese comprises the Hotazel Mines, being the Mamatwan open-cut mine and the Wessels underground mine (44.4 per cent effective interest), and the Metalloys plant (60 per cent interest). The Hotazel Mines are located near the town of Kuruman, South Africa. Approximately 75 per cent of the ore processed at the mine results in export saleable product. The remainder of the ore is converted to alloy at the Metalloys plant, which is located near Johannesburg, South Africa. The Metalloys plant is one of the largest manganese alloy producers in the world and exports most of its product to customers in the United States, Europe and Asia. Hotazel Mines is in the third cost quartile based on CY2013 production.⁸ Hotazel Mines have resource lives of 24 and 92 years and reserve lives of 18 and 46 years for Mamatwan and Wessels respectively.

| 100 per cent terms^(a): | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|--|------------------|------------------|---------------|---------------|---------------|
| Manganese ore production (kt) | 2,056 | 1,808 | 3,526 | 3,490 | 3,625 |
| Manganese alloy production (kt) | 233 | 180 | 377 | 374 | 404 |
| Underlying EBITDA (US\$M) | 63 | 21 | 120 | 111 | (18) |

- (a) Production and earnings information for South Africa Manganese is shown on a 100 per cent basis. South32's ownership interest in South Africa Manganese is 60 per cent, except Hotazel Mines which is 44.4 per cent. However, South32's interest in Underlying EBITDA is 60 per cent, except Hotazel Mines which is 54.6 per cent (please refer to Section 7.1(h)(2) for further details of the Broad-Based Black Economic Empowerment (BBBEE) arrangements).

Table 5.9: Cerro Matoso

Cerro Matoso (99.94 per cent interest) is an open-cut lateritic nickel mine and ferronickel smelter, located near Montelibano, in the Córdoba Department in northern Colombia, which produces high-purity, low-carbon ferronickel granules and is currently one of the largest nickel producers in the world. The product is transported approximately 260 km by road to Cartagena. Cerro Matoso is in the second cost quartile based on CY2013 production,⁹ and has a resource life of 37 years and a reserve life of 15 years.

| South32's share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|----------------------------------|------------------|------------------|---------------|---------------|---------------|
| Nickel production (kt) | 21 | 24 | 44 | 51 | 49 |
| Underlying EBITDA (US\$M) | 113 | 43 | 87 | 234 | 417 |

Table 5.10: Cannington

Cannington (100 per cent interest) is a silver, lead and zinc underground mine and concentrator operation located in northwest Queensland, Australia, approximately 200 km southeast of Mount Isa, and is the world's largest silver producing mine. Concentrate produced at Cannington is trucked to the Yurbi rail loading facility and then railed approximately 800 km to the Port of Townsville for export to customers mainly located in northeast Asia, Europe and Canada. Cannington is in the first cost quartile of silver production based on CY2013 production on a co-product cost basis,¹⁰ and has a resource life of 22 years and a reserve life of nine years.

| South32 s share of: | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
|----------------------------------|------------------|------------------|---------------|---------------|---------------|
| Silver production (koz) | 12,235 | 12,667 | 25,161 | 31,062 | 34,208 |
| Lead production (kt) | 99 | 94 | 187 | 213 | 239 |
| Zinc production (kt) | 37 | 32 | 58 | 56 | 55 |
| Underlying EBITDA (US\$M) | 183 | 272 | 460 | 651 | 893 |

Details regarding resource and reserve life calculations

Resource and reserve life information in Section 5 is based on the information in Section 7.2. Resource life is estimated from the FY2014 Classified Mineral or Coal Resources (as applicable), and as provided in the ASX release titled, 2014 BHP Billiton Annual Report 25 September 2014 available on the BHP Billiton website at www.bhpbilliton.com or the ASX website at www.asx.com.au, converted to a run-of-mine basis using historical Mineral or Coal Resources (as applicable) to Ore Reserves conversion factors, divided by the FY2014 run-of-mine production rate on a 100 per cent basis. Weighted average individual mines Mineral or Coal Resources (as applicable) to Ore Reserves conversion factors and run-of-mine tonnages comprise:

Worsley Alumina: 0.96, 17.4 Mt;

Brazil Aluminium: 0.99, 17.75 Mt;

South Africa Energy Coal all resources: 0.83, 38.05 Mt;

8 Source: Site operating costs with value in use adjustment, CRU cost curve, August 2014.

9 Source: C1 cash cost curve, Wood Mackenzie Nickel industry costs league, 2014 Q4.

10 Source: Estimated 2013 silver cost information, AME Group.

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Illawarra Metallurgical Coal: Appin 0.38, 6.56 Mt, West Cliff 0.38, 2.81 Mt, Dendrobium/Cordeaux 0.34, 3.85 Mt;

Australia Manganese: 0.69, 8.8 Mt;

South Africa Manganese: Mamatwan 0.72, 3.2 Mt, Wessels 0.60, 0.9 Mt;

Cerro Matoso: 0.33, 3.2 Mt;

Cannington: 1.00, 3.4 Mt.

Resource life calculations are indicative only and do not necessarily reflect future uncertainties such as economic conditions, technical or permitting issues.

Reserve life is calculated based on the current stated Ore Reserves divided by the current approved nominated production rate as at the end of FY2014. For Cannington, estimated Ore Reserves are divided by a declining production rate.

Historical Mineral or Coal Resources to Ore Reserves conversion factors may not be indicative of future conversion factors.

5.2 SOUTH32 ORGANISATIONAL STRUCTURE

Following the Demerger, South32 intends to adopt a regional organisational structure, as shown in Diagram 5.2. The key aspects of this organisational structure are as follows:

South32's head office will be in Perth, Australia;

South32 will operate two regional business hubs for its operations, one in Perth, Australia, which will be co-located with South32's head office, and one in Johannesburg, South Africa;

South32's centralised marketing function will be based in Singapore;

South32 intends to have a global shared services centre in Johannesburg, South Africa.

Diagram 5.2: Organisational structure

South32 Businesses are generally located in Australia and Africa, which facilitates South32's implementation of a regional organisational model. The regional organisational model involves combining the business units and assets into regional business units, which will reduce a layer of management. More authority will be devolved to regional business units, reducing the size of South32's corporate centre and facilitating greater alignment with regional stakeholders.

A regional organisational structure is considered appropriate for South32 because the majority of its assets are geographically concentrated and because of the generally smaller scale of its operations compared to that of BHP Billiton, which allows for increased support at the regional organisational level, as opposed to the asset organisational level.

This model will involve aggregating functional support, such as finance, supply planning and human resources support, at the regional organisational level. This differs from the operating model employed under BHP Billiton's ownership, where such functional support has been provided at the asset organisational level.

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5.3 STRATEGY

South32 intends to maximise value for shareholders by being a safe, lean, responsible and predictable operator of its portfolio of high quality diversified metals and mining assets, and by managing its capital in a disciplined way. South32 intends to meet these objectives by pursuing the following strategic priorities:

Establish a distinctive, powerful culture and identity. South32 is proud of its BHP Billiton heritage but will create a new and independent culture and identity suited to its scale and requirements. South32 intends to adopt a flexible, agile and entrepreneurial approach designed to maximise the value of its assets. This approach will seek to foster a culture of innovation and continuous improvement.

Enhance environmental, health, safety and social programs. South32 recognises that all stakeholders benefit from a sustainable business and considers it a strategic priority to enhance its environmental, health, safety and social programs for the benefit of employees, host communities and governments.

Embed an efficient operating model that is aggregated at the regional level. South32's operating model will be designed to ensure that each asset is operated in the most efficient manner. An important aspect of the South32 operating model is the regional organisational structure, which is described in Section 5.2 and is expected to help drive more efficient and productive operations.

Reduce costs and improve productivity. South32's assets have benefited from the structured and focused approach to productivity pursued by BHP Billiton. South32's lean operating model and performance-oriented culture offer the potential for additional gains, which may further enhance the already competitive position of South32's assets.

Create strong alignment with investors. South32 will adopt a simple approach to manage its capital, with a view to generating strong cash returns. South32 will, in a manner consistent with its dividend policy described in Section 5.5, seek to return a proportion of Underlying Earnings as dividends. Other alternatives including special dividends, share buy-backs and high return investment opportunities will compete for excess capital.

Develop and pursue investment opportunities. South32 will rigorously evaluate and only pursue high quality investment options that meet strict financial criteria, including the low-cost, value accretive brownfield investment options that are embedded in its existing assets.

Continually seek to optimise the portfolio. South32 intends to continuously assess the make-up of its diverse portfolio of assets to ensure its capital is being deployed in the most efficient manner.

5.4 KEY STRENGTHS

(a) A significant diversified metals and mining company

The South32 Businesses have a significant presence in each of its major commodities. This includes being the world's largest producer of manganese ore, a top producer of silver and manganese alloy, and one of the world's largest ferronickel producers.

With operations spread across five countries and producing 10 commodities, South32's diversification reduces its sensitivity to the price volatility of individual commodities and its reliance on individual operations, customers and regions.

Chart 5.1: Diversification of South32 revenue and Underlying EBITDA^(a)

- (a) Based on FY2014. Underlying EBITDA represents South32's accounting policy. Manganese revenue and Underlying EBITDA presented on a proportional consolidation (60 per cent) basis.
- (b) Includes inter-segment revenue.

Table of Contents**(b) A high quality, well-managed portfolio with competitively positioned assets**

South32 will have a number of large assets, the majority of which are competitively positioned in the first or second quartile of their respective industry cost curves. For example, Worsley Alumina is one of the largest and lowest-cost global alumina refineries.

South32's operated assets benefit from having historically been managed and maintained in accordance with BHP Billiton's standards and practices.

Recently completed projects include investments in Australia Manganese, completed in 2013, Worsley Alumina, completed in 2013, and South Africa Energy Coal, completed in 2010.

Chart 5.2: South32 total capital expenditure(a) over past 10 years

US\$ billion

(a) The capital expenditure for FY2012 to FY2014 is based on historical combined financial information for South32 included in Annexure 1. For the period FY2005 to FY2011 the capital expenditure is based on information previously published by BHP Billiton as unaudited supplementary financial information released as part of BHP Billiton's results announcements.

(c) Meaningful reserve and resource lives

Many of South32's assets have significant reserve lives, which positions South32 to sustain production from existing assets without the immediate need for material incremental capital expenditure to extend mine lives. These reserve lives are complemented by material incremental resources with the potential to further extend mine lives.

Table 5.11: South32 reserve lives and resource lives

| | Reserve life (years) ^(a) | Resource life (years) ^(b) |
|---|--|---|
| Worsley Alumina | 17 | 63 |
| Brazil Aluminium | 6 | 29 |
| South Africa Energy Coal ^(c) | 6, 6, 21, 23 | 103, 12, 42, 34 |
| Illawarra Metallurgical Coal ^(d) | 25, 2, 9 | 41, 15, 43 |
| Australia Manganese | 11 | 15 |
| South Africa Manganese ^(e) | 18, 46 | 24, 92 |
| Cerro Matoso | 15 | 37 |
| Cannington | 9 | 22 |

(a)

- Estimated Ore Reserves (as set out in Section 7.2) divided by the current approved nominated production rate as at the end of FY2014. For Cannington, estimated Ore Reserves are divided by a declining production rate.
- (b) Resource life is estimated from the FY2014 Classified Mineral or Coal Resources (as applicable), and provided in the ASX release titled, 2014 BHP Billiton Annual Report 25 September 2014 available on the BHP Billiton website at www.bhpbilliton.com or the ASX website at www.asx.com.au, converted to a run-of-mine basis using historical Mineral or Coal Resources (as applicable) to Ore Reserves conversion factors, divided by the FY2014 run-of-mine production rate on a 100 per cent basis. Details regarding resource and reserve life calculation are set out in Section 5.1.
 - (c) Lives shown for four mines: Khutala, Klipspruit, Wolvekrans and Middelburg respectively. Khutala Coal Resource life is inclusive of undeveloped domains.
 - (d) Lives shown for three mines: Appin, West Cliff and Dendrobium respectively. Dendrobium Coal Resource life is inclusive of Cordeaux resources. All resource lives are inclusive of undeveloped domains.
 - (e) Lives shown for two mines: Mamatwan and Wessels respectively.

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(d) Cash generative business

Over the last three years, the South32 Group has generated cash flow in excess of both investment and sustaining capital expenditure, despite falling commodity prices.

Chart 5.3: South32 historical combined cash generation and capital expenditure

US\$ billion

- (a) Cash generated from operations including dividends received (including from equity accounted investments).
- (b) Net operating cash flows before financing activities and tax and after capital expenditure. On a pro forma basis, net operating cash flows before financing activities and tax and after capital expenditure would be US\$1,035 million in FY2014 (as extracted from Section 10.4 Table 10.2).

(e) A financial position that provides strength and flexibility

South32 expects to have the financial strength and flexibility to implement its strategic objectives of returning cash to shareholders and investing in value accretive opportunities.

On implementation of the Demerger, South32 is expected to have net debt of US\$674 million, including finance leases (based on pro forma net debt as at 31 December 2014). South32 will have a committed US\$1.5 billion credit facility from a syndicate of international banks. Refer to Section 10.7 for further details.

South32 will target an investment grade credit rating throughout the cycle, with financial policies in place to safeguard its balance sheet strength and flexibility.

A range of potential projects are available to South32, with selected identified opportunities described in Section 7.1. Subject to further studies and pending South32 Board and management approvals, potential projects include:

Klipspruit Extension (South Africa Energy Coal): A life extension project for the Klipspruit opencast, export-oriented mine.

Khutala Life Extension (South Africa Energy Coal): A proposed life extension project for the existing Khutala Colliery, including the replacement of underground volumes with production from one or more surface mines.

Cannington mine life extension (Cannington): In the past, a number of studies have been undertaken into a possible open-cut development at Cannington. South32 management will carefully assess alternatives for effectively exploiting this significant resource.

(f) An experienced and capable South32 Board and management team with a clear strategy to drive operational performance

South32 will benefit from a dedicated board and management team leading the execution and implementation of a tailored operating strategy.

South32's management has a broad range of mining, commercial, exploration and financial experience. The South32 senior management team set out in Section 8.2 has an average of 18 years of metals and mining experience, with members of the team having a track record of generating earnings improvements through cost management, productivity improvements and value accretive investments, both in roles with BHP Billiton and with other organisations. The team will have a near-term focus on cash flow and will seek to increase shareholder value by enhancing efficiency, with a drive towards lean operating and project development outcomes and by remaining financially disciplined.

Although operating independently after implementation of the Demerger (subject to limited transitional arrangements), South32 intends to maintain the same commitment to safe, reliable and sustainable operations as that of BHP Billiton.

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(g) A tailored operating model that allows targeted asset management

The regional organisational model involves combining the business units and assets into regional business units, which will reduce a layer of management. This will allow focused decision-making that is responsive to, and tailored for, regional needs. Further, operating with more authority devolved to regional business units will allow South32 to reduce the size of its corporate centre and facilitate greater alignment with its regional stakeholders. This will allow South32 to work towards better decision-making and is expected to facilitate cost reduction over the coming years.

5.5 DIVIDEND POLICY

The South32 dividend policy will be determined by the South32 Board at its discretion, having regard to South32's first two priorities for cash flow, being a commitment to maintain safe and reliable operations and an intention to maintain an investment grade credit rating through the cycle.

South32 intends to distribute a minimum of 40 per cent of Underlying Earnings as dividends to its 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.

South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system. The extent to which a dividend can be franked will depend on South32's franking account balance (which immediately following the Demerger will be nil) and its level of distributable profits. South32's franking account balance will depend on the amount of Australian income tax paid by South32 following the Demerger. The timing of South32's Australian income tax payments may also impact its capacity to frank any dividend declared for the half year ending 31 December 2015.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances.

South32 does not intend to pay a dividend for the period ending 30 June 2015, which will conclude only one month after the implementation of the Demerger.

Additional detail on the payment of dividends under South32's Constitution can be found in Section 15.4(h).

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6 MARKET OVERVIEW

Set out below is a summary of aspects of the industries in which South32 operates. Refer to Section 11.2 for a discussion of recent trends in these markets and the impact of these trends on South32's financial results.

6.1 BAUXITE, ALUMINA AND ALUMINIUM INDUSTRY

(a) Background Overview

Aluminium is produced from bauxite via a two-step process:

First, bauxite is refined to alumina, the typical standard of which is in excess of 98.5 per cent pure aluminium oxide. A small portion (less than 10 per cent) of alumina produced is not processed into aluminium, but used in other applications.

Secondly, to process alumina to aluminium, the alumina produced undergoes electrolytic smelting to form aluminium.

Typically, two to three units of bauxite are required to produce one unit of alumina (actual ratios depend upon the bauxite grade), while approximately two units of alumina are required to produce one unit of aluminium. Bauxite is one of the most abundant metal ores in the Earth's crust.

End uses

Aluminium has a wide range of end-use demand segments, which include transportation, construction, packaging, power applications, machinery, equipment and consumer durables. The diverse nature of end uses for aluminium provides multiple sources for potential ongoing demand growth.

A small portion (less than 10 per cent) of alumina produced is used in applications such as ceramics, abrasives, flame retardants and industrial processing.

Trading and pricing

Traditionally, the third party bauxite segment has been limited, with most bauxite mines vertically integrated with a neighbouring alumina refinery. With the recent growth in the third party bauxite segment, largely supplying China, the segment is increasingly trading on supply and demand fundamentals and attempts are being made by a number of publications to establish a bauxite pricing index.

Alumina is not exchange traded; rather, it is sold directly to end-users and traders, with no ability to deliver to a terminal exchange warehouse (for example the LME). Historically, alumina was sold on a percentage of aluminium price basis, but in recent years the industry has transitioned to more material being sold either on a spot pricing basis, or contracts linked to an alumina-specific index.

The recognised reference price for aluminium is the LME daily cash settlements for deliverable metal of a minimum purity and particular chemistry. Physical aluminium has in recent years been sold at a premium to LME prices. Aluminium premiums are driven by the broad supply and demand balance in the market and vary according to the delivery location.

Historical Platts alumina pricing and LME aluminium pricing is provided in Annexure 5. Historical average prices realised by South32's alumina and aluminium operations are provided in Section 7.1.

(b) Supply and demand

Total world production of alumina reached 107 Mt in 2013, with China, Australia and Brazil being the largest producers. China relies heavily on imported bauxite ore to meet its supply requirements.

Global primary aluminium production totalled 51 Mt in 2013,¹ with China being the major producing region. China has expanded smelting capacity in recent years to keep up with domestic demand growth and is currently substantially self-sufficient in aluminium. China's primary aluminium is 74 per cent of the country's consumption, with the balance supplied from scrap.

China accounted for almost half of global demand in 2013, with its recent growth in demand driven by increasing penetration of aluminium in end-use sectors such as automotive, transportation and power.

¹ Source: Wood Mackenzie.

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Primary aluminium supply and demand

Source: Wood Mackenzie

6.2 ENERGY COAL INDUSTRY

(a) Background

Overview

Coal is a fossil fuel, comprising mainly of carbon, hydrogen and oxygen. The types of coal in order of coalification are peat (lowest rank), lignite, sub-bituminous coal, bituminous coal and anthracite (highest rank). Energy coal comprises both sub-bituminous and bituminous (steam) coal. It is extracted through surface and underground mining.

End uses

The major applications for energy coal are power generation, cement manufacture and industrial use. Currently, coal accounts for around 40 per cent of global electricity production. It is the world's second largest source of primary energy largely due to the fact it is abundant, widely distributed across the globe and affordable.

Trading and pricing

The energy coal segment is split into paper and physical trading. The former is typically financially settled and the latter is typically bilaterally traded. In the physical segment, the product is sold directly to end-users and traders.

The international energy coal market is priced in US dollars per metric tonne and there is a wide range of coal with different calorific values in the market. In general, energy coals with higher calorific values have a higher price.

Index providers for energy coal include Argus, IHS McCloskey and GlobalCOAL. The main benchmark price references for export coal are FOB Newcastle (gcNewc) for the Pacific and FOB Richards Bay (API 4) and CIF Northwest Europe (API 2) for the Atlantic.

Historical FOB Richards Bay (API 4) energy coal pricing is provided in Annexure 5. Historical average prices realised by South32's energy coal operations are provided in Section 7.1.

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(b) Supply and demand

Global energy coal production was 7.2 Bt in 2013,² with total seaborne exports at 949 Mt. The largest exporters of energy coal are Indonesia and Australia. During the period of 2007 to 2013, Indonesia and Australia recorded compound annual production growth rates of 14 per cent and nine per cent respectively.

Demand from Asia-Pacific continues to be the key driver of global seaborne energy coal demand, primarily due to electrification and industrial expansion in Asia.

Source: Wood Mackenzie

6.3 METALLURGICAL COAL INDUSTRY

(a) Background Overview

Metallurgical coal is a fossil fuel, comprising mainly of carbon, hydrogen and oxygen. Metallurgical coal is defined in three broad categories: hard coking coals, weak coking coals and PCI (pulverised coal injection). Hard coking coal produces high strength coke, while semi-soft or weak coking coal produces a lower strength coke. The utility of high-strength coke is greater in large, efficient blast furnaces and when high productivity is required.

End uses

Metallurgical coal is primarily used in the steel production process, which involves a variety of metallurgical coals being blended and converted into coke in an oven, which is typically located on site at steel mills. The coke is then charged in alternating layers with iron ore into the blast furnace where pig iron is created.

² Source: Wood Mackenzie.

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Trading and pricing

Marketing of metallurgical coal is based on the three different types, each of which has a range of blends that offer different chemical properties. Sales are made to end-user steel mills, merchant cokeries and increasingly to traders as the market becomes more commoditised. Contracts are priced in US dollars per metric tonne.

Metallurgical coal has traditionally been sold through an annual benchmark pricing system, but the market has more recently evolved to index-based contracts.

Price reporting agencies for metallurgical coal include Platts, Argus, The Steel Index, Steel First and IHS McCloskey.

Historical metallurgical coal pricing (2011 onwards Platts Low-Vol Hard Coking Coal Index and pre-2011 Tex Reports hard coking coal) is provided in Annexure 5. Historical average prices realised by South32's metallurgical coal operations are provided in Section 7.1.

(b) Supply and demand

Global metallurgical coal production was 1.1 Bt in 2013, with total seaborne exports at 303 Mt. Metallurgical coal resources are geographically concentrated, with the top five producing countries accounting for more than 90 per cent of the total seaborne supply. China is the largest producer, but relies on imports to meet demand growth. Export supply growth has principally been driven by Australia, where a number of new projects have recently been delivered.

Global demand growth continues to be driven by Chinese consumption and Indian urbanisation. China overtook Japan to become the largest importer of seaborne metallurgical coal in 2013.³ India's demand is expected to grow as urbanisation and industrialisation gathers pace.

Source: Wood Mackenzie

³ Source: Wood Mackenzie.

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Table of Contents**6.4 MANGANESE INDUSTRY****(a) Background****Overview**

Metallurgical grade manganese ore is extracted through open-cut and underground mining. Manganese ferroalloys are commercially produced by carbothermic reduction of ores, either through a blast furnace or electrical smelting process.

End uses

Manganese is currently the fourth largest metal in terms of global consumption, behind iron, aluminium and copper. The major application for manganese is in steel production. Minor applications for manganese include use in batteries, aluminium/copper alloys, chemicals (potassium permanganate) and fungicides.

Manganese ore smelting and refining are intermediate businesses involving the conversion of ore to alloys in a form suitable for addition to steel. There are various manganese alloys and grades, such as silicomanganese (SiMn), high-carbon ferromanganese (**HCFeMn**) and refined alloys such as medium-carbon ferromanganese (**MCFeMn**). SiMn is commonly used in the production of long steel products, which are critical components in the construction industry, while HCFeMn and MCFeMn are generally used in the production of flat steel products.

Trading and pricing

Manganese is sold directly to end-users and traders, and there is no ability to deliver either ore or alloy to a terminal exchange warehouse. Since 2009, quotational periods for manganese ore have changed from quarterly to monthly and weekly, and the industry is in further transition to spot pricing and index-based contracts.

Ore is priced in US dollars per dry metric tonne unit and there is a wide range of ore grades in the market, with high-grade ores generally achieving higher prices. Alloy products are more standardised (as they are an intermediate product) although price differences can exist between regions due to localised supply and demand balances, different lead-times to supply and differences in logistics options.

Index publications for manganese ore and alloys include CRU, Ryan's Notes, Metal Bulletin and Platts. There is not sufficient liquidity and scale for the development of a transparent forward market.

Historical manganese ore pricing and historical manganese alloy pricing (CRU Bulk FerroAlloy HCFeMn Western Europe) is provided in Annexure 5. Historical average prices realised by South32's manganese operations are provided in Section 7.1.

(b) Supply and demand

Global production of manganese ore reached 50 Mt in 2013,⁴ with China, South Africa and Australia being the largest producers. China's supply is typically lower grade and is insufficient to meet growing domestic demand. Major exporters of manganese ore are South Africa, Australia and Gabon. Global manganese alloy production in 2013 totalled 18.1 Mt, with SiMn being the main alloy produced.⁵ More than two thirds of manganese alloy production is in China and India, which is consumed domestically in these countries.

Chinese and Indian demand continues to be the key driver of manganese consumption, primarily due to steel production for continued urbanisation and infrastructure development. China accounted for half of global ore consumption in 2013,⁶ and relies increasingly on imports to meet demand growth. China accounted for approximately 64 per cent of global ore imports in 2013.

4 Source: CRU.

5 Source: CRU.

6 Source: CRU.

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Source: CRU

6.5 NICKEL INDUSTRY

**(a) Background
Overview**

Nickel occurs as a mineral ore usually in oxide (laterite) or sulphide form. Nickel ores are mined by either open-cut or underground methods, and then processed into higher purity nickel forms such as ferronickel, nickel metal or nickel oxides. There are various processing methods, including concentrating then smelting and refining operations, direct smelting and leaching operations.

Historically, the majority of primary supply of nickel came from sulphide ores, which commonly provide significant co-product credits. The remaining economic resource base is now mostly lower grade laterite, which is less expensive to mine but more expensive to process.

End uses

Nickel is rarely used in its pure form; rather it is combined with other metals to form a range of alloys with properties that cannot be achieved by pure metals alone. Nickel's main use is in the manufacture of stainless steel alloys, which accounts for about two thirds of total primary nickel usage, while the balance is used in the production of non-stainless steel materials such as batteries and super-alloys.

Trading and pricing

The reference price is the LME cash settlement price for deliverable nickel with a minimum purity of 99.80 per cent.

Non-LME deliverable material, or products with qualities exceeding the LME specification, are sold at discounts or premiums to the LME benchmark.

Historical nickel pricing is provided in Annexure 5. Historical average prices realised by South32's nickel operations are provided in Section 7.1.

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(b) Supply and demand

Global production of mined nickel ore reached 2.3 Mt (on a contained nickel basis) in 2013,⁷ with Indonesia being the largest mined ore production region. However, in January 2014 the Indonesian Government banned ore exports, resulting in volatile prices in the subsequent months.

Nickel is a late economic development cycle commodity. Chinese demand has increased rapidly in the last decade, and now accounts for approximately half of global demand. Indian demand for nickel has begun to grow rapidly, albeit from a low base.

The rapid rise in demand within China has been met with a supply response through the emergence of Chinese nickel pig iron (NPI) production, whereby imported nickel bearing laterite ore (mostly from Indonesia and the Philippines) was smelted domestically in China to produce a crude nickel pig iron alloy which was then used in the production of stainless steel. The majority of the incremental demand growth since 2009 has therefore been met by NPI production from ore imports, rather than through increased imports of nickel metal.

The recycling of nickel-bearing materials forms an important part of the supply and demand balance. Scrap usage varies by region, but at a global level approximately 40 per cent of nickel units come from scrap.

Primary nickel

Source: Wood Mackenzie

⁷ Source: Wood Mackenzie.

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6.6 SILVER, LEAD AND ZINC INDUSTRY

(a) Background

Overview

Silver, lead and zinc are commonly found together, with silver being associated with the lead minerals. Processing of the ore yields two separate concentrates: lead (containing silver) and zinc. The lead and zinc concentrates are further processed to produce refined metal.

End uses

Silver is a precious metal with a wide range of uses including industrial applications (electronics, alloys and solders), in jewellery and as a financial asset.

Lead and zinc are the most widely used non-ferrous metals after copper and aluminium. Lead is mostly used in batteries, which account for 80 per cent of total consumption. Lead-acid batteries are used extensively in the automotive industry for starting-lighting-ignition, but increasingly as a source of motive power in electric vehicles.

Zinc is extensively used for the galvanisation of iron and steel to protect against corrosion, and also in alloys such as bronze and brass.

Trading and pricing

The reference price for silver has been the London Bullion Market Association, which is determined via a daily auction. The most significant paper contract trading market is the COMEX division of the New York Mercantile Exchange.

The most recognised reference prices for lead and zinc are LME daily cash settlements for deliverable metal of a minimum purity and particular chemistry. Lead and zinc also have active futures markets that are traded on the LME.

Silver, lead or zinc that is sold in concentrate form to refineries and smelters is typically sold on a payable metal basis, based on reference prices described above, less a treatment or refining charge. These charges notionally represent the cost of producing refined metals; however, they are also influenced by the balance between concentrate production and available refining and smelting capacity.

Historical silver, lead and zinc pricing is provided in Annexure 5. Historical average prices realised by South32's silver, lead and zinc operations are provided in Section 7.1.

(b) Supply and demand

Global mine production for silver in 2013 was 820 Moz,⁸ with another 192 Moz sourced from scrap. The largest silver-producing countries are Mexico, Peru and China, accounting for about half of the total mine production.

Silver demand has benefited in recent years as investor appetite for the commodity as a store of value has increased. This also means that silver prices are vulnerable to macroeconomic conditions and market sentiment. Demand for physical silver in 2013 was 1.1 Boz.⁹ Given silver's role as a store of value, physical supply and demand fundamentals

historical supply and demand charts have not been included in this document.

Global lead mine production in 2013 was 5.4 Mt in concentrate form.¹⁰ Over half of this supply came from China. A large volume of lead is recycled, with 6.0 Mt of secondary refined metal production recorded in 2013. Lead demand in 2013 was 11.1 Mt,¹¹ of which 45 per cent was from China.

Global zinc mine production in 2013 totalled 13.2 Mt, with approximately 36 per cent coming from China.¹² Zinc refined metal production in 2013 totalled 12.9 Mt, of which approximately 12.05 Mt was from primary sources, and 0.8 Mt from secondary sources. Zinc demand in 2013 was approximately 13.0 Mt, with China accounting for 44 per cent.

8 Source: The Silver Institute.

9 Source: The Silver Institute.

10 Source: International Lead Zinc Study Group.

11 Source: International Lead Zinc Study Group.

12 Source: International Lead Zinc Study Group.

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Lead

Source: International Lead Zinc Study Group

Zinc

Source: International Lead Zinc Study Group

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Table of Contents**7 SOUTH32 BUSINESS DESCRIPTION****7.1 SOUTH32 BUSINESSES****(a) Worsley Alumina****(1) Overview**

Worsley Alumina is an integrated bauxite mining and alumina refining operation that is 86 per cent owned by South32. It is located in the southwest of Western Australia, Australia, and includes one of the largest and lowest-cost refineries in the world. Bauxite production in FY2014 was 18 Mt (100 per cent basis). The bauxite mine has a reserve life of 17 years. Alumina production in FY2014 was 4.6 Mt (100 per cent basis).

The location of Worsley Alumina's operations is set out below:

Diagram 7.1: Location of Worsley Alumina's operations

An overview of Worsley Alumina is set out below:

Table 7.1: Worsley Alumina overview

| | |
|---------------------|---|
| Location | The Worsley Alumina bauxite mine is located near the town of Boddington, Western Australia, approximately 123 km southeast of Perth. |
| Ownership | The Worsley Alumina refinery is located 55 km northeast of Bunbury, Western Australia. Worsley Alumina is an unincorporated joint venture with South32 holding 86 per cent, Japan Alumina Associates (Australia) Pty Ltd holding 10 per cent and Sojitz Alumina Pty Ltd holding four per cent. |
| Operatorship | BHP Billiton Worsley Alumina Pty Ltd operates the Worsley Alumina bauxite mining operation and alumina refinery on behalf of South32. |
| Workforce | Worsley Alumina had on average approximately 1,900 FTE employees and contractors in FY2014. |
| History | Construction of the Worsley Alumina project commenced in 1980, with first alumina being produced in May 1984. Production began at 1.0 Mtpa (100 per cent basis) and has steadily increased through expansion projects, efficiency initiatives and new technology to reach a capacity of 4.6 Mtpa (100 per cent basis) in 2014 (South32's share 3.9 Mtpa). |

BHP Billiton's ownership in Worsley Alumina (which will be transferred to South32 as part of the internal restructure preceding the Demerger) stems from two acquisitions. The first of these was Billiton's initial acquisition of a 30 per cent interest in Worsley Alumina from The Shell Company of Australia in 1994. BHP Billiton undertook the second acquisition of a further 56 per cent interest from Alcoa Alumínio S.A. (**Alcoa**) in 2001.

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Title, leases All necessary mining leases are in place and are valid to various dates from 2024 to 2035. All mining leases are granted on 21 year renewable terms.

or options

Resources and reserves As at 30 June 2014, in 100 per cent terms, Worsley Alumina Measured, Indicated and Inferred Mineral Resource totalled 1,140 Mt at 31.4 per cent available alumina and 2.2 per cent of reactive silica grades. Worsley Alumina's Proved and Probable Ore Reserves were 295 Mt (100 per cent basis) at 31 per cent available alumina and 1.6 per cent of reactive silica grades.^(a)

Mining and processing Bauxite mining at the Worsley Alumina bauxite mine is conducted by shallow multi-pit open-cut mining techniques which have been developed over the last 30 years to efficiently extract bauxite from the discrete, pod-like nature of the deposit.

Worsley Alumina refinery produces alumina exclusively from ore that is sourced from the Worsley Alumina bauxite mine. The refinery uses the Bayer refining process to produce alumina.

Key energy sources for the processing operation include coal fired boilers, third party on-site gas-fired steam power co-generation plant and third party leased on-site multifuel co-generation steam and power generation plant. Various long-term arrangements exist for the supply of coal from the Collie coal mine and gas and gas transportation via the Dampier to Bunbury Natural Gas Pipeline. Raw materials and final product are transported by rail.

Logistics and marketing Bauxite ore is supplied from the Worsley Alumina bauxite mine to the Worsley Alumina refinery via a 51 km conveying system. Alumina from the Worsley Alumina refinery is railed to the Bunbury Port and loaded on ships for export to customers.

In FY2014, 42 per cent of South32 Worsley Alumina's alumina sales were to South32's aluminium smelters in southern Africa (Hillside and Mozal Aluminium), to supply South32's equity share, and the remainder was supplied to aluminium smelters predominantly in the Middle East and the Pacific Basin.

Overview of significant contracts Worsley Alumina is primarily powered by a mix of coal and natural gas with long-term arrangements in place. In 2014, Worsley Alumina entered into a 32 year lease for two multifuel co-generation units to generate steam and electricity.

Worsley Alumina's gas supply is currently provided by affiliates of BHP Billiton Petroleum under two agreements, which will continue after the Demerger. These arrangements are on arm's-length terms and are due to expire during 2018 and 2023 respectively.

Griffin Coal (owned by the Lanco Group) has supplied coal to Worsley Alumina under a long-term coal supply agreement for use by Worsley Alumina in steam and power generation. Griffin Coal did not supply coal to Worsley Alumina in December 2014 and January 2015 as a result of Griffin Coal's financial position. Griffin recommenced coal supply in February 2015, albeit at lower than contracted tonnage. Worsley Alumina separately also sources coal from Premier Coal and has increased the amount of coal sourced pursuant to these arrangements.

Worsley Alumina is currently exploring available alternatives to sourcing coal for steam and power generation. Any new terms of coal (or other energy) supply are likely to be higher cost to South32 than the historic arrangements with Griffin Coal.

Projects and developments As at 31 December 2014, there were no planned material development projects being undertaken or shortly to be undertaken at Worsley Alumina.

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

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Table of Contents**(2) Summary historical financial and operating information**

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.2: Worsley Alumina operating metrics

| South32 s share | 6 months ended December | | | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Alumina production (kt) | 1,953 | 1,970 | 3,916 | 3,675 | 2,917 |
| Alumina sales (kt) | 1,943 | 1,858 | 3,864 | 3,677 | 2,928 |
| Realised alumina sales price (US\$/t) ^(a) | 335 | 304 | 318 | 307 | 339 |
| Operating unit cost (US\$/t produced) | 260 | 232 | 272 | 291 | 363 |

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

Table 7.3: Worsley Alumina financial summary

| South32 s share US\$M | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Sales revenue | 651 | 565 | 1,229 | 1,130 | 992 |
| Underlying EBITDA | 143 | 108 | 162 | 60 | (67) |
| Underlying EBIT | 67 | 45 | 24 | (115) | (194) |
| Net operating assets | 3,413 | 2,862 | 3,418 | 2,868 | 5,105 |
| Minor and maintenance capital expenditure | 27 | 22 | 56 | 77 | 127 |
| Major projects capital expenditure | | | | 77 | 773 |
| Exploration expenditure | | | | | |
| Exploration expensed | | | | | |

During FY2014, raw materials and consumables, energy and labour-related costs comprised 51 per cent, six per cent and 40 per cent of Worsley Alumina's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

(b) South Africa Aluminium**(1) Overview**

South Africa Aluminium comprises Hillside Aluminium (Pty) Ltd (**Hillside**). Hillside owns (100 per cent) and operates an aluminium smelter located at Richards Bay, South Africa, approximately 200 km north of Durban.

Hillside is the largest aluminium smelter in the Southern Hemisphere and has a solid metal production capacity of 723 ktpa. Hillside solid metal production was 715 kt in FY2014.

Previously, South Africa Aluminium's operations included an aluminium smelter and casthouse owned by Billiton Aluminium SA (Pty) Ltd (**Bayside**). The Bayside smelter was closed in FY2014. An agreement to sell the assets comprising the Bayside casthouse, which produces aluminium slab products, has been reached and completion of the sale is subject to certain regulatory and other conditions, which are expected to be fulfilled during the first half of CY2015.

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The location of South Africa Aluminium's operations is shown below:

Diagram 7.2: Location of South Africa Aluminium's operations

An overview of South Africa Aluminium is set out below:

Table 7.4: South Africa Aluminium overview

| | |
|---------------------|--|
| Location | Hillside is located at Richards Bay, Kwa-Zulu Natal, South Africa, approximately 200 km north of Durban. |
| Ownership | 100 per cent owned by South32. |
| Operatorship | Operated by South32. |
| Workforce | In total, Hillside and Bayside had on average approximately 3,350 FTE employees and contractors in FY2014. |

Following the closure of the Bayside smelter, as at 31 December 2014, the number of FTE employees and contractors at Hillside and Bayside was 2,597 FTE employees and contractors.

| | |
|----------------|---|
| History | The Hillside smelter was commissioned between June 1995 and June 1996 with a production capacity of 466 ktpa. |
|----------------|---|

In FY2004, the brownfield Hillside 3 expansion project increased metal production by 132 ktpa. Various improvement projects since then have increased Hillside's solid metal production capacity to 723 ktpa.

| | |
|---------------------------------|---|
| Title, leases or options | Hillside owns the freehold title to the property on which the smelter operates. Hillside holds leases from the Transnet National Port Authority (TNPA) over harbour facilities at Richards Bay Port. |
|---------------------------------|---|

| | |
|-------------------|---|
| Processing | Hillside processes approximately 1,400 ktpa of alumina that is imported from Worsley Alumina. The initial stage of the process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium, which collects at the bottom of the specialised reaction vessels that are known as pots. The molten aluminium is then tapped out of the pots and transferred to the casthouse where it is cast into aluminium ingots. |
|-------------------|---|

Hillside manufactures 22.7 kg primary aluminium ingots at better than P1020 quality (maximum 1,000 ppm silicon and maximum 2,000 ppm iron).

**Logistics and
marketing**

Alumina and certain raw materials are imported through the Richards Bay Port. A portion of South32's share of alumina produced at Worsley Alumina is supplied to Hillside Aluminium, pricing for which is index based.

In FY2014, Hillside exported approximately 80 per cent of its aluminium production in the form of primary aluminium ingot to customers located principally in western Europe and Asia. All export product is sold via South32 Marketing and is shipped through Richards Bay Port. The balance is sold into the domestic market, mainly to Hulammin under a long-term LME aluminium price-linked contract. All domestic product is transported by road to its South African domestic customers.

Hillside has historically trucked approximately 96 ktpa liquid aluminium to the Bayside casthouse for conversion into aluminium slab products. Following the expected sale of the Bayside casthouse in CY2015, liquid metal will continue to be trucked to the new owners of the Bayside casthouse.

Table of Contents**Overview of significant contracts**

Hillside sources power from Eskom, the South African Government-owned power utility, under long-term contracts. The price of electricity supplied to the Hillside Potline 1 and 2 is linked to the LME aluminium price and the South African rand/ US dollar exchange rate. The price of electricity supplied to the Hillside Potline 3 is South African rand based and linked to the South African and United States producer price indices. The electricity supply arrangements also include fully utilised 75 MW of power which is not covered by a long-term contract and is priced at the same tariff as other South African industrial power users. As stated in Section 2.2(c):

Eskom has announced a national program of load shedding and has stated that the South African power

system is likely to be constrained for the foreseeable future;

the National Energy Regulator of South Africa is reviewing the terms of electricity supply arrangements

in respect of Hillside.

Hillside has three agreements with TNPA, the government port authority. These agreements are for the export stockyard facility, the liquid pitch terminal facility and the alumina and petcoke silo facilities. These agreements expire in CY2019.

Projects and developments

The engagement of a contractor is in progress to investigate the feasibility of introducing the AP3XLE technology enhancement at Hillside. AP3XLE is a commercially available technology aimed at increasing efficiency at smelters (**AP3XLE**). The benefits are optimisation of direct current energy consumption.

(2) Summary historical financial and operating information

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.5: South Africa Aluminium operating metrics

| South32 s share | 6 months ended December | | | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Aluminium production (kt) | 356 | 415 | 804 | 761 | 719 |
| Aluminium sales (kt) ^(a) | 352 | 401 | 804 | 772 | 713 |
| Realised sales price (US\$/t) ^(a) | 2,338 | 1,985 | 2,007 | 2,154 | 2,309 |
| Operating unit cost (US\$/t produced) ^(b) | 1,747 | 1,716 | 1,771 | 2,089 | 2,303 |

- (a) 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.
- (b) Total cost per tonne of aluminium produced.

Table 7.6: South Africa Aluminium financial summary

| | 6 months ended December | | 12 months ended June | | |
|---|------------------------------------|------------------|---------------------------------|---------------|---------------|
| South32 s share | | | | | |
| US\$M | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Sales revenue | 823 | 796 | 1,614 | 1,663 | 1,646 |
| Underlying EBITDA | 201 | 84 | 190 | 73 | (10) |
| Underlying EBIT | 167 | 48 | 121 | 1 | (83) |
| Net operating assets | 1,195 | 1,399 | 1,195 | 1,382 | 1,528 |
| Minor and maintenance capital expenditure | 10 | 7 | 28 | 17 | 14 |
| Major projects capital expenditure | | | | | |
| Exploration expenditure | | | | | |
| Exploration expensed | | | | | |

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 56 per cent, 22 per cent and 14 per cent of South Africa Aluminium s operating cash costs respectively. The remaining cash costs included freight, consumables and maintenance, among other things.

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(c) Mozal Aluminium**(1) Overview**

Mozal Aluminium is an aluminium smelter located 17 km from Maputo, Mozambique. Following implementation of the Demerger South32 will own 47.1 per cent of, and operate, Mozal Aluminium. The operation includes a dedicated berth and other port terminal facilities at Matola, the port of Maputo, which are also operated by South32. Mozal Aluminium produces standard aluminium ingots and its FY2014 production was 266 kt (South32's share). Mozal Aluminium is the only aluminium smelter in Mozambique and the second largest aluminium smelter in Africa.

The location of Mozal Aluminium's operations is shown below:

Diagram 7.3: Location of Mozal Aluminium's operations

An overview of Mozal Aluminium is set out below:

Table 7.7: Mozal Aluminium overview

| | |
|---------------------------------|--|
| Location | Mozal Aluminium is located at Industrial Free Zone of Beluluane Industrial Park, Maputo province, Mozambique. The site is 17 km from Maputo, the capital city of Mozambique. |
| Ownership | Mozal Aluminium is a joint venture in which South32 will hold 47.1 per cent, MCA Metals Holding GmbH holds 25.0 per cent, Industrial Development Corporation of South Africa Limited holds 24.0 per cent and the Government of the Republic of Mozambique holds 3.9 per cent (through preference shares). |
| Operatorship | Operated by South32. |
| Workforce | Mozal Aluminium had on average 1,950 FTE employees and contractors in FY2014. |
| History | Development of the Mozal Aluminium operation commenced in 1998 following a feasibility study undertaken by Billiton Plc. Production commenced in 2000 with a smelter capacity of 253 ktpa (100 per cent basis). In 2003, the Mozal Aluminium expansion project (Mozal 2) was commissioned and expanded the smelter's capacity to 566 ktpa (100 per cent basis). |
| Title, leases or options | Mozal Aluminium currently operates under a 50-year Investment Project Authorisation (Mozal IPA) that allows it to use the land for the operating plant and to access certain facilities within the Maputo harbour. The authorisation is renewable for a further 50 years provided Mozal Aluminium maintains effective production in accordance with the terms of the Mozal IPA. |

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Processing

In FY2014 Mozal procured 1,072 kt of alumina that was imported from Worsley Alumina. 505 kt of that amount was procured by South32.

The smelting process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium in reaction pots. The molten aluminium, which collects at the bottom of the pots is then tapped out and transferred for casting into aluminium ingots.

Mozal Aluminium has the capacity to produce 566 ktpa aluminium (100 per cent basis) and manufactures 23.7 kg ingots with a purity grade of at least 99.7 per cent.

Mozal Aluminium utilises hydroelectric power generated by Hidroelétric Cahora Bassa (**HCB**) situated on the Zambezi River in the northwest of Mozambique. HCB delivers power into the South African grid to the national electricity supplier, Eskom. Mozal Aluminium sources this power via Mozambique Transmission Company (**Motraco**).

Logistics and marketing

Mozal Aluminium operates a berth at the Matola Port, Maputo, which is located 15 km from the smelter.

Alumina and key raw materials such as petroleum coke and liquid pitch are shipped to Matola Port via the same berth that is used by Mozal Aluminium to export aluminium.

All raw materials and product are trucked to and from the Mozal Aluminium smelter to and from the port facilities.

Most of Mozal Aluminium's aluminium is sold into Europe; however, a portion of its product is used domestically in Mozambique by Midal Cables International.

Overview of significant contracts

Mozal Aluminium sources power under an electricity supply agreement with Motraco, a transmission joint venture between Eskom and the national electricity utilities of Mozambique and Swaziland.

Mozal Aluminium's port facilities are governed by a lease with the Company of Railways and Harbours of Mozambique. This lease covers the Matola harbour facilities consisting of a berth, storage silos, loading and unloading facilities, conveyer belts, roads, storage areas, parking and

administration facilities located in the Maputo harbour area.

Mozal Aluminium has recently agreed a long-term domestic aluminium metal supply agreement with Midal Cables International to supply 50,000 tonnes of aluminium ingots per year. Deliveries have recently commenced.

Projects and developments The AP3XLE project technology referred to in Section 7.1(b) is also currently in selection phase for Mozal Aluminium.

(2) Summary historical financial and operating information

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.8: Mozal Aluminium operating metrics

| South32 s share | 6 months ended December | | | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Aluminium production (kt) | 135 | 134 | 266 | 264 | 264 |
| Aluminium sales (kt) ^(a) | 137 | 142 | 276 | 264 | 265 |
| Realised sales price (US\$/t) ^(a) | 2,482 | 2,049 | 2,080 | 2,318 | 2,374 |
| Operating unit cost (US\$/t produced) | 1,867 | 2,045 | 1,962 | 2,201 | 2,189 |

(a) 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.

Table of Contents**Table 7.9: Mozal Aluminium financial summary**

| South32 s share | 6 months ended December | | | 12 months ended June | | |
|---|----------------------------|-----------|-----------|-------------------------|--------|--------|
| | US\$M | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Sales revenue | | 340 | 291 | 574 | 612 | 629 |
| Underlying EBITDA | | 88 | 17 | 52 | 31 | 51 |
| Underlying EBIT | | 70 | (1) | 16 | (3) | 18 |
| Net operating assets | | 628 | 634 | 627 | 669 | 777 |
| Minor and maintenance capital expenditure | | 5 | 3 | 8 | 7 | 9 |
| Major projects capital expenditure | | | | | | |
| Exploration expenditure | | | | | | |
| Exploration expensed | | | | | | |

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 55 per cent, 29 per cent and 13 per cent of Mozal Aluminium s operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

(d) Brazil Aluminium**(1) Overview**

The Brazil Aluminium business comprises South32 s interests in:

MRN Mine (14.8 per cent owned by South32);

Alumar consortium, which is comprised of an alumina refinery (36 per cent owned by South32) and aluminium smelter (40 per cent owned by South32) (together with certain interests in ancillary facilities and lands).

South32 s Brazilian Aluminium business interests are held through its wholly-owned subsidiary, BMSA.

Mineração Rio do Norte S.A. (MRN) is a Brazilian corporation, which owns the MRN Mine, a bauxite mine located in the Trombetas region in the state of Pará, Brazil. The mine is an open-cut operation with a capacity of 18 Mtpa of washed bauxite (100 per cent basis). The MRN Mine s FY2014 production was 17.7 Mt of bauxite (100 per cent basis) and the MRN Mine has a reserve life of six years. The majority of the bauxite produced from the MRN Mine is sold to shareholders in MRN and their related parties under long-term contracts. South32 is currently entitled to a total annual base volume of 2.4 Mtpa and a maximum of 2.7 Mtpa of bauxite under its contracts with MRN, which South32 currently supplies to the Alumar refinery.

Alumar comprises an alumina refinery with a nominal capacity of 3.5 Mtpa (100 per cent basis) and aluminium smelter with a nominal capacity of 440 ktpa (100 per cent basis). These operations and their integrated port facilities are located at São Luís, in the state of Maranhão, Brazil. FY2014 saleable production was 1,262 kt of alumina (South32's share) and 104 kt of aluminium (South32's share). During FY2014, approximately 16 per cent of Alumar's alumina production was used to feed the Alumar smelter, while the remainder was exported.

South32 sources electricity for Alumar under two long-term supply agreements with Eletronorte (a Brazilian power generation concessionaire). Since FY2013, South32 has generated revenue through the sale of surplus electricity into the transmission grid with a total of 1,188 GWh sold in FY2014.

Table of Contents**(2) MRN Mine description**

The location of the MRN Mine is set out below:

Diagram 7.4: Location of the MRN Mine s operations

An overview of the MRN Mine is set out below:

Table 7.10: MRN Mine overview

| | |
|---------------------|---|
| Location | The MRN Mine is located approximately 40 km from Porto Trombetas, which is 880 km from Belém, the capital of Pará, Brazil. |
| Ownership | The MRN Mine is owned by MRN, which is a Brazilian corporation in which South32 holds a 14.8 per cent interest, Alcoa and its affiliates ^(a) hold 18.2 per cent, Vale S.A. (Vale) holds 40 per cent, Alcan Alumina Ltda (Rio Tinto Alcan) holds 12 per cent, Companhia Brasileira de Alumínio S.A. holds 10 per cent, and Norsk Hydro Brasil Ltda holds five per cent. |
| Operatorship | Independent joint venture company. |
| Workforce | MRN had on average approximately 3,400 FTE employees and contractors in FY2014. |
| History | MRN was incorporated in 1967 by Rio Tinto Alcan and established in 1974 as a joint venture involving Rio Tinto Alcan, Vale and other shareholders. Mine operations commenced in 1979 and the first shipment from the MRN Mine was in 1979. |

The adjacent Cruz Alta Project, initially associated with Alcoa and Billiton Group companies, was consolidated with the Trombetas Project in 1992 to form the MRN Mine.

In 2003 and 2007, expansions of the operation increased production capacity to 18 Mtpa of washed bauxite (100 per cent basis).

| | |
|---------------------------------|--|
| Title, leases or options | MRN holds 44 mining leases, all of which are mining concessions issued under the Brazilian Mining Code. The mining leases are grouped into a single mining unit (Grupamento Mineiro/Mining Group), under no. 950.000/1997. These leases cover an area of 143,000 ha. |
|---------------------------------|--|

With respect to the environmental licensing process, MRN has already applied for environmental licences for new exploration of areas surrounding the MRN Mine, which requires authorisation for environmental studies. However, there is a civil investigation in respect of certain of these environmental licence applications which has resulted in delays in the environmental permitting

of some of MRN's exploration activities until consultation with potentially affected local traditional communities is undertaken. MRN has engaged in negotiations with the communities who filed the initial complaint to resolve this issue.

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| | |
|--|---|
| Resources and reserves | As at 30 June 2014, in 100 per cent terms, the MRN Mine's total Mineral Resources (washed) were 527 Mdmt at 50.2 per cent of available alumina and 4.2 per cent of reactive silica grades. Total Ore Reserves (washed) were 98 Mdmt (100 per cent basis) at 49.4 per cent of available alumina and 4.6 per cent of reactive silica grades. ^(b) |
| Mining and processing | The MRN Mine is an open-cut strip mining operation that has an 18 Mtpa installed bauxite capacity. Mined ore is hauled to primary crushers and then transported by conveyor belt to the beneficiation plant, where it is washed and classified by granulometry. Bauxite fines are recovered by cyclone and filtering. |
| Logistics and marketing | <p>On-site power is provided by two thermoelectric power plants, with installed power rating of 60.6 MW.</p> <p>Bauxite is transported to Porto Trombetas, a river port, via a 28 km rail line that connects the mine area to the port.</p> <p>All bauxite is transported from the port via ship to customers, including the Alumar members share.</p> |
| Overview of significant contracts | <p>MRN currently sells the majority of its production to its shareholders and their related parties, with sales primarily governed by long-term contracts that establish annual quantities and similar sales terms for each shareholder. The quantities are confirmed annually and may vary slightly. From the current bauxite production, 70 per cent is shipped to Alunorte and Alumar, two of the main Brazilian refineries, and the remainder is exported, mainly to refineries located in the North Atlantic Ocean seaboard.</p> <p>In recent times, price reductions have applied under these sale agreements due to the quality of bauxite grades supplied. However, for South32, the sale price achieved by MRN becomes an input cost into the operations at Alumar, such that variations in the price of bauxite supplied by MRN have a limited net financial impact on South32.</p> |
| Projects and developments | <p>The MRN Mine's current reserve base supports mining until 2021. MRN is currently considering extending the mine's life to approximately 2043.</p> <p>This extension will require MRN's shareholders to agree on the optimal expansion configuration and to potentially contribute to the substantial capital expenditure.</p> |

(a) Alcoa Alumínio S.A., Alcoa World Alumina LLC and Alcoa World Alumina Brasil Ltda.
 (b) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

(3) Alumar description

The location of Alumar's operations is set out below:

Diagram 7.5: Location of Alumar's operations

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An overview of Alumar is set out below:

Table 7.11: Alumar overview

| | |
|---------------------------------|---|
| Location | Alumar is located at São Luís, Maranhão, Brazil. |
| Ownership | The Alumar alumina refinery is an unincorporated joint venture with South32 holding 36 per cent, Alcoa and its affiliates holding 54 per cent and Rio Tinto Alcan holding 10 per cent. |
| Operatorship | The Alumar aluminium smelter is an unincorporated joint venture with South32 holding 40 per cent and Alcoa holding 60 per cent. Alcoa operates both the refinery and smelter. |
| Workforce | Alumar had on average approximately 2,750 FTE employees and contractors in FY2014. |
| History | Alumar commenced operations in 1984 with refining capacity (on a 100 per cent basis) of 0.9 Mtpa and smelter capacity of 110 ktpa. Since then, several expansions have been implemented, including (on a 100 per cent basis): <p style="margin-left: 40px;">in 1986, smelter capacity was increased from 110 to 250 ktpa as Line II of the smelter commenced operations;</p> <p style="margin-left: 40px;">in 2006, smelting capacity was increased to 440 ktpa as Line III of the smelter commenced operations;</p> <p style="margin-left: 40px;">in 2009, the refinery was substantially expanded, increasing capacity to 3.5 Mtpa.</p> |
| Title, leases or options | All assets are held on land owned by Alumar or occupied by Alumar pursuant to public deeds of right of easement executed in 1982 and 1983 for undetermined terms with the State of Maranhão, Brazil. |
| Mining and processing | The creation of an environmental conservation area adjoining the Alumar site has been considered by federal and state governments, which may lead to changes in permitting procedures in respect of the area, as well as to delays in the permitting procedures already in progress. However, at this stage there is no official proposal regarding the creation of the conservation area. Alumar refinery |

Bauxite ore is refined using the Bayer refining process in which bauxite is mixed with a caustic soda solution and transferred to a digestion vessel, where it is heated under pressure. The resultant solution is clarified before aluminium hydrate is precipitated. The filter cake is subsequently fed into calciners where it is roasted to produce alumina.

Alumar smelter

The smelting process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium in reaction pots. The molten aluminium, which collects at the bottom of the pots, is then tapped out and transferred for casting into aluminium ingots.

Production from potlines II and III is currently suspended due to market conditions reducing overall annual capacity to 124 ktpa (100 per cent basis), and potline I operations are subject to ongoing review having regard to market conditions.

Logistics and marketing

Alumar refinery

Alumar's port facilities provide the primary entry point for raw materials and also serve as an export facility for alumina. The majority of alumina produced at the Alumar refinery is exported via the port to customers.

The port includes two terminals at São Marcos Bay, which have capacity to receive 76 kt (gross tonne) ships.

Alumar smelter

South32's share of aluminium produced at Alumar is largely sold in the Brazilian domestic market on a Free Carrier basis where the customer is responsible for contracting and paying for transportation.

Table of Contents**Overview of significant contracts**

South32 acquires bauxite to feed the Alumar refinery under six long-term bauxite off-take agreements with MRN, each with an expiry and contracted base supply amount as follows:

| Expiry date | Bauxite to be supplied (ktpa) |
|--------------------|--------------------------------------|
| 1 January 2018 | 800 |
| 1 January 2020 | 115 |
| 1 January 2020 | 700 |
| 1 January 2023 | 500 |
| 1 January 2032 | 86 |
| 1 January 2033 | 200 |

MRN has agreed to negotiate in good faith during the final year of each agreement with a view to entering into new off-take arrangements for the supply of similar volumes of bauxite. If bauxite cannot be sourced from the MRN Mine (noting the current reserve base at the MRN Mine supports mining until 2021, although expansion options may exist), alternative supply of bauxite may need to be sourced for Alumar, which may be under different terms than under South32's current contracts with MRN.

South32 acquires electricity for Alumar from Eletronorte (a Brazilian power generation concessionaire) under two long-term contracts (one for the smelter and the other for the refinery) which will expire in 2024. As noted in Section 2.2(c) the risk of electricity rationing occurring has increased recently in Brazil. The bauxite is transported from the MRN Mine to Alumar under arrangements with specialised freight companies, including Empresa de Navegação Elcano S.A.

Projects and developments

A preliminary concept study has been prepared with a view to debottlenecking the refinery (improving supply chain and processing efficiency and increasing the capacity of the refinery) to increase capacity.

(4) Summary historical financial and operating information

A summary of operating metrics and financial information for South32's combined Brazil Aluminium businesses is set out below:

Table 7.12: Brazil Aluminium operating metrics

| | 6 months ended December | | 12 months ended June | | |
|---------------------------|--------------------------------|------------------|-----------------------------|---------------|---------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| South32's share | | | | | |
| Alumina production (kt) | 680 | 633 | 1,262 | 1,205 | 1,235 |
| Aluminium production (kt) | 26 | 63 | 104 | 154 | 170 |
| Alumina sales (kt) | 694 | 598 | 1,248 | 1,275 | 1,201 |

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| | | | | | |
|--|-------|-------|-------|-------|-------|
| Aluminium sales (kt) | 25 | 62 | 104 | 164 | 163 |
| Realised alumina sales price (US\$/t) ^(a) | 323 | 293 | 300 | 296 | 324 |
| Realised aluminium sales price (US\$/t) ^(a) | 2,360 | 1,968 | 2,000 | 2,061 | 2,252 |
| Alumina operating unit cost (US\$/t produced) ^(b) | 203 | 254 | 239 | 275 | 258 |
| Aluminium operating unit cost (US\$/t produced) ^(c) | 4,692 | 2,462 | 2,644 | 2,416 | 2,576 |

- (a) Realised sales price is calculated as sales revenue divided by sales volume.
- (b) Includes cost of acquiring bauxite from MRN.
- (c) Includes cost of alumina transferred from Alumar refinery to the Alumar smelter at the alumina production cost. Excludes revenue from sales of surplus electricity into the transmission grid, which is included in Other Income in Table 7.13.

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Table of Contents**Table 7.13: Brazil Aluminium financial summary**

| South32 s share | 6 months ended December | | | 12 months ended June | | |
|---|----------------------------|-----------|-----------|-------------------------|--------|--------|
| | US\$M | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Sales Revenue | | 268 | 266 | 529 | 637 | 660 |
| <i>Alumina</i> | | 224 | 175 | 374 | 378 | 389 |
| <i>Aluminium</i> | | 59 | 122 | 208 | 338 | 367 |
| <i>Intra-segment elimination</i> | | (15) | (31) | (53) | (79) | (96) |
| Other income ^(a) | | 117 | 36 | 121 | 31 | 3 |
| Underlying EBITDA | | 140 | 35 | 127 | 44 | 3 |
| <i>Alumina</i> | | 86 | 25 | 54 | 47 | 70 |
| <i>Aluminium</i> | | 54 | 10 | 73 | (3) | (67) |
| Underlying EBIT | | 101 | (7) | 44 | (40) | (80) |
| <i>Alumina</i> | | 56 | (8) | (10) | (17) | 7 |
| <i>Aluminium</i> | | 45 | 1 | 54 | (23) | (87) |
| Net operating assets | | 938 | 1,010 | 968 | 1,031 | 1,144 |
| <i>Alumina</i> | | 750 | 848 | 752 | 869 | 949 |
| <i>Aluminium</i> | | 188 | 162 | 216 | 162 | 195 |
| Minor and maintenance capital expenditure | | 5 | 7 | 9 | 6 | 12 |
| Major projects capital expenditure | | | | | | |
| Exploration expenditure | | | | | | |
| Exploration expensed | | | | | | |

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

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 53 per cent, 28 per cent and 16 per cent of Brazil Aluminium s operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

(e) South Africa Energy Coal**(1) Overview**

South Africa Energy Coal, which is 90 per cent owned by South32, operates the Khutala, Klipspruit, Wolvekrans and Middelburg mines in the Witbank region in the Mpumalanga province, South Africa. South Africa Energy Coal s mines are open-cut, other than the Khutala underground bord and pillar mine. South Africa Energy Coal also owns a 21 per cent interest in RBCT.

South Africa Energy Coal is the third-largest exporter and the fifth-largest domestic supplier of energy coal in South Africa. In FY2014, it produced 30.4 Mt of energy coal (100 per cent basis), of which approximately 55 per cent was

sold to Eskom. The remaining production was exported, predominantly to India and China. As at 30 June 2014, the reserve lives of South Africa Energy Coal s mines ranged from six years at Khutala to 23 years at Middelburg.

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The location of the South Africa Energy Coal mines is shown below.

Diagram 7.6: Location of South Africa Energy Coal s operations

An overview of South Africa Energy Coal is provided below:

Table 7.14: South Africa Energy Coal overview

| | |
|---------------------|--|
| Location | <p>South Africa Energy Coal s mines are all located within the Witbank coalfield in the Mpumalanga province.</p> <p>Khutala mine is located approximately 40 km southwest of the town of Witbank and 100 km east of Johannesburg.</p> <p>Klipspruit mine is located approximately 30 km southwest of the town of Witbank and 120 km east of Johannesburg.</p> <p>The Wolvekrans Middelburg complex is located approximately 20 km southeast of the town of Witbank and 170 km east of Johannesburg.</p> |
| Ownership | <p>South Africa Energy Coal is 90 per cent owned by South32, two per cent owned by its employees through an Employee Share Ownership Plan (ESOP) and eight per cent owned by a BBBEE consortium led by Pembani Group (Pty) Limited (Pembani). The interests owned by the ESOP and BBBEE consortium were acquired using vendor finance, with the loans repayable to South32 via distributions attributable to these parties, pro rata to their share in South Africa Energy Coal. From an accounting perspective, until these loans are repaid, South32 s interest in Underlying EBITDA generated by South Africa Energy Coal is 100 per cent. Following repayment of the loans, from an accounting perspective, South32 s interest in Underlying EBITDA will be 90 per cent.</p> |
| Operatorship | <p>Operated by South32.</p> |
| Workforce | <p>South Africa Energy Coal had on average approximately 10,000 FTE employees and contractors in FY2014.</p> |
| History | <p>The history of the currently operating mines is summarised below:</p> |

The Middelburg mine commenced production in 1982 and in 2008 subsumed the Douglas mine (which had commenced operation in 1979). Douglas and Middelburg were previously owned through the Douglas Tavistock Joint Venture (**DTJV**), in which BHP Billiton had an 84 per cent share and a subsidiary of Glencore Plc (**Glencore**) had a 16 per cent share. The DTJV was amended in 2008 such that it ceased being a production joint venture. The Middelburg complex was split to form the Middelburg and Wolvekrans mines during 2011, which now operate as a combined complex.

Khutala commenced as an underground bord and pillar mine in 1984, while its open-cut operations started in 1996.

Klipspruit was initially a truck and shovel mini-pit operation, which commenced in 2003. Dragline operations started in June 2005.

Since 2000, South Africa Energy Coal has completed a number of coal mine and infrastructure-related transactions with South African junior miners in addition to its combined empowerment transaction, which included a BBBEE transaction with Pembani and an ESOP. These were in line with South African empowerment legislation, as well as the requirements set out in the Mining Charter as published in the Mineral and Petroleum Resources Development Act of 2002 (South Africa).

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Title, leases or options

South Africa Energy Coal holds new order mining rights that provide it with the exclusive right to mine minerals for a period of 30 years from the date of grant. Each of the mining rights has a right of renewal for a further 30 years, subject to compliance with the terms and conditions of the existing mining right. These obligations include the development and implementation of Social and Labour Plans, which South Africa Energy Coal has prepared and submitted and is awaiting approval.

South Africa Energy Coal's new order mining rights were issued between October and December 2011 and cover each of South Africa Energy Coal's four operating mines as well as associated exploration areas and infrastructure.

The new order mining rights in respect of the Khutala and Klipspruit mines are held independently by South Africa Energy Coal.

The Wolvekrans Middelburg complex comprises of four new order mining rights. One of the new order mining rights is held independently by South Africa Energy Coal. The remaining three are currently held jointly by South Africa Energy Coal (84 per cent) and Glencore (16 per cent). The joint ownership of these three new order mining rights traces back to the DTJV agreement. South Africa Energy Coal and Glencore are pursuing an amendment to the joint ownership of the mining rights such that South Africa Energy Coal and Glencore would have independent new order mining rights for their respective interests. South Africa Energy Coal and Glencore currently mine and operate their respective areas independently and for their own account.

South Africa Energy Coal applied for a mining right over an area referred to as Pegasus in May 2013. It also holds prospecting rights over a number of other areas.

Resources and reserves

As at 30 June 2014, in 100 per cent terms, South Africa Energy Coal's Measured, Indicated and Inferred Coal Resources totalled 5,170 Mt. South Africa Energy Coal's Proved and Probable Coal Reserves and Marketable Coal Reserves were 583 Mt and 435 Mt respectively (100 per cent basis).^(a)

Mining and processing

South Africa Energy Coal's mining and processing methods vary by mine.

Khutala mine produced 9.7 Mt of energy coal in FY2014 (100 per cent basis). Most of the production was from underground bord and pillar operations and approximately 1.5 Mt was produced from a small open-cut area (100 per cent basis). The mined coal is crushed at two crushers, which have a combined nominal capacity in excess of 12 Mtpa (100 per cent basis).

Klipspruit is a single dragline, multi seam open-cut mine that is combined with a truck and shovel mini pit. Run-of-mine (**ROM**) coal is processed at the Phola Coal Processing Plant, which is a 50:50 joint venture with a subsidiary of Anglo American Plc. South Africa Energy Coal's share of the plant's nominal capacity is in excess of 7 Mtpa. Klipspruit produced 7.3 Mt of energy coal in FY2014.

Wolvekrans is an open-cut mine actively mining five pits, while Middelburg is an open-cut mine actively mining two pits. The Wolvekrans Middelburg complex includes tips and crushing plants, two export wash plants, one middlings wash plant and a de-stoning plant with a combined nominal capacity in excess of 17 Mtpa. The Wolvekrans Middelburg complex produced 13.4 Mt of energy coal in FY2014 (100 per cent basis).

Power supplied to the mines is sourced from Eskom under long-term contracts. Potable water is supplied to the various operations by Eskom (43 ML) and Phola Plant (2 ML), for a total of 45 ML each month. All process water is sourced from pollution control dams with a combined capacity of 1,830 ML. All operations have potable water supply contracts with Eskom.

Logistics and marketing

Logistics and marketing arrangements vary for each of the operations that make up South Africa Energy Coal.

The Khutala mine is located adjacent to Eskom's Kendal power station. The entire Khutala resource, except for coal mined from the No. 5 coal seam (approximately 235 kt in FY2014), is dedicated to supplying Kendal. This coal is loaded directly onto a conveyor system which feeds the Kendal power station and is sold to Eskom on a cost-plus basis.

Klipspruit produces a 6,000 kcal/kg and a 4,800 kcal/kg export product. After processing, the coal is railed 611 km to RBCT via the Transnet rail link. Klipspruit coal is exported, predominantly to India and China.

The Wolvekrans Middelburg complex produces both export and domestic product. Export production can be blended to suit market requirements with 6,000 kcal/kg and 4,800 kcal/kg products currently produced. The complex utilises a 558 km Transnet rail link to export coal via RBCT. Export coal is predominantly shipped to India and China. Domestic production is transported by conveyor to Eskom's Duvha coal-fired power station, which is located adjacent to the Middelburg mine.

Table of Contents**Overview of significant contracts**

South Africa Energy Coal has two long-term coal supply agreements (**CSAs**) in place with Eskom. The first CSA is for the supply of energy coal from the Khutala mine to Eskom's Kendal power station that expires in 2033. The second CSA is for the supply of energy coal from the Wolvekrans Middelburg complex to Eskom's Duvha Power Station that expires in 2034.

South Africa Energy Coal recently entered into a rail agreement with Transnet that expires in March 2024. As part of the negotiation process, South Africa Energy Coal agreed to relinquish up to five per cent of its rail entitlement for allocation to emerging miners. The risk associated with South Africa Energy Coal failing to obtain adequate allocation of rail capacity in the future is set out in Section 2.2(b).

Projects and developments

Further development opportunities have been identified to extend the mine lives of the existing Khutala and Klipspruit mining domains. Studies relating to these projects are at various stages of investigation and are outlined in Section 5.4(e).

South Africa Energy Coal continues to evaluate options to extract value from its broader portfolio. Assessments have been made or are currently underway in relation to Pegasus, as well as Leandra and Naudesbank, areas over which South Africa Energy Coal has prospecting rights.

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

(2) Summary historical financial and operating information

A summary of financial and operating metrics for South Africa Energy Coal are set out below (excluding third party sales):

Table 7.15: South Africa Energy Coal operating metrics

| 100 per cent terms | 6 months ended December | | | 12 months ended June | |
|---|--------------------------------|------------------|---------------|-----------------------------|---------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Energy coal production (kt) | 16,525 | 14,973 | 30,384 | 31,627 | 33,279 |
| Domestic sales (kt) ^(a) | 9,137 | 8,354 | 16,330 | 18,130 | 19,620 |
| Export sales (kt) ^(a) | 7,913 | 6,591 | 13,298 | 13,935 | 14,106 |
| Realised domestic sales price (US\$/t) ^(a) | 23 | 22 | 22 | 23 | 27 |
| Realised export sales price (US\$/t) ^(a) | 60 | 69 | 66 | 75 | 97 |
| Operating unit cost (US\$/t produced) | 36 | 39 | 35 | 42 | 44 |

(a) 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.

Table 7.16: South Africa Energy Coal financial summary

| | 6 months ended December | | 12 months ended June | | |
|---|------------------------------------|------------------|---------------------------------|---------------|---------------|
| 100 per cent terms | | | | | |
| US\$M | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Sales revenue ^(a) | 683 | 639 | 1,247 | 1,458 | 1,894 |
| Underlying EBITDA | 83 | 54 | 197 | 115 | 416 |
| Underlying EBIT | (9) | (44) | 4 | (96) | 226 |
| Net operating assets | 1,014 | 1,313 | 989 | 1,334 | 1,425 |
| Minor and maintenance capital expenditure | 50 | 17 | 59 | 115 | 137 |
| Major projects capital expenditure | 8 | 5 | 6 | 18 | 25 |
| Exploration expenditure | | | | | |
| Exploration expensed | | | | | |

(a) Includes domestic and export sales revenue.

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 51 per cent, eight per cent and 37 per cent of South Africa Energy Coal's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

Table of Contents**(f) Illawarra Metallurgical Coal****(1) Overview**

Illawarra Metallurgical Coal, which is 100 per cent owned by South32, owns and operates three underground metallurgical coal mines, Appin, West Cliff and Dendrobium, and two preparation plants, West Cliff Coal Preparation Plant (CPP) and Dendrobium CPP. These operations are all located in the southern coalfields of New South Wales, Australia, near the city of Wollongong and approximately 75 km to 90 km southwest of Sydney and between 8 km and 38 km from Port Kembla. Metallurgical coal is mined from the Bulli and Wongawilli seams and is crushed, screened and washed at the two CPPs, which have a combined processing nominal capacity of 12.5 Mtpa of raw coal. Product coal is then trucked to either Port Kembla or to BlueScope Steel's Port Kembla steelworks. In FY2014, Illawarra Metallurgical Coal produced a total of 6.0 Mt of metallurgical coal and 1.5 Mt of energy coal. As at 30 June 2014, the reserve lives of the Illawarra Metallurgical Coal mines were 25 years at Appin, two years at West Cliff and nine years at Dendrobium.

The location of Illawarra Metallurgical Coal's operations is shown below:

Diagram 7.7: Location of Illawarra Metallurgical Coal's operations

An overview of Illawarra Metallurgical Coal is set out below:

Table 7.17: Illawarra Metallurgical Coal overview

Location Illawarra Metallurgical Coal is located in the Illawarra region of New South Wales, Australia, near the city of Wollongong and approximately 75 km to 90 km southwest of Sydney. Distances between the mines and the port facility at Port Kembla are between 8 km and 38 km.

Illawarra Metallurgical Coal's operations are in proximity to the surrounding suburban areas of Illawarra, Wollondilly and Macarthur, and have the potential to impact on nearby infrastructure, environmental features and residential areas. The business has a strong community presence, which is supported by a comprehensive stakeholder engagement management plan, which includes structured community investment initiatives.

Ownership 100 per cent owned by South32.

Operatorship Operated by South32.

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Workforce Illawarra Metallurgical Coal had on average approximately 2,500 FTE employees and contractors in FY2014.

Employment terms for some employees in the Illawarra Metallurgical Coal business are governed by collective employment agreements, some of which have expired and are under renegotiation or are due to expire within the near future. South32 intends to engage with the relevant employees on the renewal of these agreements:

| Enterprise agreement | Expiry |
|-----------------------------|---------------|
| Dendrobium mine | April 2014 |
| Dendrobium CPP | July 2015 |
| West Cliff mine and CPP | July 2015 |
| Appin mine | July 2015 |

History Illawarra Metallurgical Coal has operated in the Illawarra region for 80 years. Over that time it has produced metallurgical coal from a number of mines. Of the currently operating mines:

Appin mine commenced production in 1962 and commissioned its first longwall operation in 1969;

West Cliff mine commenced production in 1976;

the current Dendrobium mine commenced production in 2005.

Title, leases or options Illawarra Metallurgical Coal holds a number of coal leases, mining leases and exploration titles.

Consolidated Coal Leases (**CCL**) covering the primary operating areas for, and granted to, Illawarra Metallurgical Coal cover a total of 43,071 ha. The key CCLs include:

| Operating mines | CCL | Expiry |
|-------------------------|------------|---|
| Appin and West Cliff | 767 2029 | |
| West Cliff | 724 2031 | |
| Dendrobium ¹ | 768 | Pending application for further 21 years ² |

1 Also covers the Cordeaux mine, which was closed in 2001.

2 South32 does not consider there is any basis for non-renewal and the rights granted under the expired lease can continue until the application has been resolved.

Resources and reserves As at 30 June 2014, Illawarra Metallurgical Coal Measured, Indicated and Inferred Coal Resources totalled 1,306 Mt. Illawarra Metallurgical Coal's Proved and Probable Coal Reserves and Marketable Coal Reserves were 208 Mt and 166 Mt respectively.^(a)

Mining and processing

Appin, West Cliff and Dendrobium are all longwall mines and the existing level of equipment as at 30 June 2014 supports an annual ROM capacity of 4 Mtpa, 3 Mtpa and 5 Mtpa, respectively. Production at Illawarra Metallurgical Coal is approximately 80 per cent metallurgical coal and 20 per cent energy coal.

All coal produced by Illawarra Metallurgical Coal is washed at one of the two CPPs, with coal from:

both Appin and West Cliff mines being washed at the West Cliff CPP, which has a nominal capacity of 7.5 Mtpa of raw coal;

Dendrobium mine being transported via rail for washing at the Dendrobium CPP, which has a nominal capacity of 5 Mtpa of raw coal and is located at the BlueScope Steel site at Port Kembla.

Electricity is sourced from the New South Wales electricity grid. Illawarra Metallurgical Coal sources water for Appin and Dendrobium mines from Sydney Water. The West Cliff mine and CPP have their own water supply and water is supplied to the Dendrobium CPP pursuant to lease arrangements entered into with BlueScope Steel.

Table of Contents**Logistics and marketing**

Coal is hauled by road to the Port Kembla Coal Terminal for export to customers globally. Coal is also sold domestically and, in the case of BlueScope Steel, coal is delivered from the Dendrobium CPP by conveyor or truck to the blending yard at BlueScope Steel's Port Kembla steelworks.

In FY2014, 63 per cent of coal produced at Illawarra Metallurgical Coal was exported and 37 per cent was sold domestically.

Illawarra Metallurgical Coal utilises the Port Kembla Coal Terminal for shipping coal to customers globally. Illawarra Metallurgical Coal is one of six equal-share consortium partners in, and currently the manager of, Port Kembla Coal Terminal Ltd. Port Kembla Coal Terminal Ltd's right to operate the Port Kembla Coal Terminal is granted under a lease agreement with Port Kembla Port Corporation. The lease agreement for the coal terminal expires in 2030.

Port Kembla Coal Terminal is required to undertake a necessary restoration and compliance program. During the next five years South32 is expecting to provide a non-interest bearing shareholder loan for its share of these works. The final contribution required from South32 for this restoration and compliance program is subject to actual usage of the facility over the five year period of the project and consortium partner approval and funding.

Overview of significant contracts

Illawarra Metallurgical Coal has in place a number of contractual arrangements with BlueScope Steel. These include:

- a long-term agreement that governs the lease of the Dendrobium coal washery buildings located within BlueScope Steel's Port Kembla steelworks expiring in 2052;

- the rail operations agreement that governs the Kemira Valley rail link which connects the Dendrobium mine to the Dendrobium CPP (i.e. coal washery), which is located within BlueScope Steel's Port Kembla steelworks, that can be terminated by either party with six months' notice;

- a shared services agreement that governs the services that BlueScope Steel provides to Illawarra Metallurgical Coal in respect of the coal washery located at BlueScope Steel's Port Kembla steelworks and Illawarra Metallurgical Coal operations. Each service provided will continue indefinitely until either party terminates a particular service and the services in relation to the coal washery will terminate when the lease for the coal washery buildings terminates;

- a long-term contract pursuant to which Illawarra Metallurgical Coal supplies metallurgical coal to BlueScope Steel's steelworks located at Port Kembla, expiring in 2032. Under the coal supply agreement:

- the coal price is based on a pricing formula, which is calculated by reference to a basket of underlying contracts from Illawarra Metallurgical Coal and BHP Billiton-Mitsubishi Alliance coal sales. At the time that the parties entered into the agreement, the price of coal under these contracts was set on an annual benchmark basis. In recent years, pricing of the coal sold pursuant to these underlying contracts has moved towards index pricing. The contract pricing mechanism for future periods is under discussion with BlueScope Steel and BlueScope Steel has made certain claims in relation to historical pricing and the quality of coal supplied under the contract (see Section 2.1(f));

BlueScope Steel has pre-emptive rights and a purchase option in respect of certain disposals of Illawarra Metallurgical Coal entities and assets. However, these rights will not be triggered by the Demerger or disposals of shares in South32 once its shares are admitted to an official list of a recognised stock exchange, including in the context of a change of control.

At the time of the demerger of BlueScope Steel from BHP Billiton, BHP Billiton agreed to indemnify BlueScope Steel in respect of certain potential past and future environmental liabilities arising from Illawarra Metallurgical Coal's mines and related infrastructure that will form part of South32's assets. As a result of the allocation of liabilities in the Demerger agreements as summarised in Section 14.4, South32 will assume liability for any potential liabilities arising out of the indemnity given in favour of BlueScope Steel. BlueScope Steel has not made any claims pursuant to this indemnity since it was agreed in May 2002.

Coal seam gas extracted from Illawarra Metallurgical Coal's mines is supplied to a power station owned and operated by Energy Developments Limited (**EDL**). The gas is converted into electricity and then sold by Illawarra Metallurgical Coal to Endeavour Energy. Illawarra Metallurgical Coal's tolling services agreement with EDL and power supply agreement with Endeavour Energy are due to expire in 2016. South32 expects that these contracts will be renegotiated prior to expiry.

Table of Contents**Projects and developments**

In June 2012, the BHP Billiton Board approved a US\$845 million investment to sustain operations at Illawarra Metallurgical Coal by establishing a replacement mining area at Appin mine (**Appin Area 9 project**). The replacement area will have a production capacity of 3.5 Mtpa and will sustain Illawarra Metallurgical Coal's production capacity at 9 Mtpa product coal. The Appin Area 9 project was 77.5 per cent complete at 31 December 2014 and is expected to be operational in 2016, at which point it will replace production at the West Cliff mine.

Beyond the Appin Area 9 project, Illawarra Metallurgical Coal has undertaken a number of assessments to determine preferred options for mine life extension projects to sustain production at or above current levels. Opportunities exist (subject to receipt of requisite permits) within currently held mining and exploration lease areas but outside existing development consents.

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

(2) Summary historical financial and operating information

A summary of operating metrics and financial information for Illawarra Metallurgical Coal is set out below:

Table 7.18: Illawarra Metallurgical Coal operating metrics

| South32's share | 6 months ended December | | | 12 months ended June | |
|---|-------------------------|-----------|--------|----------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Metallurgical coal production (kt) | 3,858 | 2,614 | 5,974 | 6,664 | 6,621 |
| Energy coal production (kt) | 880 | 741 | 1,539 | 1,278 | 1,305 |
| Metallurgical coal sales (kt) | 3,447 | 2,579 | 5,921 | 7,032 | 6,233 |
| Energy coal sales (kt) | 799 | 677 | 1,623 | 1,410 | 1,098 |
| Realised metallurgical coal sales price (US\$/t) ^(a) | 110 | 141 | 130 | 167 | 255 |
| Realised energy coal sales price (US\$/t) ^(a) | 57 | 69 | 67 | 79 | 101 |
| Operating unit cost (US\$/t produced) | 64 | 101 | 99 | 124 | 111 |

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

Table 7.19: Illawarra Metallurgical Coal financial summary

| South32's share | 6 months ended December | | | 12 months ended June | |
|-----------------|-------------------------|-----------|--------|----------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |

US\$M

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Sales revenue ^(a) | 425 | 410 | 878 | 1,287 | 1,701 |
| Underlying EBITDA | 120 | 70 | 135 | 302 | 818 |
| Underlying EBIT | 20 | (8) | (35) | 154 | 659 |
| Net operating assets | 1,534 | 1,313 | 1,384 | 1,238 | 1,058 |
| Minor and maintenance capital expenditure | 108 | 67 | 110 | 80 | 148 |
| Major projects capital expenditure | 72 | 106 | 199 | 277 | 166 |
| Exploration expenditure | 2 | 3 | 5 | 7 | 14 |
| Exploration expensed | 2 | 3 | 5 | 7 | 14 |

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

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 22 per cent, six per cent and 49 per cent of Illawarra Metallurgical Coal's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

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GEMCO is a manganese mining operation located in the Northern Territory, Australia. Following implementation of the Demerger, GEMCO will be 60 per cent owned by South32. It is the largest and one of the lowest-cost manganese ore producers in the world. Its attributes include high-grade ore, open-cut mining operations, its own port facilities located at Milner Bay, 16 km from mining operations, and its close proximity to Asian export markets. GEMCO, whose FY2014 production of manganese ore was 4,776 kt (100 per cent basis), has a reserve life of 11 years.

TEMCO, a wholly-owned subsidiary of GEMCO, is a manganese alloy plant located in Tasmania, Australia. TEMCO is a medium-sized producer of HCFeMn, SiMn and sinter using ore shipped from GEMCO, primarily using hydroelectric power. Production of manganese alloy in FY2014 was 269 kt (100 per cent basis).

(2) GEMCO description

The location of GEMCO operations is shown below:

Diagram 7.8: Location of GEMCO s operations

An overview of GEMCO is set out below:

Table 7.20: GEMCO overview

| | |
|---------------------|---|
| Location | GEMCO is located on Groote Eylandt, Northern Territory, Australia, approximately 16 km from the town of Alyangula. |
| Ownership | South32 will hold a 60 per cent interest in GEMCO and Anglo American Plc holds the remaining 40 per cent. |
| Operatorship | Operated by South32. |
| Workforce | GEMCO had on average approximately 900 FTE employees and contractors in FY2014. The employment of some of the employees at GEMCO is governed by the Groote Eylandt Mining Company Enterprise Bargaining Agreement 2012, which expired on 1 March 2015. South32 intends to engage with the relevant employees and their representatives in relation to the renewal of this agreement. |
| History | GEMCO commenced mining at Groote Eylandt in 1964 under BHP Limited ownership. A crushing and wet screening plant was subsequently commissioned. |

The beneficiation plant was commissioned in 1972 at a 1.0 Mtpa capacity (100 per cent basis) and has since undergone a series of expansions. The most recent of these expansions was the GEMCO Expansion Project, which was completed in 2013 and increased GEMCO's capacity from 4.2 Mtpa to 4.8 Mtpa (100 per cent basis) through the introduction of a dense media circuit by-pass facility. The expansion also addressed key infrastructure constraints by increasing road and port capacity to 5.9 Mtpa (100 per cent basis), creating 1.1 Mtpa of additional infrastructure capacity for future expansions.

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| | |
|----------------------------------|---|
| Title, leases or options | <p>Current mining licences (MLN 951-953,956-961) cover an area of 8,340 ha and are valid until 2031. In addition to the mining licences, GEMCO is the leaseholder for special purpose leases that provide rights for the provision of township, infrastructure services and port facilities.</p> <p>GEMCO holds two exploration leases on Groote Eylandt that are the subject of an ongoing resource extension study (ELR 28161-2). These cover an area of 4,414 ha and are valid until November 2015. South32 intends to renew these leases and potentially seek conversion to a mining lease.</p> |
| Resources and reserves | <p>As at 30 June 2014, in 100 per cent terms, GEMCO's Measured, Indicated and Inferred Mineral Resources comprised a ROM component which totalled 175 Mt at 44.8 per cent manganese product and a yield of 48 per cent and a series of sand tailings stockpiles of 15 Mt at 20.7 per cent manganese head grade (being the average grade of ore delivered to a process for mineral extraction). GEMCO's Proved and Probable Ore Reserves were 94 Mt (100 per cent basis) at 44.6 per cent manganese and a yield of 58 per cent.^(a)</p> |
| Mining and processing | <p>GEMCO is an open-cut strip mining operation, which includes crushing, screening, washing and dense media separation. It produces lump and fines products with a 4.8 Mtpa capacity (100 per cent basis).</p> |
| Logistics and marketing | <p>Power to the site is provided by on-site diesel generation.</p> <p>Ore is transported 16 km from the concentrator by road train to GEMCO's port at Milner Bay where it is exported.</p> |
| Projects and developments | <p>Approximately 90 per cent of ore product from GEMCO is sold directly to export markets, with the remaining ore sold to the TEMCO smelter.</p> <p>The US\$139 million Premium Concentrate Project (PC02) (US\$83.4 million South32's share), approved in August 2014, is in the early stage of execution. PC02 is expected to complete by the end of FY2016 and ramp up to full production of 0.5 Mtpa in FY2017, thereby increasing GEMCO's capacity from 4.8 Mtpa to 5.3 Mtpa (100 per cent basis). This capacity expansion will be achieved by the construction of a standalone processing facility near the existing concentrator to produce a premium concentrate product for export sale. The expansion also involves an update to port infrastructure to handle the blending of premium concentrate with existing ore fines products.</p> <p>South32 is in the early stages of assessing projects which have the potential to improve efficiency at GEMCO's operations and is exploring areas which have the potential to extend the GEMCO mine life.</p> |

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

(3) TEMCO description

The location of TEMCO's operations is shown below:

Diagram 7.9: Location of TEMCO s operations

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An overview of TEMCO is provided below:

Table 7.21: TEMCO overview

| | |
|---------------------------------|---|
| Location | TEMCO is located at Bell Bay, Tasmania, Australia on an industrial estate approximately 4 km from George Town. |
| Ownership | TEMCO is wholly-owned by GEMCO, which is itself owned in a joint venture in which South32 will hold 60 per cent and Anglo American Plc holds 40 per cent. |
| Operatorship | Operated by South32. |
| Workforce | TEMCO had on average approximately 300 FTE employees and contractors in FY2014. |
| History | <p>TEMCO's operations were established by BHP in 1962 at the Bell Bay site, where it had access to a sheltered deep water port and cheap hydroelectric power.</p> <p>TEMCO's first furnace was commissioned in 1962. In 1966, TEMCO began to process GEMCO manganese ore. Three additional furnaces were commissioned in 1966 (Furnace No. 2), 1976 (Furnace No. 5) and 1977 (Furnace No. 3).</p> <p>Operations have been subject to a number of improvements since the 1970s. More recently, in 2001, TEMCO installed its first high conductivity freeze lining at Furnace No. 1, which enabled the furnace to operate at higher loads. Freeze lining has been installed during subsequent rebuilds of the other furnaces, with Furnace No. 5 being the last one to be converted to freeze lining in September 2009.</p> |
| Title, leases or options | The current ferroalloy facility is located on three freehold titles held by TEMCO having a total stated area of 104.1 ha. TEMCO also leases portions of the nearby wharf and foreshore areas. Under these arrangements, TEMCO has priority use of No. 3 Wharf and holds a lease over an area for haulage, access and training facilities, which expires in 2029. |
| Processing | <p>TEMCO produces HCFeMn (150 ktpa capacity) and SiMn (120 ktpa capacity). Sinter production (325 ktpa capacity) is predominantly consumed for internal alloy production, with any excess sold.</p> <p>Smelting of manganese ore and manganese sinter to produce SiMn and HCFeMn is conducted within refractory lined circular submerged arc furnaces. TEMCO operates a duplex process which means that the FeMn slag produced contains approximately 32 per cent manganese. The slag is then used as a primary feed in SiMn production.</p> <p>The majority of TEMCO's power needs are met by hydroelectric power.</p> <p>The remainder of TEMCO's power needs are generated on-site.</p> |
| Logistics and marketing | TEMCO has priority use of a berth at the Bell Bay wharf, under a long-term lease, for its shipping requirements. Raw materials that are not sourced locally in Tasmania are shipped to TEMCO via the Bell Bay wharf. The same wharf is used by TEMCO to ship its manganese alloy products to customers. |

TEMCO is a party to marketing contracts in Australia and New Zealand. TEMCO distributes its products through a distribution agreement with Samancor AG (a manganese joint venture entity owned by South32 (60 per cent) and Anglo American Plc (40 per cent)). Currently, alloy production is exported to more than 28 customers in 12 countries. Approximately 10 per cent of TEMCO's products are supplied directly to steel customers in Australia and New Zealand.

Section 2.1(c) sets out details of the petition filed with the United States Department of Commerce and the United States International Trade Commission in February 2015, requesting the imposition of antidumping duties on silicomanganese imports of Australian origin (of which TEMCO is the only producer).

Overview of significant contracts

TEMCO sources power (a critical aspect of its operations) from Hydro Tasmania. TEMCO has recently extended its current agreement with Hydro Tasmania until 2024. Pricing is fully variable based on load consumption.

Projects and developments

No projects that would be material to South32 are currently being considered at TEMCO.

Table of Contents**(4) Summary historical financial and operating information**

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.22: Australia Manganese operating metrics

| | 6 months ended December | | | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| 100 per cent terms | | | | | |
| Manganese ore production (kt) | 2,499 | 2,438 | 4,776 | 5,027 | 4,306 |
| Manganese alloy production (kt) | 139 | 123 | 269 | 234 | 198 |
| Manganese ore sales (kt) ^(a) | 2,432 | 2,523 | 5,063 | 4,578 | 4,428 |
| <i>External customers</i> | 2,159 | 2,332 | 4,591 | 4,100 | 4,046 |
| <i>TEMCO</i> | 273 | 191 | 472 | 478 | 382 |
| Manganese alloy sales (kt) ^(a) | 129 | 117 | 276 | 227 | 229 |
| Realised manganese ore sales price (US\$/t) ^(a) | 185 | 231 | 219 | 227 | 211 |
| Realised manganese alloy sales price (US\$/t) ^(a) | 1,140 | 983 | 1,025 | 1,282 | 1,384 |
| Ore operating unit cost (US\$/t produced) | 103 | 135 | 130 | 119 | 140 |
| Alloy operating unit cost (US\$/t produced) ^(b) | 906 | 967 | 974 | 1,000 | 1,601 |

(a) 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.

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

Table 7.23: Australia Manganese financial summary

| | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| 100 per cent terms | | | | | |
| US\$M | | | | | |
| Sales revenue ^(a) | 566 | 677 | 1,308 | 1,257 | 1,204 |
| <i>Manganese Ore</i> | 451 | 584 | 1,107 | 1,040 | 936 |
| <i>Manganese Alloy</i> | 147 | 115 | 283 | 291 | 317 |
| <i>Intra-segment elimination</i> | (32) | (22) | (82) | (74) | (49) |
| Underlying EBITDA | 215 | 252 | 505 | 499 | 335 |
| <i>Manganese Ore</i> | 194 | 256 | 484 | 442 | 335 |
| <i>Manganese Alloy</i> | 21 | (4) | 21 | 57 | |
| Underlying EBIT | 162 | 216 | 414 | 436 | 282 |
| <i>Manganese Ore</i> | 147 | 225 | 404 | 392 | 293 |
| <i>Manganese Alloy</i> | 15 | (9) | 10 | 44 | (11) |
| Net operating assets | 890 | 887 | 825 | 846 | 621 |
| <i>Manganese Ore</i> | 750 | 731 | 697 | 702 | 451 |
| <i>Manganese Alloy</i> | 140 | 156 | 128 | 144 | 170 |
| Minor and maintenance capital expenditure | 49 | 25 | 76 | 135 | 126 |

| | | | | | |
|------------------------------------|---|----|----|-----|----|
| Major projects capital expenditure | 8 | 33 | 32 | 136 | 87 |
| Exploration expenditure | 3 | 3 | 5 | 4 | |
| Exploration expensed | 3 | 3 | 5 | 4 | |

(a) As per accounting policies, revenues referring to sales from GEMCO to TEMCO are eliminated as part of the consolidation.

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 20 per cent, 13 per cent and 37 per cent of Australia Manganese's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

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(h) South Africa Manganese**(1) Overview**

South Africa Manganese comprises Hotazel Mines owned by Hotazel Manganese Mines Proprietary Ltd (**Hotazel**) and Metalloys. South32 has an effective 44.4 per cent ownership of the Hotazel Mines, and Metalloys is 60 per cent owned and operated by South32.

South32 operates the Mamatwan open-cut mine and the Wessels underground mine of Hotazel Mines. In FY2014, the total manganese ore production was 3,526 kt (100 per cent basis). Wessels has a reserve life of 46 years and Mamatwan has a reserve life of 18 years.

The Metalloys operation is located approximately 50 km south of Johannesburg, South Africa. Metalloys is one of the largest manganese alloy producers in the world and produces HCFeMn and MCFeMn. FY2014 production of manganese alloy was 377 kt.

South Africa Manganese also holds an indirect interest in United Manganese of Kalahari mine, through a 38 per cent share of Majestic Silver Trading (Pty) Ltd.

The location of Hotazel Mines and Metalloys operations is shown below:

Diagram 7.10: Location of Hotazel Mines and Metalloys operations**(2) Hotazel Mines description**

An overview of Hotazel Mines is set out below:

Table 7.24: Hotazel Mines overview

| | |
|------------------|--|
| Location | Hotazel Mines is located in the Northern Cape province of South Africa near the town of Kuruman, approximately 600 km from Johannesburg. |
| Ownership | South32 holds a 60 per cent interest in Samancor Holdings (Pty) Ltd (Samancor) and Anglo American Plc holds the remaining 40 per cent. |

Samancor indirectly owns 74 per cent of Hotazel, giving South32 an ownership interest of 44.4 per cent. The remaining 26 per cent of Hotazel is owned by the following BBBEE entities as a result of transactions entered into between 2007 and 2009 (some of which were funded by vendor loans):

Ntsimbintle Mining (Pty) Ltd (9 per cent);

Iziko Mining (Pty) Ltd (5 per cent);

NCAB Resources (Pty) Ltd (7 per cent);

The HMM Education Trust (5 per cent).

For accounting purposes, South32 will report a 54.6 per cent effective interest until the vendor loans are repaid.

Operatorship

Operated by South32.

Workforce

Hotazel had on average approximately 2,100 FTE employees and contractors in FY2014.

History

Samancor was established in 1926 and was listed on the JSE a year later as SA Manganese Ltd.

Exploration started in the Kalahari Manganese Field in the 1950s. Mamatwan commenced with production during 1964 and Wessels during 1973.

In 1975, SA Manganese Ltd merged with Amcor Ltd, giving rise to the present name. Samancor was subsequently acquired by a 60:40 joint venture between Billiton and Anglo American Plc and de-listed in 1998.

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| | |
|---------------------------------|---|
| Title, leases or options | <p>Hotazel is the holder of two mining licences (Mamatwan and Wessels) and one prospecting right (Hotazel York), namely the:</p> <p style="padding-left: 40px;">Mamatwan mining right (Right No. 04/2006) covers an area of 1,103 ha and is valid until 5 October 2035;</p> <p style="padding-left: 40px;">Wessels mining right (Right No. 03/2006) covers an area of 1,069 ha and is valid until 5 October 2035;</p> <p style="padding-left: 40px;">Hotazel York prospecting right, which covers 146 ha, was renewed on 17 July 2014 and is valid for another three years in line with the Mineral and Petroleum Resources Development Act 2002 (South Africa). Upon completion of the prospecting work and the necessary mining studies, an application for a mining right can be lodged should positive decision be made to do so.</p> |
| Resources and reserves | <p>As at 30 June 2014, in 100 per cent terms, Mamatwan's Measured, Indicated and Inferred Resource totalled 110 Mt at 35.1 per cent manganese content. Mamatwan's Proved and Probable Reserves were 64 Mt at 37.3 per cent manganese content.</p> <p>Wessels' Measured, Indicated and Inferred Resource totalled 140 Mt at 42.4 per cent manganese content (100 per cent basis). Wessels' Proved and Probable Reserves were 69 Mt at 42.2 per cent manganese content (100 per cent basis).^(a)</p> |
| Mining and processing | <p>Approximately 75 per cent of the ore processed at the Mamatwan and Wessels mines results in export saleable product. The remainder of the ore is converted to FeMn alloy at the Metalloys plant.</p> <p>Mamatwan is an open-cut mining operation with a capacity of approximately 3.5 Mtpa ROM (100 per cent basis). Mined ore is processed into a saleable product through a crushing and wet screening operation, with some ore undergoing further processing by dense media separation and sintering. During beneficiation, the average grade of ore is increased from approximately 37 per cent Mn to approximately 46 per cent Mn.</p> <p>Wessels is an underground bord and pillar operation with a current capacity of approximately 1.2 Mtpa of ROM production (100 per cent basis). Primary crushing of ore takes place underground, while secondary crushing forms part of the surface operations. ROM ore is washed and screened on the surface to produce various quality products.</p> <p>Power to Mamatwan and Wessels is provided by the South Africa national power supplier, Eskom.</p> |
| Logistics and marketing | <p>The Hotazel Mine's ore is distributed to domestic customers by rail and road. Ore for the export market is transported to three ports where it is shipped predominantly to Asia and Europe. These ports are:</p> <p style="padding-left: 40px;">Port Elizabeth, which is operated by Transnet operated port and is located approximately 1,000 km from the Hotazel Mines, which handles products from both mines;</p> <p style="padding-left: 40px;">Durban's port, which is privately operated by Bulk Connections, a business unit of the Bidvest Group, and is located approximately 1,200 km from the Hotazel Mines;</p> <p style="padding-left: 40px;">Saldanha Multi-Purpose Terminal, which is a Transnet operated port and is located approximately 900 km from the Hotazel Mines.</p> <p>Rail and port capacity is constrained and given current rail constraints, a portion of ore is currently transported via road to Durban.</p> |

Transnet has approved an expansion for ore export via the port of Coega, which will create additional capacity of 16 Mtpa for bulk ore exports by 2019 for the manganese mining sector. This expansion is expected to be underpinned by long-term take or pay contracts.

The risk associated with South Africa Manganese failing to obtain adequate allocation of rail capacity in the future is set out in Section 2.2(b).

Overview of significant contracts

The Transnet Manganese Export Capacity Allocation (**MECA**) contract is a take or pay rail contract that provides rail and port services through Port Elizabeth. Transnet is in the process of finalising new export capacity allocations for the next five years (**MECA2**), which may provide additional export options. On 30 September 2014, notification was received from Transnet that the allocation under MECA2 would be 1.45 Mtpa, which is sufficient for South32's current requirements. The MECA2 contract is expected to be concluded in the second half of FY2015.

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| | |
|----------------------------------|---|
| Projects and developments | <p>The central block development project at Wessels is being progressed in two phases.</p> <p>The first phase of the project was commissioned in December 2013 at a cost of US\$92 million (100 per cent basis) and comprised the construction of the ventilation shaft and development of the associated underground ventilation network.</p> <p>The second phase of the project will complete infrastructure required to expand the mine to 1.5 Mtpa ROM (100 per cent basis) and comprises the development of a ROM infrastructure handling system for the central block, the development and equipping of underground workshops, including materials handling design, procurement and installation. The project is currently in execution and the spend for the half year ended 31 December 2014 was US\$7.5 million (total approved investment of approximately US\$31 million on a 100 per cent basis).</p> |
|----------------------------------|---|

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

(3) Metalloids description

An overview of Metalloids is set out below:

Table 7.25: Metalloids overview

| | |
|---------------------------------|--|
| Location | The Metalloids plant is located in the Gauteng province of South Africa, near the town of Meyerton. It is approximately 50 km south of Johannesburg. |
| Ownership | <p>South32 holds a 60 per cent interest in Samancor and Anglo American Plc holds the remaining 40 per cent.</p> <p>Samancor owns 100 per cent of Metalloids. South32 therefore has an effective interest of 60 per cent in Metalloids.</p> |
| Operatorship | Operated by South32. |
| Workforce | Metalloids had on average approximately 1,550 FTE employees and contractors in FY2014. This includes 138 FTE employees providing support to both the Hotazel Mines and Metalloids. |
| History | <p>Samancor's corporate history is set out in Section 7.1(h)(2).</p> <p>The Metalloids smelter was established in 1951 with the construction of seven small furnaces at the South plant complex to produce SiMn. Subsequent to this, two 75 MVA furnaces at North plant and an 81 MVA furnace at West plant were built to produce HCFeMn. In 1997, an oxygen blown converter was built at West plant which can further process HCFeMn into MCFeMn. In 2013, an additional 81 MVA furnace was commissioned to replace the small energy intensive SiMn furnaces which were decommissioned.</p> |
| Title, leases or options | Samancor is the owner of the land on which the Metalloids smelter operates, which is situated on the farm Kookfontein 545, IQ registration division, Gauteng Province. |
| Mining and Processing | Metalloids is one of the largest FeMn alloy producers in the world and currently operates four electric arc furnaces with the capacity to produce in excess of 450 ktpa HCFeMn. A portion of |

this HCFeMn can be further processed to produce up to 116 ktpa MCFeMn. Key inputs into the alloying process include approximately 1 Mtpa of manganese ore from the Hotazel Mines, 220 kt of reductants, 70 kt of fluxes and electricity supplied by Eskom. Approximately 20 MW to 30 MW of the electricity demand is generated using furnace off-gasses.

Logistics and marketing

Metalloys exports most of its production via two ports in South Africa: Richards Bay Port, which handles about 80 per cent of Metalloys export tonnages, and Durban port, which handles the remaining tonnage. Alloys are transported to port by road and rail. Metalloys exports alloys to customers located predominantly in the United States, Europe and Asia. Alloys are distributed to domestic customers by road.

Overview of significant contracts

Samancor entered into an electricity supply agreement with Eskom in 2013. The pricing is based on the pricing for large industrial electricity customers in South Africa.

Projects and developments

No projects that would be material to South32 are currently being considered at Metalloys.

Table of Contents**(4) Summary historical financial and operating information**

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.26: South Africa Manganese operating metrics

| | 6 months ended December | | | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| 100 per cent terms | | | | | |
| Manganese ore production (kt) | 2,056 | 1,808 | 3,526 | 3,490 | 3,625 |
| Manganese alloy production (kt) | 233 | 180 | 377 | 374 | 404 |
| Manganese ore sales (kt) ^(a) | 1,982 | 1,634 | 3,480 | 3,491 | 3,451 |
| <i>External customers</i> | 1,478 | 1,240 | 2,668 | 2,771 | 2,717 |
| <i>Metalloys</i> | 504 | 394 | 812 | 720 | 734 |
| Manganese alloy sales (kt) ^(a) | 224 | 175 | 400 | 385 | 459 |
| Realised manganese ore sales price (US\$/t) ^(a) | 117 | 139 | 131 | 154 | 139 |
| Realised manganese alloy sales price (US\$/t) ^(a) | 911 | 943 | 990 | 1,044 | 1,190 |
| Ore operating unit cost (US\$/t produced) | 79 | 83 | 82 | 121 | 139 |
| Alloy operating unit cost (US\$/t produced) ^(b) | 901 | 1,228 | 1,175 | 1,083 | 1,334 |

(a) 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.

(b) Includes the cost of the manganese ore acquired by Metalloys from Hotazel Mines at market prices.

Table 7.27: South Africa Manganese financial summary

| | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| 100 per cent terms | | | | | |
| US\$M | | | | | |
| Sales revenue ^(a) | 386 | 350 | 788 | 856 | 932 |
| <i>Manganese Ore</i> | 232 | 227 | 456 | 536 | 478 |
| <i>Manganese Alloy</i> | 204 | 165 | 396 | 402 | 546 |
| <i>Intra-segment elimination</i> | (50) | (42) | (64) | (82) | (92) |
| Underlying EBITDA | 63 | 21 | 120 | 111 | (18) |
| <i>Manganese Ore</i> | 69 | 77 | 167 | 114 | (25) |
| <i>Manganese Alloy</i> | (6) | (56) | (47) | (3) | 7 |
| Underlying EBIT | 26 | (9) | 48 | 58 | (51) |
| <i>Manganese Ore</i> | 43 | 58 | 118 | 78 | (61) |
| <i>Manganese Alloy</i> | (17) | (67) | (70) | (20) | 10 |
| Net operating assets | 802 | 813 | 790 | 845 | 786 |
| <i>Manganese Ore</i> | 454 | 551 | 557 | 526 | 518 |
| <i>Manganese Alloy</i> | 348 | 262 | 233 | 319 | 268 |
| Minor and maintenance capital expenditure | 33 | 21 | 11 | 58 | 63 |

| | | | | | |
|------------------------------------|---|----|----|----|----|
| Major projects capital expenditure | 4 | 11 | 59 | 46 | 68 |
| Exploration expenditure | 1 | | | | |
| Exploration expensed | 1 | | | | |

(a) As per accounting policies, revenues referring to sales from Hotazel Mines to Metalloys are eliminated as part of the consolidation.

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 42 per cent, 17 per cent and 31 per cent of South Africa Manganese's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

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Table of Contents**(i) Cerro Matoso****(1) Overview**

South32's Cerro Matoso open-cut mine is one of the largest nickel lateritic operations in the world, and the smelter produces high-purity, low-carbon ferronickel granules. Cerro Matoso is operated by South32 and its FY2014 production was 44 kt of nickel in ferronickel form. Cerro Matoso has a reserve life of 15 years.

The location of Cerro Matoso's operations is shown below:

Diagram 7.11: Location of Cerro Matoso's operations

An overview of Cerro Matoso is provided below:

Table 7.28: Cerro Matoso overview

| | |
|---------------------|---|
| Location | Cerro Matoso is located 25 km southwest of Montelibano, Córdoba, in northern Colombia. |
| Ownership | Cerro Matoso is 99.94 per cent owned by South32 and 0.02 per cent owned by its current and former employees. The balance of the shares are currently held in a reserve account following a recent buy-back. |
| Operatorship | Operated by South32. |
| Workforce | Cerro Matoso had on average approximately 2,450 FTE employees and contractors in FY2014. The current labour collective agreement with the union is valid until 31 December 2015. South32 intends to engage with the relevant employees on the renewal or replacement of this agreement. |
| History | Cerro Matoso commenced mining in 1980 under the ownership of Billiton Plc and Instituto de Fomento Industrial, a Colombian Government company. The ferronickel smelter was commissioned in 1982 with an ore processing capacity of approximately 1.4 Mdmmt per annum (100 per cent basis) and has since undergone an expansion that was completed in 2001, which doubled the smelter's ore processing capacity to 2.8 Mdmmt per annum (100 per cent basis). Significant maintenance was undertaken in 2011 to rebuild Furnace 01. In 1989, Billiton Plc increased its ownership in Cerro Matoso to 53 per cent. Following the merger between Billiton Plc and BHP Limited, further increases in BHP Billiton's ownership of Cerro Matoso took place in 2007 and 2014, with the company's interest rising to 99.94 per cent. |

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Title, leases or options Cerro Matoso's mining licence 051-96M covers an area of 52,850 ha. This licence is valid until 2029 (686 ha of mining area is in the exploitation stage, with the balance currently in the exploration stage until August 2020, after which the economically exploitable areas will pass to the exploitation stage), and includes a conditional extension to 2044 if certain ore processing capacity expansions and exploration commitments are met (including obtaining the associated environmental approvals). Under the terms pursuant to which the mining licence is granted, a 12 per cent royalty is payable, together with an additional one per cent contribution that applied from October 2012. The extension of the contract term to 2044 is conditional on Cerro Matoso increasing processing capacity by 50 per cent by 2022. Section 2.1(f) sets out certain disputes that are currently on foot in respect of the mining licence held by Cerro Matoso and also in respect of the privatisation of Cerro Matoso.

South32 may, in some circumstances, be able to rely (in relation to 52.37 per cent of its indirect interest in Cerro Matoso) on an investment protection agreement (**Cerro Matoso IPA**) in order to mitigate the effect of adverse claims impacting on its mining licence. The Cerro Matoso IPA was entered into between (i) the Republic of Colombia, and (ii) BHP Billiton (BVI) Limited and Conicol (BVI) Limited (together the **BHP Billiton IPA Parties**) on 13 November 1996. It includes provisions to protect the interests held in Contract 051-96M by CMSA, and the BHP Billiton IPA Parties' interest in CMSA, against breaches or violation of law (including rules of international law applicable in Colombia) by the Republic of Colombia. The protections are limited to 52.37 per cent of South32's indirect interest as the other 47.62 per cent indirect interest was acquired after the execution of the Cerro Matoso IPA. Under the Cerro Matoso IPA, if a dispute resolution procedure cannot be agreed between the parties, disputes are subject to international arbitration. The Cerro Matoso IPA remains in force during the life of Contract 051-096, including any amendment to Contract 051-96M.

Resources and reserves As at 30 June 2014, in 100 per cent terms, Cerro Matoso's Measured, Indicated and Inferred Mineral Resources comprised 289 Mt of laterite ores (at 0.9 per cent contained nickel), 51 Mt of stockpile material (at 1.1 per cent contained nickel) and 17 Mt of slag stockpile in metal nickel recovery process (at 0.2 per cent contained nickel). Cerro Matoso's Proved and Probable Ore Reserves were 24 Mt of laterite ores (at 1.1 per cent contained nickel) and 24 Mt of stockpile material (at 1.3 per cent contained nickel).^(a)

Mining and processing Cerro Matoso is a truck and shovel open-cut operation. Ore mined is blended with ore from stockpiles before it is passed through a two-stage crushing sequence.

After crushing, the ore is mixed and homogenised before it is partially dried in two rotary driers. An upgrading process is then undertaken whereby lower nickel grade is removed.

After the upgrading process, the dried ore is then blended with a reductant agent (locally bought coal) and calcined in two rotary kilns.

Calcined ore is then transferred to two 75 MW electric furnaces where ferronickel is tapped at around 1,460° C. The crude metal is transported to the refinery where impurities are removed. The refined metal is granulated and packed.

Cerro Matoso has a water management system which allows it to recycle 95 per cent of the water used in operations. The remaining 5 per cent water loss (due mainly to evaporation) is restored with fresh water from rainfall in operational areas and from the Uré River, in accordance with an environmental permit from the environmental authority.

Logistics and marketing

Ferronickel is transported approximately 260 km by road to the Port of Cartagena, where it is shipped to customers, who are mainly located in Asia, North America and Europe.

Overview of significant contracts

Cerro Matoso's electricity is sourced under contracts that are in place until 2018.

The supply of gas to Cerro Matoso is currently contracted until 2021. This contract covers the volume of gas, but the price of gas is set by the Colombian Government each year. Gas is transported to the operation through Cerro Matoso's gas pipeline, which covers a distance of approximately 80 km.

Projects and developments

The Mine Expansion Project is currently under consideration by Cerro Matoso. This project is designed to mitigate Cerro Matoso's nickel grade decline by increasing the nickel grade of crusher feed during the period FY2018 to FY2022. The progress of this project remains subject to favourable market conditions and Cerro Matoso obtaining the requisite project approvals (including environmental approvals) and consultation with nearby communities. Any delay in obtaining these approvals may result in a delay to the date that the project is expected to commence and if the approvals are not obtained the project will not proceed.

There are options available to South32 to extend operations beyond 2029, subject to regulatory approval and market conditions.

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

Table of Contents**(2) Summary historical financial and operating information**

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.29: Cerro Matoso operating metrics

| South32 s share | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Ore mined (kwmt) | 3,339 | 4,386 | 8,490 | 9,015 | 9,065 |
| Ore processed (kdmmt) | 1,335 | 1,347 | 2,493 | 2,649 | 2,541 |
| Ore grade processed (per cent, Ni) | 1.8 | 2.0 | 1.9 | 2.0 | 2.1 |
| Payable nickel production (kt) | 21 | 24 | 44 | 51 | 49 |
| Payable nickel sales (kt) | 21 | 25 | 45 | 52 | 48 |
| Realised nickel sales price (US\$/t) ^(a) | 16,190 | 12,600 | 13,222 | 15,442 | 18,250 |
| Operating unit cost (US\$/t processed) | 170 | 202 | 204 | 215 | 181 |

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

Table 7.30: Cerro Matoso financial summary

| South32 s share | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| US\$M | | | | | |
| Sales revenue | 340 | 315 | 595 | 803 | 876 |
| Underlying EBITDA | 113 | 43 | 87 | 234 | 417 |
| Underlying EBIT | 86 | 1 | (1) | 155 | 337 |
| Net operating assets | 854 | 937 | 860 | 990 | 1,003 |
| Minor and maintenance capital expenditure | 18 | 34 | 36 | 43 | 43 |
| Major projects capital expenditure | | 1 | 20 | 7 | 62 |
| Exploration expenditure | 5 | 4 | 8 | 10 | 13 |
| Exploration expensed | 1 | 2 | 2 | 1 | 2 |

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 23 per cent, 33 per cent and 35 per cent of Cerro Matoso's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

(j) Cannington**(1) Overview**

Cannington is 100 per cent owned and operated by South32. The Cannington mine is located in northwest Queensland, Australia. Operations include an underground mine and concentrator located approximately 200 km southeast of Mount Isa, a rail loading facility located in Cloncurry and a port located at Townsville.

The underground mine feeds the concentrator that extracts silver, lead and zinc concentrates from sulphide ore before the concentrate is trucked to Cloncurry and then railed to Townsville.

Since commissioning in 1997, ore production has increased from 1.5 Mtpa at commissioning to 3.2 Mtpa in FY2014. In FY2014, Cannington produced concentrates containing approximately 25.2 Moz of silver, 187 kt of lead and 58 kt of zinc. Cannington has a reserve life of nine years, based on the current mine plan.

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The location of Cannington's operations is shown below:

Diagram 7.12: Location of Cannington's operations

An overview of Cannington is provided below:

Table 7.31: Cannington overview

| | |
|---------------------------------|---|
| Location | The Cannington mine and concentrator are located approximately 200 km southeast of Mount Isa, Queensland, Australia. |
| | The Yurbi Rail Load-out facility is located at Cloncurry, approximately 180 km by road from the Cannington mine. |
| | Cannington port facility is located at Townsville. |
| Ownership | 100 per cent owned by South32. |
| Operatorship | Operated by South32. |
| Workforce | Cannington had on average approximately 1,150 FTE employees and contractors in FY2014. |
| History | The Cannington silver, lead and zinc mine was discovered by BHP Minerals in 1990. Development of an underground mine commenced in 1996. Construction of mine infrastructure and processing facilities was completed in 1997 and the mine commissioned in the same year. |
| Title, leases or options | Cannington holds mining lease ML90059, expiring in 2029, as well as borefield lease ML90060, expiring in 2030 and the Yurbi Rail Load-out lease ML90077, expiring in 2030. These leases cover an area of 8,651 ha. |
| | Cannington also maintains Permitted Use Lease E 50309781 and Water Management Lease C 50309781 at the Port of Townsville for operational purposes. These are supported by three licences for berth access. |
| Resources and reserves | At 30 June 2014, in 100 per cent terms, Cannington's Measured, Indicated and Inferred Mineral Resource comprised an underground component of 60 Mt at 197 g/t silver, 5.57 per cent lead and 3.50 per cent zinc. |

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Open-cut Measured, Indicated and Inferred Resources as at the same date were 16 Mt at 70 g/t silver, 3.01 per cent lead and 2.06 per cent zinc.

Cannington's Proved and Probable Ore Reserve of underground sulphide were 21 Mt at 239 g/t silver, 6.35 per cent lead and 3.93 per cent zinc.^(a)

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Mining and processing

Cannington produces a silver-rich lead concentrate and a zinc concentrate through a 3.2 Mtpa capacity mill.

Ore is mined by using a sub-level long hole open stoping underground mining method. Ore is transported to the ROM stockpile through a hoist, with additional production being trucked to the surface.

For mining operations to continue, the void created by the extraction of ore is filled using a paste, which is a combination of cement and tailings.

Six core processing steps are used to produce the silver, lead and zinc concentrates: crushing, grinding, floatation, leaching, dewatering and paste fill preparation.

Cannington is supported at the present production rates by the installed infrastructure on site at Yurbi and at the Townsville port facility.

Water is supplied through a series of bores, which draw water from the Great Artesian Basin. EDL operates an on-site power station using a series of gas turbines, supplemented with diesel generation.

Logistics and marketing

Concentrate produced at Cannington is transferred by road trains to the Yurbi Rail Load-out facility, located approximately 180 km from the mine. Concentrate is transferred to train wagons at the loading facility and transported by rail to the Port of Townsville, approximately 800 km to the east.

Cannington's rail transport provider uses fabricated fibreglass lids, securely locked onto each wagon, to prevent any dust emissions during the journey to Townsville, which takes approximately 24 hours.

Concentrate is exported to markets in South Korea, Japan, Europe and Canada via Cannington's port facility at the Port of Townsville.

Cannington's largest customer accounts for close to 35 per cent of Cannington's revenue.

Overview of significant contracts

Cannington has gas supply arrangements contracted until 31 December 2015. Cannington will need to negotiate a new contract for gas supply after this date, the terms of which may be less favourable than those under existing contractual arrangements.

Projects and developments

As outlined in Section 5.4(e), a number of studies have been completed into the optimal way to extract value from the residual resource at Cannington. South32 management will carefully assess alternatives for effectively exploiting this significant resource.

Any proposed life extension of Cannington would be subject to favourable market conditions, Cannington obtaining the requisite regulatory approvals and the project meeting South32's financial criteria.

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

Table of Contents**(2) Summary historical financial and operating information**

A summary of operating metrics and financial information for the Cannington operations is set out below:

Table 7.32: Cannington operating metrics

| South32 s share | 6 months ended December | | | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Ore mined (kt) | 1,748 | 1,867 | 3,446 | 3,146 | 3,233 |
| Ore processed (kt) | 1,669 | 1,602 | 3,202 | 3,145 | 3,337 |
| Ore grade processed (g/t, Ag) | 273 | 293 | 296 | 360 | 372 |
| Ore grade processed (% , Pb) | 7.0% | 7.0% | 7.1% | 7.9% | 8.3% |
| Ore grade processed (% , Zn) | 3.5% | 3.2% | 3.0% | 3.0% | 2.8% |
| Payable Silver production (koz) | 12,235 | 12,667 | 25,161 | 31,062 | 34,208 |
| Payable Lead production (kt) | 99 | 94 | 187 | 213 | 239 |
| Payable Zinc production (kt) | 37 | 32 | 58 | 56 | 55 |
| Payable Silver sales (koz) | 12,715 | 14,392 | 26,160 | 30,258 | 33,259 |
| Payable Lead sales (kt) | 100 | 104 | 189 | 219 | 237 |
| Payable Zinc sales (kt) | 33 | 36 | 62 | 57 | 55 |
| Realised Silver sales price (US\$/oz) ^(a) | 17 | 20 | 20 | 27 | 31 |
| Realised Lead sales price (US\$/t) ^(a) | 1,950 | 2,413 | 2,344 | 2,030 | 1,879 |
| Realised Zinc sales price (US\$/t) ^(a) | 2,273 | 1,917 | 2,000 | 1,787 | 1,918 |
| Operating unit cost (US\$/t ore processed) | 182 | 208 | 193 | 227 | 209 |

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

Table 7.33: Cannington financial summary

| South32 s share | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| US\$M | | | | | |
| Sales revenue ^(a) | 486 | 605 | 1,079 | 1,365 | 1,590 |
| Underlying EBITDA | 183 | 272 | 460 | 651 | 893 |
| Underlying EBIT | 154 | 251 | 413 | 611 | 840 |
| Net operating assets | 192 | 244 | 234 | 206 | 194 |
| Minor and maintenance capital expenditure | 14 | 30 | 60 | 39 | 62 |
| Major projects capital expenditure | | | | | 11 |
| Exploration expenditure | 3 | 3 | 5 | 8 | 14 |
| Exploration expensed | 3 | 3 | 5 | 8 | 14 |

(a) Includes silver, lead and zinc sales revenue.

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 13 per cent, seven per cent and 62 per cent of Cannington's operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

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Table of Contents**7.2 SUMMARY OF MINERAL RESOURCES AND ORE RESERVES INFORMATION****(a) Statements of Mineral Resources and Ore Reserves**

The statements of Mineral Resources and Ore Reserves (including Coal Resources and Coal Reserves) presented in Section 7.2 have been produced in accordance with the ASX Listing Rules Chapter 5, the Recommendations of the European Securities and Markets Authority on the consistent implementation of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive and the JORC Code. Mineral Resources and Ore Reserves have been previously reported in the ASX release titled, 2014 BHP Billiton Annual Report – 25 September 2014 available at www.bhpbilliton.com or the ASX website at www.asx.com.au. Commodity prices and exchange rates used to estimate the economic viability of reserves are based on asset-defined or South32 long-term forecasts. The Ore Reserves tabulated are held within existing, permitted mining tenements. The South32 Businesses 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. South32's Ore Reserves may include areas where some additional approvals remain outstanding, but where, based on the technical investigations South32 carries out as part of its planning process and South32's knowledge and experience of the approvals process, South32 expects that such approvals will be obtained as part of the normal course of business and within the time frames required by the current schedules.

The information in this document relating to Mineral Resources and Ore Reserves is based on information compiled by Competent Persons (as defined in the JORC Code). All Competent Persons have, at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code. At the date their report was issued, each Competent Person listed in Section 7.2 was a full-time employee of BHP Billiton, with the exception of R Aglinskis and J P de Melo Franco (MAusIMM, both were employed by Mineração Rio do Norte) and M Bryant (MAusIMM, employed by Bryant Mining Pty Ltd).

Each Competent Person has given, and has not withdrawn their written consent to the:

inclusion in this document of the Mineral Resources and Ore Reserves information, which they have provided in relation to their respective deposits as set out in Section 7.2(b);

references to their name included herein in the form and context in which they appear and has authorised the inclusion of such information in this document.

Each of the Competent Persons accepts responsibility for the relevant Mineral Resources and Ore Reserves information they have provided as set out in Section 7.2(b). To the best of the knowledge of each of the Competent Persons (each of whom has taken all reasonable care to ensure that such is the case), the relevant Mineral Resources and Ore Reserves information they have provided and contained in this document is in accordance with the facts and contains no omissions likely to affect the import of such information.

All of the Mineral Resources and Ore Reserves figures presented are reported in 100 per cent terms, represent estimates at 30 June 2014 (unless otherwise stated) and do not take depletion of Mineral Resources and Ore Reserves since that date into account (note that the Independent Competent Persons' Reports in Annexure 6 contain estimates at 31 December 2014). All tonnes are reported as dry metric tonnes (unless otherwise stated). All tonnes and grade information have been rounded; hence, small differences may be present in the totals. All of the Mineral Resources

information is inclusive of Mineral Resources that have been converted to Ore Reserves (i.e. Mineral Resources are not additional to Ore Reserves).

South32 will apply governance arrangements and internal controls to verify the estimates and estimation process for Mineral Resources and Ore Reserves. These include:

standard company procedures for public reporting aligned with current regulatory requirements;

independent audits of new or materially changed estimates;

periodic audits of resources and reserves estimates for each asset;

annual reconciliation performance metrics to validate reserves estimates for operating mines.

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

With the exception of Cannington, the Mineral Resources and Ore Reserves figures quoted as at 31 December 2014 in the Independent Competent Persons Reports in Annexure 6, are consistent with the figures quoted in Section 7.2 as at 30 June 2014. The numbers as at 31 December 2014 are the 30 June 2014 figures which have been depleted for actual and forecast mine production. They are not a re-estimation of the 30 June 2014 Mineral Resources and Ore Reserves estimate and do not include any additional geological, mining, processing or other information.

A net 5 Mt increase in the 31 December 2014 Cannington resource is reflective of a reassignment of tonnes excluded in the 30 June 2014 statement. The Cannington reported resource was understated by 7 Mt of Indicated Resource as at 30 June 2014, and 2 Mt of Measured Resource was produced in the half year ended 31 December 2014, resulting in a net gain of 5 Mt.

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(b) Competent Persons

(1) Worsley Alumina Mineral Resources

J Binoir, MSc (Exploration Geology), BSc (Hons), MAusIMM is the Senior Resource Geologist at Worsley Alumina and has over 16 years mining industry experience, specialising in geological modelling, geostatistical analysis and resource estimation.

J Engelbrecht, BSc (Geology and Geography), BSc (Hons), MAusIMM, is the Superintendent Resource Geology at Worsley Alumina and has over 16 years experience in various commodities, including mineral sands, bauxite, base metals and gold with specialisation in exploration, open-cut and underground mining.

Ore Reserves

G Burnham, MSc (Mineral Exploration), BSc (Geology), MAusIMM is the Superintendent Mine Planning at Worsley Alumina and has over 14 years mining industry experience, including mine, resource and project geology and medium and long-term planning.

(2) MRN Mine Mineral Resources

R Aglinskias, BSc (Geology), MAusIMM is the Manager Geology employed by Mineração Rio do Norte and has over 14 years of mining industry experience, including geological data management, pre-feasibility and technical studies, mine geology, short to long-term planning, exploration drilling, resource and reserve modelling and tenure management.

Ore Reserves

J P de Melo Franco, BSc (Mining), MAusIMM is an independent mining consultant employed by Mineração Rio do Norte with over 33 years of mining industry experience, specialising in geology, planning, production, beneficiation and construction.

(3) South Africa Energy Coal Mineral Resources

Khutala

G Gemmell, BSc (Hons), SACNASP is Chief Geologist with BHP Billiton and has over 21 years experience in the mining industry, with significant experience in exploration, geological modelling, resource estimation and reporting and grade control.

Wolvekrans and Middelburg

L Visser, BSc, SACNASP is Superintendent Geologist with BHP Billiton and has over 17 years experience in the mining industry, with significant experience in exploration, geological modelling, resource estimation and reporting, grade control and reconciliation.

Klipspruit

P Maseko, BSc (Hons), Dip in Datamatics, GSSA, SACNASP is Superintendent Geologist with BHP Billiton and has over 29 years experience in the coal industry, with significant experience in exploration, geological modelling, resource estimation and reporting and reconciliation.

Leandra North, Naudesbank, Weltevreden and Leandra South

N Haniff, BSc (Hons Geology), MSc (Environ Geochem), SACNASP is Resource Geologist with BHP Billiton and has more than 18 years experience in the mining industry, with experience in underground mapping, resource estimation and reporting and financial evaluation.

Khutala, Wolvekrans, Middelburg, Klipspruit, Leandra North, Naudesbank, Weltevreden and Leandra South

J H Marais, BSc (Hons), GSSA is Chief Geologist with BHP Billiton and has over 30 years experience in the coal industry in both underground and open-cut operations, with significant experience in exploration, geological modelling, resource estimation and reporting, grade control and reconciliation.

Ore Reserves

Khutala, Wolvekrans, Middelburg and Klipspruit

I Thomson, BEng (Mining), MBA, SAIMM is Manager, Long-term Planning with BHP Billiton and has over 27 years experience in the mining industry, with significant experience in managing open-cut and underground mine operation, estimation and reporting of Ore Reserves, outbound logistics planning, scheduling, administration and operations and business improvement through six sigma.

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**(4) Illawarra Metallurgical Coal
Mineral Resources**

Appin, West Cliff, Dendrobium and Cordeaux

H Kaag, BSc (Hons), MAusIMM is a Principal Geologist with BHP Billiton and has over 25 years experience in the coal industry both in operations and consulting, specialising in exploration, geological modelling, resource estimation and reporting, grade control and reconciliation.

Ore Reserves

Appin, West Cliff and Dendrobium

M Rose, BEng (Hons), MAusIMM is a Principal Mining Engineer with BHP Billiton and has 14 years experience in medium and long-term mine planning, scheduling, financial modelling and valuation, design and scoping of ventilation and gas monitoring systems, reconciliation and Ore Reserves reporting.

**(5) GEMCO
Mineral Resources**

D Hope, BSc (Geology), MAusIMM is the Manager Geological Services at GEMCO and has over 22 years of mining industry experience, specialising in grade control, exploration, project, mine and resource geology, geological data management, resource modelling and tenure management.

Ore Reserves

M Bryant, MAusIMM is a mining consultant employed by Bryant Mining Pty Ltd and has over 15 years of experience in the mining industry, including mine design and scheduling, planning system development, optimisation studies, costing and financial evaluations and reserves estimation.

**(6) South Africa Manganese
Mineral Resources**

Wessels and Mamatwan

E P Ferreira, MSc (Geology), BSc (Hons), SACNASP is the Superintendent Integrated Mine Planning Geology at Hotazel Mines with over 32 years of mining, research and lecturing experience, specialising in geological mapping, exploration planning and management, geological data management, budget and capital projects control and strategic planning.

C Nengovhela, MSc (Geology), BSc (Hons), SACNASP is the Sub Function Lead Resource Geology and Exploration at Hotazel Mines with over 10 years of mining, research and consulting experience in various commodities, with specialisation in exploration, geological modelling and resource estimation, mine design, resource range analysis and reconciliation.

Ore Reserves

Wessels and Mamatwan

D Mathebula, BSc (Hons), SAImm is the Manager Production Planning at Hotazel Mines with over 12 years of experience in underground and open-cut coal and manganese mining, specialising in short to long-term planning, mine scheduling, reserves estimation and reconciliation.

(7) Cerro Matoso Mineral Resources

I Espitia, BSc (Hons), MAusImm, is the Resource Model Superintendent at Cerro Matoso S.A. and has over eight years of experience in the mining industry including minerals exploration, field mapping, geological data management, geological modelling and resource estimation.

Ore Reserves

F Fuentes, MAusImm is the Long-Term Mine Planning Superintendent at Cerro Matoso S.A. and has over 17 years of experience in the mining industry, specialising in reserves estimation, open-cut mine planning, optimisation and design, mine scheduling, mining projects studies and strategic planning.

(8) Cannington Mineral Resources

B Coutts, BSc (Hons), MAusImm, SEG (Fellow) is the Manager Planning at Cannington mine and has over 24 years of experience in the mining industry, including exploration and mine geology, short to long-term planning, production, engineering and infrastructure, logistics and planning and resource planning.

Ore Reserves

M Dowdell, BEng (Mining Engineering), MAusImm is the Senior Mine Planning Engineer at Cannington mine and has over 13 years multi-commodity mining industry experience, mainly in underground mines drill and blast designs, development and short to long-term planning.

Table of Contents**ALUMINIUM**

Table 7.34: Aluminium Mineral Resources

As at 30 June 2014 (reported in 100 per cent terms)

| Commodity Deposit ^(a) | Ore Type | Measured Resources | | | Indicated Resources | | | Inferred Resources | | | Total Resources | | | South32 Interest % |
|----------------------------------|------------|--------------------|------------------------------------|----------------------|---------------------|------------------------------------|----------------------|--------------------|------------------------------------|----------------------|-----------------|------------------------------------|----------------------|--------------------|
| | | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | |
| Bauxite | | | | | | | | | | | | | | |
| Australia | | | | | | | | | | | | | | |
| Worsley Alumina | Laterite | 366 | 31.1 | 1.5 | 355 | 32.0 | 2.3 | 418 | 31.2 | 2.6 | 1,140 | 31.4 | 2.2 | 86 |
| Brazil | | | | | | | | | | | | | | |
| MRN Mine ^(b) | MRN Crude | 172 | | | 43 | | | 525 | | | 740 | | | 14.8 |
| | MRN Washed | 128 | 50.0 | 4.0 | 32 | 50.5 | 4.2 | 367 | 50.2 | 4.2 | 527 | 50.2 | 4.2 | |

Table 7.35: Aluminium Ore Reserves

As at 30 June 2014 (reported in 100 per cent terms)

| Commodity Deposit ^{(a),(c),(d),(e)} | Ore Type | Proved Ore Reserves | | | Probable Ore Reserves | | | Total Ore Reserves | | | Reserve Life (years) | South32 Interest % |
|--|------------|---------------------|------------------------------------|----------------------|-----------------------|------------------------------------|----------------------|--------------------|------------------------------------|----------------------|----------------------|--------------------|
| | | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | Mt | % A.Al ₂ O ₃ | % R.SiO ₂ | | |
| Bauxite | | | | | | | | | | | | |
| Australia | | | | | | | | | | | | |
| Worsley Alumina | Laterite | 274 | 31.0 | 1.6 | 22 | 30.2 | 1.7 | 295 | 31.0 | 1.6 | 17 | 86 |
| Brazil | | | | | | | | | | | | |
| MRN Mine ^{(f),(g)} | MRN Washed | 79 | 49.3 | 4.6 | 19 | 49.8 | 4.8 | 98 | 49.4 | 4.6 | 6.1 | 14.8 |

(a) Cut-off grades for Mineral Resources and Ore Reserves – Worsley Alumina: variable ranging from 24 – 29.5 per cent A.Al₂O₃, £ 3 per cent R.SiO₂ and ³ 1m thickness; MRN Washed ³ 50 per cent TAl₂O₃, £ 10 per cent TSiO₂, ³ 1m thickness and ³ 30 per cent recovery on a weight per cent basis.

(b) MRN Mine – MRN Washed tonnes and grade represent expected product based on forecast beneficiated yield.

(c) Ore delivered to process plant.

(d) Approximate drill hole spacings used to classify the reserves were:

| Deposit | Proved Ore Reserves | Probable Ore Reserves |
|-----------------|---------------------|-----------------------|
| Worsley Alumina | Maximum 80m | Maximum 160m |
| MRN Mine | | |

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

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

(e) Metallurgical recoveries for the operations were:

| Deposit | Estimated Metallurgical Recovery of A_2O_3 |
|--|--|
| Worsley Alumina (Worsley Alumina refinery) | 91% |
| MRN Mine (Alumar refinery) | 92% |

(f) MRN Mine MRN Washed tonnes and grade represent expected product based on forecast beneficiated yield.

(g) MRN Mine The MRN reserves are located on mining leases that provide MRN the right to mine. Current mining areas have environmental approval to operate. As further operational licences are obtained, Mineral Resources will be converted to Ore Reserves.

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Table 7.36: Coal Resources

(reported in 100 per cent terms)

| Mining Method | Coal Type | Measured Coal Resources | | | | Indicated Coal Resources | | | | Inferred Coal Resources | | | | Total Coal Resources | | |
|---------------|-----------|-------------------------|-------|------|------|--------------------------|-------|------|------|-------------------------|-------|------|------|----------------------|-------|------|
| | | Mt | % Ash | % VM | % S | Mt | % Ash | % VM | % S | Mt | % Ash | % VM | % S | Mt | % Ash | % VM |
| UG | Met/Th | 157 | 11.2 | 23.8 | 0.37 | 256 | 12.6 | 24.2 | 0.36 | 289 | 13.5 | 23.8 | 0.36 | 702 | 12.7 | 24.2 |
| UG | Met/Th | 21 | 12.3 | 21.3 | 0.36 | 21 | 11.9 | 20.7 | 0.34 | 68 | 13.9 | 19.9 | 0.33 | 110 | 13.3 | 20.7 |
| UG | Met/Th | 86 | 29.8 | 23.7 | 0.59 | 91 | 29.8 | 23.1 | 0.58 | 118 | 29.4 | 22.8 | 0.58 | 295 | 29.6 | 23.1 |
| UG | Met/Th | 5.2 | 28.7 | 21.1 | 0.58 | 109 | 29.1 | 21.5 | 0.56 | 85 | 29.0 | 22.1 | 0.57 | 199 | 29.0 | 21.1 |

- (a) The coal quality for Illawarra Metallurgical Coal is for in situ quality on an air-dried basis. Tonnages are on an in situ moisture basis.
- (b) The cut-off criteria used were: Illawarra Metallurgical Coal no seam thickness cut-off because the minimum thickness is economic.

Table 7.37: Coal Reserves

(reported in 100 per cent terms)

| Mining Method | Coal Type | Proved Reserves | | | Probable Reserves | | | Total Reserves | | | Proved Marketable Coal Reserves | | | Probable Marketable Coal Reserves | | | Total Marketable Coal Reserves | | |
|---------------|-----------|-----------------|-------|------|-------------------|-------|------|----------------|-------|------|---------------------------------|-------|------|-----------------------------------|-------|------|--------------------------------|-------|------|
| | | Mt | % Ash | % VM | Mt | % Ash | % VM | Mt | % Ash | % VM | Mt | % Ash | % VM | Mt | % Ash | % VM | Mt | % Ash | % VM |
| UG | Met/Th | 24 | 133 | 157 | 20 | 8.9 | 23.5 | 0.37 | 112 | 8.9 | 24.9 | 0.36 | 132 | 8.9 | 24.7 | 0.36 | 132 | 8.9 | 24.7 |
| UG | Met/Th | 5.4 | 0.4 | 5.8 | 3.8 | 8.9 | 20.6 | 0.36 | 0.3 | 8.9 | 20.1 | 0.36 | 4.1 | 8.9 | 20.6 | 0.36 | 4.1 | 8.9 | 20.6 |
| UG | Met/Th | 21 | 24 | 45 | | | | | | | | | | | | | | | |
| UG | Met | | | | 8.6 | 9.7 | 23.8 | 0.59 | 9.9 | 9.7 | 24.2 | 0.59 | 18 | 9.7 | 24.0 | 0.59 | 18 | 9.7 | 24.0 |
| UG | Th | | | | 5.2 | 23.0 | | | 6.3 | 23.0 | | | 12 | 23.0 | | | 12 | 23.0 | |

- (a) Only geophysically logged, fully analysed cored holes with greater than 95 per cent recovery were used to classify the reserves. Drill hole spacings vary between seams and geological domains and were determined in conjunction with geostatistical analyses where applicable. The range of maximum spacings was:

| Deposit | Proved Coal Reserves | Probable Coal Reserves |
|----------------|-------------------------------------|---------------------------------------|
| Appin | 700m | 1,500m |
| West Cliff | 700m | 1,500m |
| Dendrobium | 700m | 1,500m |

(b) Product recoveries for the operations were:

| Deposit | Product Recovery |
|----------------|-----------------------------|
| Appin | 84% |
| West Cliff | 71% |
| Dendrobium | 67% |

(c) Total Coal Reserves are at the moisture content when mined (6 per cent Appin, West Cliff; 7 per cent Dendrobium). Total Marketable Coal Reserves (tonnes) are the tonnage of coal available, at moisture content (9 per cent Appin, and West Cliff; 13.5 per cent Dendrobium Met; 7 per cent Dendrobium Th) and air-dried quality, for sale after the beneficiation of the Total Coal Reserves. Note that where the coal will not be beneficiated, the tonnes of Total Coal Reserves are the tonnes of Total Marketable Coal Reserves, with moisture adjustment where applicable.

(d) The cut-off criteria applied were: Appin, West Cliff, Dendrobium ³ 1.8m seam thickness.

(e) Coal delivered to wash plant.

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Table 7.38: Coal Resources

| per cent terms) | | | | | | | | | | | | | | | |
|-------------------------|------|------|---------|-------|--------------------------|------|------|---------|-------|-------------------------|------|------|---------|-------|-------|
| Measured Coal Resources | | | | | Indicated Coal Resources | | | | | Inferred Coal Resources | | | | | T |
| % | % | % | kcal/kg | | % | % | % | kcal/kg | | % | % | % | kcal/kg | | |
| Ash | VM | S | CV | Mt | Ash | VM | S | CV | Mt | Ash | VM | S | CV | Mt | |
| 3 | 31.5 | 22.3 | 1.16 | 4,790 | | | | | | | | | | | 1,143 |
| 8 | 33.7 | 20.5 | 0.88 | 4,480 | | | | | | | | | | | 188 |
| 8 | 27.6 | 22.4 | 1.23 | 5,220 | | | | | 1.1 | 29.8 | 21.5 | 1.28 | 4,950 | 139 | |
| 6 | 25.9 | 23.2 | 1.16 | 5,600 | 18 | 30.0 | 22.7 | 1.02 | 5,100 | 118 | 30.2 | 23.1 | 1.06 | 5,100 | 632 |
| 1 | 28.0 | 21.7 | 1.04 | 5,410 | | | | | | 7.3 | 24.7 | 22.1 | 0.88 | 5,600 | 218 |
| 0 | 27.7 | 23.1 | 1.30 | 4,990 | 194 | 27.3 | 23.4 | 1.24 | 5,030 | 103 | 27.0 | 23.5 | 1.23 | 5,060 | 507 |
| 3 | 25.4 | 25.4 | 1.09 | 5,550 | 132 | 24.9 | 25.5 | 1.06 | 5,610 | 54 | 25.3 | 25.2 | 1.08 | 5,580 | 289 |
| 2 | 29.2 | 22.1 | 1.30 | 5,150 | 212 | 31.1 | 21.7 | 1.14 | 4,970 | 143 | 30.6 | 21.9 | 1.18 | 5,050 | 547 |
| 0 | 28.1 | 20.8 | 0.93 | 4,700 | 132 | 27.1 | 22.0 | 1.02 | 4,910 | 938 | 26.0 | 22.4 | 1.00 | 5,030 | 1,080 |
| | | | | | | | | | | 183 | 32.2 | 20.3 | 0.86 | 4,500 | 183 |
| | | | | | | | | | | 244 | 23.9 | 26.4 | 1.52 | 5,700 | 244 |

(a) Tonnages are reported as in situ, except for South Africa, Projects and South Africa Miscellaneous, where tonnages are reported on an air-dried basis. Qualities are reported on an air-dried in situ basis.

(b) Cut-off criteria:

| Deposit | Coal Resources | Coal Reserves |
|------------|---|---|
| Khutala | ³ 1.0m seam thickness for OC, ³ 2.5m seam thickness for UG, £ 45% ash, ³ 24% dry ash-free VM | ³ 1.0m seam thickness for OC, ³ 3.6m seam thickness for UG |
| Klipspruit | ³ 1.0m seam thickness, £ 45% ash, ³ 24% dry ash-free VM | ³ 1.0m seam thickness, varying ³ 3,580 kcal/kg to ³ 4,300 kcal/kg, £ 45% ash |
| Wolvekrans | ³ 1.0m seam thickness, £ 45% ash, ³ 17.9% VM | ³ 1.0m seam thickness, ³ 2,870 kcal/kg CV, £ 45% ash, ³ 17.9% VM |
| Middelburg | ³ 1.0m seam thickness, £ 45% ash, ³ 17.9% VM | ³ 1.0m seam thickness, ³ 2,870 kcal/kg CV, £ 45% ash, ³ 17.9% VM |

| Deposit | Coal Resources | Coal Reserves |
|----------------|--|----------------------|
| Leandra North | ³ 1.8m seam thickness | |
| Naudesbank | varying ³ 0.5m to 0.8m seam thickness, £ 45% ash, ³ 22% dry ash-free VM | |
| Weltevreden | ³ 0.8m seam thickness, £ 45% ash | |
| Leandra South | ³ 1.8m seam thickness | |
| T-Project | ³ 1.8m seam thickness, ³ 18% VM | |
| Davel | ³ 1.2m seam thickness, ³ 18% VM | |

(c) T-Project Divestment is in progress.

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Table 7.39: Coal Reserves

| Expressed in 100 per cent terms) | | | | | | | | | | | | | | | | | | | |
|----------------------------------|----------------------|----|------------------------|-----|---------------------|------|------|------------|---------------------------------|-------|------|------|-----------------------------------|-----|-------|------|--------------------------------|--|--|
| Deposit | Proved Coal Reserves | | Probable Coal Reserves | | Total Coal Reserves | | | | Proved Marketable Coal Reserves | | | | Probable Marketable Coal Reserves | | | | Total Marketable Coal Reserves | | |
| | Mt | Mt | Mt | Mt | % Ash | % VM | % S | kcal/kg CV | Mt | % Ash | % VM | % S | kcal/kg CV | Mt | % Ash | % VM | | | |
| | 1.4 | | 1.4 | 1.3 | 35.7 | 21.1 | 1.15 | 4,640 | | | | | | 1.3 | 35.7 | 21.1 | | | |
| | 36 | | 36 | 33 | 33.6 | 20.3 | 0.76 | 4,440 | | | | | | 33 | 33.6 | 20.3 | | | |
| | 389 | 17 | 406 | 273 | 21.8 | 23.4 | 0.47 | 6,010 | 12 | 22.5 | 23.7 | 0.45 | 5,950 | 285 | 21.8 | 23.4 | | | |
| | 97 | | 97 | 80 | 23.2 | 23.0 | 0.47 | 5,890 | | | | | | 80 | 23.2 | 23.0 | | | |
| | 43 | | 43 | 36 | 23.0 | 23.3 | 0.82 | 5,800 | | | | | | 36 | 23.0 | 23.3 | | | |

(a) Tonnages are reported on an air-dried basis. Qualities are reported on an air-dried in situ basis.

(b) Approximate drill hole spacings used to classify the reserves were:

| Deposit | Proved Coal Reserves | Probable Coal Reserves |
|------------|-------------------------|-----------------------------|
| Khutala | >8 boreholes per 100 ha | 4 to 8 boreholes per 100 ha |
| Wolvekrans | >8 boreholes per 100 ha | 4 to 8 boreholes per 100 ha |
| Middelburg | >8 boreholes per 100 ha | 4 to 8 boreholes per 100 ha |
| Klipspruit | >8 boreholes per 100 ha | 4 to 8 boreholes per 100 ha |

(c) Product recoveries for the operations were:

| Deposit | Product Recovery |
|------------|------------------|
| Khutala | 92% |
| Wolvekrans | 70% |
| Middelburg | 82% |
| Klipspruit | 84% |

Table of Contents**MANGANESE**

Table 7.40: Manganese Mineral Resources

As at 30 June 2014 (reported in 100 per cent terms)

| Commodity Deposit ^(a) | Ore Type | Measured Resources | | | Indicated Resources | | | Inferred Resources | | | Total Resources | | | South32 s Interest % |
|-----------------------------------|-----------------------|--------------------|------|---------|---------------------|------|---------|--------------------|------|---------|-----------------|------|---------|----------------------|
| | | Mt | % Mn | % Yield | Mt | % Mn | % Yield | Mt | % Mn | % Yield | Mt | % Mn | % Yield | |
| Manganese | | | | | | | | | | | | | | |
| Australia | | | | | | | | | | | | | | |
| GEMCO ^(b) | Sands | | | | 13 | 20.8 | | 2.3 | 20.0 | | 15 | 20.7 | | 60 |
| | ROM | 95 | 46.1 | 48 | 46 | 43.6 | 47 | 34 | 42.7 | 49 | 175 | 44.8 | 48 | |
| | | Mt | % Mn | % Fe | Mt | % Mn | % Fe | Mt | % Mn | % Fe | Mt | % Mn | % Fe | |
| South Africa^(c) | | | | | | | | | | | | | | |
| Wessels | Lower Body-HG | 5.8 | 47.7 | 12.0 | 13 | 48.0 | 12.2 | | | | 19 | 47.9 | 12.2 | 44.4 |
| | Lower Body-LG | 9.4 | 42.1 | 13.4 | 20 | 41.8 | 13.3 | | | | 29 | 41.9 | 13.3 | |
| | Upper Body | | | | 92 | 41.4 | 18.3 | | | | 92 | 41.4 | 18.3 | |
| Total for Wessels | | 15 | 44.2 | 12.9 | 125 | 42.2 | 16.9 | | | | 140 | 42.4 | 16.4 | 44.4 |
| Mamatwan | M, C, N Zones | 19 | 37.7 | 4.4 | 45 | 37.2 | 4.5 | 5.2 | 37.4 | 4.7 | 69 | 37.4 | 4.5 | 44.4 |
| | Top Cut (balance I&O) | 9.0 | 30.5 | 6.6 | 20 | 29.9 | 6.3 | 5.6 | 29.1 | 6.2 | 34 | 29.9 | 6.4 | |
| | X Zone | 2.4 | 38.0 | 4.6 | 4.6 | 37.0 | 4.8 | 0.3 | 36.2 | 5.0 | 7.3 | 37.3 | 4.8 | |
| Total for Mamatwan | | 30 | 35.6 | 5.1 | 70 | 35.1 | 5.0 | 11 | 33.2 | 5.5 | 110 | 35.1 | 5.1 | 44.4 |

(a) Cut-off grades for Mineral Resources and Ore Reserves GEMCO: ³ 40 per cent Mn washed product and ³ 1m ore thickness for ROM, > 0 per cent Mn in situ for Sands; Wessels: ³ 45 per cent Mn for Lower Body-HG, ³ 37.5 per cent Mn for Lower Body-LG and Upper Body; Mamatwan: ³ 35 per cent Mn for M, C, N and X Zones, ³ 28 per cent Mn for Top Cut (balance I&O).

(b) GEMCO Mineral Resource ROM tonnes are stated as in situ, manganese grades are given as per washed ore sample and should be read together with their respective tonnage yields. Mineral Resource Sands tonnes and manganese grades are reported as in situ. Ore Reserve tonnes are stated as ROM, manganese grades are reported as expected product and should be read together with their respective tonnage yields.

(c) Wessels and Mamatwan Tonnes are stated as wet tonnes.

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Table 7.41: Manganese Ore Reserves

As at 30 June 2014 (reported in 100 per cent terms)

| Commodity Deposit ^{(a),(d),(e),(f)} | Ore Type | Proved Ore Reserves | | | Probable Ore Reserves | | | Total Ore Reserves | | | Reserve Base ^(b) (years) | Interest % |
|---|---------------|---------------------|------|---------|-----------------------|------|---------|--------------------|------|---------|--|------------|
| | | Mt | % Mn | % Yield | Mt | % Mn | % Yield | Mt | % Mn | % Yield | | |
| Manganese | | | | | | | | | | | | |
| Australia | | | | | | | | | | | | |
| GEMCO ^(b) | ROM | 78 | 45.0 | 58 | 16 | 42.6 | 57 | 94 | 44.6 | 58 | 11 | 60 |
| | | Mt | % Mn | % Fe | Mt | % Mn | % Fe | Mt | % Mn | % Fe | | |
| South Africa^(c) | | | | | | | | | | | | |
| Wessels | Lower Body-HG | 1.2 | 48.0 | 12.2 | 7.2 | 47.6 | 12.3 | 8.4 | 47.7 | 12.3 | 46 | 44.4 |
| | Lower Body-LG | 2.2 | 41.3 | 11.9 | 13 | 41.8 | 13.2 | 15 | 41.7 | 13.0 | | |
| | Upper Body | | | | 46 | 41.4 | 18.2 | 46 | 41.4 | 18.2 | | |
| Total for Wessels | | 3 | 43.7 | 12.0 | 66 | 42.2 | 16.6 | 69 | 42.2 | 16.4 | | 44.4 |
| Mamatwan | M, C, N Zones | 19 | 37.6 | 4.4 | 41 | 37.1 | 4.5 | 60 | 37.3 | 4.5 | 18 | 44.4 |
| | X Zone | 1.6 | 38.2 | 4.7 | 2.4 | 36.7 | 4.8 | 4.0 | 37.3 | 4.8 | | |
| Total for Mamatwan | | 21 | 37.7 | 4.4 | 43 | 37.1 | 4.5 | 64 | 37.3 | 4.5 | | 44.4 |

(a) Cut-off grades for Mineral Resources and Ore Reserves as for Table 7.40.

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

(c) Wessels and Mamatwan Tonnes are stated as wet tonnes. (d) Approximate drill hole spacings used to classify the reserves were:

| Deposit | Proved Ore Reserves | Probable Ore Reserves |
|----------|---|----------------------------------|
| GEMCO | 60m x 120m and 60m x 60m | 120m x 120m |
| Wessels | Defined as rim ±30m wide around mined-out areas, supplemented by some economically viable remnant blocks within mined-out areas | Defined as all ground beyond 30m |
| Mamatwan | 80m x 80m | 160m x 160m |

(e) Metallurgical recoveries for the operations were:

| Deposit | Metallurgical Recovery |
|---------|---------------------------------|
| GEMCO | See yield in Ore Reserves table |
| Wessels | 88% |

Mamatwan 96%

(f) Ore delivered to process plant.

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Table of Contents**NICKEL**

Table 7.42: Nickel Mineral Resources

As at 30 June 2014 (reported in 100 per cent terms)

| Commodity Deposit ^(a) | Ore Type | Measured Resources | | Indicated Resources | | Inferred Resources | | Total Resources | | South32 s Interest % |
|----------------------------------|----------|--------------------|------|---------------------|------|--------------------|------|-----------------|------|----------------------|
| | | Mt | % Ni | Mt | % Ni | Mt | % Ni | Mt | % Ni | |
| Nickel | | | | | | | | | | |
| Colombia | | | | | | | | | | |
| Cerro Matoso | Laterite | 44 | 1.2 | 179 | 0.9 | 66 | 0.8 | 289 | 0.9 | 99.94 |
| | SP | 51 | 1.1 | | | | | 51 | 1.1 | |
| | MNR Ore | 17 | 0.2 | | | | | 17 | 0.2 | |

Table 7.43: Nickel Ore Reserves

As at 30 June 2014 (reported in 100 per cent terms)

| Commodity Deposit ^{(a),(b),(c),(d)} | Ore Type | Proved Ore Reserves | | Probable Ore Reserves | | Total Ore Reserves | | Reserve Life (years) | South32 s Interest % |
|--|----------|---------------------|------|-----------------------|------|--------------------|------|----------------------|----------------------|
| | | Mt | % Ni | Mt | % Ni | Mt | % Ni | | |
| Nickel | | | | | | | | | |
| Colombia | | | | | | | | | |
| Cerro Matoso ^(e) | Laterite | 16 | 1.2 | 7.7 | 1.0 | 24 | 1.1 | 15 | 99.94 |
| | SP | 24 | 1.3 | | | 24 | 1.3 | | |

(a) Cut-off grades:

Deposit**Cut-off Grades**

Cerro Matoso

Ore Type
Laterite, SP
MNR Ore

Mineral Resources

³ 0.6% Ni
³ 0.12% Ni

Ore Reserves³ 0.7% Ni

(b) Approximate drill hole spacings used to classify the reserves were:

Deposit

Cerro Matoso

Proved Ore Reserves
35m or less with three drill holes

Probable Ore Reserves
35m to 100m with three drill holes

(c) Metallurgical recoveries for the operations were:

Deposit

Cerro Matoso

82% (reserves to metal)

Metallurgical Recovery

(d) Ore delivered to process plant.

(e) Cerro Matoso Environmental licence approval required for the mine expansion project has been delayed, but is expected to be granted. Approval of both the Environmental and Social Impact Assessment and Mining Work Program Plan is a consultative process and forms part of the normal course of business.

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Table of Contents**SILVER, LEAD AND ZINC**

Table 7.44: Mineral Resources

at 30 June 2014 (reported in 100 per cent terms)

| Ore Type | Measured Resources | | | | Indicated Resources | | | | Inferred Resources | | | | Total Resources | | | |
|-------------|--------------------|--------|------|------|---------------------|--------|------|------|--------------------|--------|------|------|-----------------|--------|------|------|
| | Mt | g/t Ag | % Pb | % Zn | Mt | g/t Ag | % Pb | % Zn | Mt | g/t Ag | % Pb | % Zn | Mt | g/t Ag | % Pb | % Zn |
| OC Sulphide | 15 | 70 | 3.04 | 2.12 | 1.2 | 67 | 2.64 | 1.32 | | | | | 16 | 70 | 3.01 | 2.12 |
| UG Sulphide | 42 | 226 | 6.18 | 3.86 | 11 | 147 | 4.51 | 3.04 | 6.7 | 98 | 3.52 | 2.00 | 60 | 197 | 5.57 | 3.86 |

Table 7.45: Ore Reserves

at 30 June 2014 (reported in 100 per cent terms)

| Commodity | Ore Type | Proved Ore Reserves | | | | Probable Ore Reserves | | | | Total Ore Reserves | | | | Reserve |
|------------|-------------|---------------------|--------|------|------|-----------------------|--------|------|------|--------------------|--------|------|------|--------------|
| | | Mt | g/t Ag | % Pb | % Zn | Mt | g/t Ag | % Pb | % Zn | Mt | g/t Ag | % Pb | % Zn | Life (years) |
| Cannington | UG Sulphide | 18 | 239 | 6.38 | 3.92 | 2.7 | 240 | 6.15 | 4.01 | 21 | 239 | 6.35 | 3.93 | 9.0 |

(a) Cut-off grades:

Deposit

| Cut-off Grades | Ore Type | Mineral Resources | Ore Reserves |
|----------------|-------------|--|---|
| Cannington | OC Sulphide | Net value incorporating material revenue and cost factors and includes metallurgical recovery (see footnote (d) in Table 7.45 for averages). Mineralisation at A\$45/t averages 27 g/tAg, 0.85% Pb and 0.90% Zn. | |
| | UG Sulphide | Net value incorporating material revenue and cost factors and includes metallurgical recovery (see footnote (d) in Table 7.45 for averages). Mineralisation at A\$90/t averages 48 g/tAg, 1.66% Pb and 2.15% Zn. | Net value cut-off incorporating material revenue and cost factors and includes metallurgical recovery (see footnote (d) in Table 7.45 for averages). Mineralisation at A\$140/t averages 99 g/tAg, 4.40% Pb and 2.82% Zn. |

(b) Approximate drill hole spacings used to classify the reserves were:

| Deposit | Proved Ore Reserves | Probable Ore Reserves |
|------------|--------------------------------|------------------------------|
| Cannington | 12.5m sectional x 15m vertical | 25m sectional x 25m vertical |

- (c) Ore delivered to process plant.
- (d) Metallurgical recoveries for the operations were:

Deposit

Cannington

Ag 87%, Pb 86%, Zn 79%

Metallurgical Recovery

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Table of Contents**7.3 DESCRIPTION OF JOINT VENTURES AND OTHER INTERESTS HELD BY SOUTH32**

South32 holds interests in a number of joint ventures and has rights to a number of royalties. An overview of the key joint ventures and South32's royalties portfolio is set out below.

(a) Worsley Alumina

South32 holds an 86 per cent interest in the unincorporated Worsley Alumina joint venture operation (**Worsley Alumina JV**) together with Japan Alumina Associates (Australia) Pty Ltd (10 per cent) and Sojitz Alumina Pty Ltd (four per cent). These interests are held, and the Worsley Alumina JV is operated, under the terms of the Worsley JV arrangements (**WJVA**) comprising of: the Worsley Joint Venture Agreement (as amended), the Worsley Management Agreement (as amended) and the Worsley Joint Venture Arrangements Binding Term Sheet.

The Worsley Alumina JV is managed by BHP Billiton Worsley Pty Ltd, the shares in which are held by the joint venturers in the same proportions as their individual interests in the Worsley Alumina JV. Output from the refinery is distributed to owners in proportion to their individual interest in the Worsley Alumina JV.

The ultimate decision-making body of the Worsley Alumina JV operations is the executive committee, which comprises representatives of each joint venturer, subject to joint venturers with a less than 10 per cent individual interest not being able to independently exercise a right to vote at the executive committee. Voting in respect of decisions by the executive committee effectively require a simple majority of individual interests with the exception of certain decisions relating to approval of programs and budgets, which require approval by one or more joint venturers holding in aggregate a proportionate share of 75 per cent or more, and certain other fundamental matters, which require unanimous approval.

(b) Mozal Aluminium

South32's interest in the Mozal S.A. joint venture (**Mozal Aluminium**) will be held through BHP Billiton Investment 1 B.V. (**B Co**). The other participants in the joint venture are Industrial Development Corporation of South Africa Limited (**IDC**), Mitsubishi Corporation (**Mitsubishi**) (through its subsidiary, MCA Metals Holding GmbH (**M Co**)) and the Government of the Republic of Mozambique. Mozal Aluminium owns the Mozal Aluminium smelter referred to in Section 7.1(c). The shares of Mozal Aluminium are currently owned by the joint venture partners as follows: B Co (47.1 per cent), M Co (25.0 per cent), IDC (24.0 per cent) and Mozambican Government (3.9 per cent, in the form of preference shares).

BHP Billiton, IDC and Mitsubishi also established a joint venture company called Aluminium Management Company of Mozambique Proprietary Limited to provide management, supervision and control services in respect of the operation of the Mozal Aluminium smelter, on behalf of Mozal Aluminium. The shares of Aluminium Management Company of Mozambique Proprietary Limited are currently owned by the joint venture partners as follows: B Co (49 per cent), M Co (26 per cent) and IDC (25 per cent).

Pursuant to various long-term off-take agreements, Mozal Aluminium sells 100 per cent of its aluminium products to South32 Marketing, IDC and Mitsubishi Corporation (a subsidiary of Mitsubishi).

These off-take agreements expire on 31 December 2025. Each of IDC and Mitsubishi Corporation is entitled to the aluminium production of Mozal Aluminium in proportion to its respective shareholding in Mozal Aluminium. South32's marketing function (**South32 Marketing**) currently acquires 51 per cent of the aluminium production of

Mozal Aluminium, which is equal to B Co's shareholding and the Mozambican Government's preference shareholding in Mozal Aluminium combined. The Mozambican Government's off-take allocation is vested in B Co under the Mozal Aluminium shareholders' agreement. All cash distributions and dividend declarations are required to comply with the Mozal Aluminium shareholders' agreement.

(c) Brazil Aluminium – Alumar and MRN

South32's Brazilian Aluminium business interests are held through its wholly-owned subsidiary BMSA.

Through an unincorporated Brazilian consortium with Alcoa and Rio Tinto Alcan, BMSA holds a 36 per cent interest in the Alumar refinery and a 40 per cent interest in the Alumar aluminium smelter referred to in Section 7.1(d). Alcoa (together with its affiliate Alcoa World Alumina Brasil Ltda) owns in aggregate a 54 per cent interest in the alumina refinery and a 60 per cent interest in the aluminium smelter. Rio Tinto Alcan owns the remaining 10 per cent interest in the alumina refinery. The operations, together with their integrated port facility, are known as Alumar and are operated by Alcoa. A consortium agreement governs the rights and obligations of the consortium partners with respect to the management and raw material and capital requirements of the Alumar consortium and their respective interests in the Alumar consortium.

In addition, BMSA owns a 14.8 per cent equity interest in MRN, a Brazilian corporation that operates the MRN Mine, a bauxite mine in the Trombetas region, Pará, Brazil, referred to in Section 7.1(d). The other shareholders in MRN are Alcoa and affiliates (18.2 per cent), Vale (40 per cent), Rio Tinto Alcan (through Alcan Alumina Ltda) (12 per cent), Companhia Brasileira de Alumínio S.A. (10 per cent) and Norsk Hydro (through Norsk Hydro Brasil Ltda) (five per cent). BMSA sources from MRN the bauxite needed to operate its share of the Alumar consortium's alumina refinery. MRN is independently managed by its board of directors and executive board. The shareholders of MRN have entered into a shareholders' agreement to govern their participation in MRN. MRN is partially funded by external debt.

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MRN sells bauxite to its shareholders and their associates under long-term contracts. The price of bauxite under these contracts (the setting of which requires the approval of MRN's shareholders) has reference to the recovery of MRN's costs and other funding obligations and is therefore subject to revision having regard to (among other things) MRN's obligations under its external debt arrangements.

(d) Manganese Business Entities

Following implementation of the Demerger, South32 will hold a 60 per cent interest in Samancor Holdings (Pty) Limited, Groote Eylandt Mining Company Pty Ltd and Samancor AG (together, **Manganese Business Entities**). The remaining 40 per cent is held by Anglo American plc and its subsidiaries. These interests are held, and the Manganese Business Entities are operated, under the terms of an Amended and Restated Umbrella Agreement. South32 has agreed to acquire BHP Billiton's interests in the Manganese Business Entities. The last of these acquisitions is due to complete on or about 8 May 2015 (the **Novation Date**), subject to approval of the Demerger Resolution.

The Amended and Restated Umbrella Agreement was entered into on 19 August 2014, amending and restating the original Umbrella Agreement between BHP Billiton and Anglo American plc. On the Novation Date, South32 will replace BHP Billiton as a party to the Amended and Restated Umbrella Agreement (and the Management Agreement referred to below).

Under the Amended and Restated Umbrella Agreement, South32 and Anglo American plc will be obliged to conduct their worldwide manganese mining, processing, marketing and trading activities exclusively through the Manganese Business Entities. The ultimate decision-making body under the Amended and Restated Umbrella Agreement is the supervisory committee. Certain key decisions require unanimous approval.

From the Novation Date, South32 will be the exclusive manager of the mining operations of the Manganese Business Entities under a Management Agreement and will provide marketing services in respect of manganese production under Marketing Services Agreements. The Management Agreement contains provision for management fees.

South32 will have day-to-day conduct of the business subject to matters reserved to the supervisory committee. South32 and Anglo American plc will have equal representation and voting rights on the supervisory committee.

(e) South32 royalties portfolio

South32 holds the rights to a portfolio of minerals royalties receivable that is diversified by commodity and country of origin. Royalty income is not currently being received for the majority of the royalties as they relate to projects that are not currently in production.

7.4 SOUTH32 MARKETING

South32 Marketing is responsible for the organisation's sales and distribution activities. The marketing activities include:

sale of South32's commodities and purchase of selected raw material inputs;

optimising the supply chain for delivery flow of commodities to both internal and external customers;

working closely with the South32 Businesses to maximise the value from the resource base;

defining the company's view of the long-term markets;

maximising revenue and managing price and credit risk.

Management of South32's marketing function is based in Singapore, with a regional office in London, and a presence in South Africa and Switzerland. The core activities described above are supported by the key functional services of governance, compliance and financial performance reporting.

South32's marketing activities are geared towards:

identifying marketing and pricing opportunities using knowledge accumulated by South32 across the supply chain and various geographical locations it operates;

taking advantage of the substantial financial resources and market and commodity knowledge accumulated within South32;

efficiently managing logistics and handling of commodities from load point to customer.

South32's involvement as a producer, refiner and marketer of commodities allows it to minimise costs and maximise efficiencies, maximising returns across the supply chain. A fully integrated marketing function also allows South32 to deliver a differentiated sales proposition to its customers relative to other producers and allows South32 to optimise its supply chain to meet customer needs.

Table of Contents**7.5 EMPLOYEES**

Immediately following the Demerger, South32 will have a workforce totalling approximately 27,000 people globally. As at 31 December 2014, South32 employed approximately 15,000 FTE employees in the businesses, assets and offices to be managed by South32 and a further approximately 12,000 contractors were engaged by these operations.

(a) Description of workforce

Given the diverse nature of South32's operations, the roles and functions of South32's employees and contractors vary across South32. There are four main categories of employees as shown below:

Table 7.46: South32 employees by category

| Employees by category | % |
|-------------------------------|----------|
| Senior leaders | 0.4 |
| Managers | 2.0 |
| Supervisory and professionals | 4.9 |
| Operators and general support | 92.7 |

Contractors are not shown in the table above, but perform services that would fall within the operators and general support category only.

(b) Employment arrangements

The employment arrangements with respect to employees in South32 Businesses in Australia, South Africa, Colombia, Singapore and Mozambique are set out below.¹

(1) Australia

The National Employment Standards underpin the terms and conditions of all Australian employees.

The majority of South32's Australian employees have terms and conditions of employment governed by an enterprise agreement or a modern award.

Enterprise agreements are agreements between a company and its employees that set out the conditions of employment and are approved by the Fair Work Commission.

South32 is a party to 24 enterprise agreements which collectively cover approximately 50 per cent of its Australian workforce.

Where an enterprise agreement is in place, it applies instead of a modern award (being industry or occupation based minimum employment standards) and the pay rate in an enterprise agreement must not be less than the pay rate in the relevant modern award.

(2) South Africa

South32's South African operations employees have terms and conditions of employment that are governed by the Basic Conditions of Employment Act of South Africa (**BCEA**) and their individual contracts of employment. Some of the terms and conditions of employment of some employees are regulated by collective agreements, which are negotiated with the applicable trade unions. The BCEA is the principal statute giving effect to statutory minimum terms and conditions of employment. It is, in effect, a default set of conditions of employment, unless the conditions of employment provided for in employment contracts or in collective agreements are more favourable to employees. The BCEA also establishes mechanisms for the variation of basic conditions through individual agreement, collective agreements and sectoral agreements.

Collective agreements are written agreements, which vary contracts of employment and cover mainly less experienced employees.

(3) Colombia

All employment matters covering South32 and all businesses in Colombia are governed by the Substantive Labor Code, which regulates matters such as individual employment agreements, mandatory social benefits, annual leave, supplementary work, days of rest, union organisations and collective bargains; and the Social Security Regime, which regulates obligations related to affiliation with (and quotations to) the social security system for health, pension and occupational risks.

CMSA and the union of which employees at Cerro Matoso are members entered into a collective bargaining agreement that expires in December 2015. The collective bargaining agreement covers the majority of employees including all unionised and non-unionised CMSA employees, except for those holding managerial positions.

¹ Arrangements with employees in South32 Businesses in other countries have not been set out below given the small number of employees in these locations.

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(4) Singapore

The terms and conditions of employment of the employees in South32's operations in Singapore will be primarily governed by their respective common law contracts of employment, including any South32 policies forming part of the contract.

The Singapore Employment Act 1968 prescribes some minimum terms and conditions of employment but the Act has limited application to South32's employees.

(5) Mozambique

The employees of South32's operations in Mozambique have terms and conditions of employment that are governed by both the applicable labour law (Project of Labour Law) and a collective bargaining agreement – Mozal Wages Agreement – executed in 2013 between Mozal Aluminium and the Sintime union.

Most of the key terms and conditions applicable to the employment relationship, including remuneration principles, working hours and other conditions of employment, are determined by the general labour law and the individual employment contracts entered into between the employer and its employees. The collective agreement specifies the relationship between the union, as representative of the employees, and South32, and sets guidelines with regard to issues such as the level of salaries and their negotiation, minimum services commitments, disputes procedures and other general employment issues.

The execution of the individual employment contracts also follows the existing internal guidelines on remuneration, conditions of employment and employee benefits for Mozal Aluminium employees.

(c) Employee relations

All South32 operations and offices seek to maintain safe and productive workplaces underpinned by employee relations principles and direct employee engagement and alignment. Employee relations are managed by each operation within a South32-wide governance framework.

South32's relationships with its employees and its other stakeholders are built on mutual respect. Due to the breadth and geographical diversity of South32, its employees operate under a range of legislative regimes and its employment arrangements range from collective to individual contracts. South32 recognises the right of its employees to freely associate and collectively bargain where they choose to do so. Approximately 50 per cent of South32's total employees are covered by long-term collective agreements, and labour unions are represented at many of South32's operations.

South32 engages in direct communication and responds to issues raised by employees and unions, including those related to health and safety matters, remuneration, working hours and roster arrangements. South32 also works closely with contracting companies and encourages them to ensure their employee relations are governed in a manner consistent with the South32 approach.

In line with South32's employee relations approach, South32 believes having employees directly engaged with South32 and aligned with South32's goals is the most effective way of ensuring harmonious operations.

South32 leadership believes that relationships with employees across all operations are productive as evidenced by the fact that there was no industrial disruption of greater than one week, continuously or cumulatively, in FY2014.

(d) South32 employee relations strategy

From the date of the Demerger, South32 intends to adopt an employee relations strategy which will aim to:

ensure respectful and fair treatment of all employees;

eliminate negative, disrespectful, disruptive or inefficient behaviours and practices;

harness the benefits of workplace diversity;

build a workplace culture that recognises high performance;

introduce workplace change in a consultative manner;

provide timely, open, honest communication at all levels;

empower and train supervisors and managers to provide strong leadership and act as role models;

maintain fair and responsive dispute resolution procedures that achieve effective resolution of workplace issues. However, as in any business comprising a large workforce, there is a risk that South32's operations may be affected by disputes with employees and unions. South32 minimises the risks of such disputes by ensuring South32 management maintains a frequent and open dialogue with employees and their unions. Further information on the risk of industrial action can be found in Section 2.2(g).

(e) Superannuation

South32 operates a number of pension plans and post-retirement healthcare plans around the world. Some of these plans are defined contribution and some are defined benefit in nature. For funded plans, assets are held in separate trusts, governed by local regulations and practice.

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7.6 GOVERNMENT REGULATION OVERVIEW

Government regulations touch various aspects of South32's operations. However, the geographical diversity of South32's operations reduces the risk that any one set of government regulations would have a material effect on its business, taken as a whole.

The ability to extract minerals will be fundamental to South32. In most jurisdictions, the rights to undeveloped mineral deposits are owned by the state. In those jurisdictions, South32 relies upon the rights granted to it by the government that owns the mineral rights. These rights usually take the form of a lease or licence, which gives South32 the right to access the land and extract the product. The terms of the lease or licence, including the time period for which it is effective, are specific to the laws of the relevant jurisdiction. Generally, South32 owns the product it extracts, and royalties or similar taxes are payable to the government.

Related to the ability to extract is the ability to process the minerals. Again, South32 relies upon the relevant government to grant the rights necessary to transport and treat the extracted material in order to ready it for sale.

Underlying South32's business of extracting and processing natural resources is the ability to explore for those natural resources. Typically, the rights to explore for minerals are granted to South32 by the government that owns those natural resources that it wishes to explore. Usually, the right to explore carries with it the obligation to spend a defined amount of money on the exploration or to undertake particular exploration activities.

Governments also impose obligations on South32 in respect of environmental protection, land rehabilitation, occupational health and safety, and rights and interests of Indigenous peoples with which South32 must comply in order to continue to enjoy the right to conduct its operations within that jurisdiction. These obligations often require South32 to make substantial expenditures to minimise or remediate the environmental impact of its operations and to ensure the safety of its employees, contractors and neighbouring communities. Environmental protection, land rehabilitation and occupational health and safety practices in most jurisdictions in which South32 operates are principally regulated by the government and to a lesser degree, if applicable, by the lease contract with the landowner.

7.7 HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

(a) Objectives

South32 aims to be a business that lives by its values, is socially and environmentally responsible and provides a better future for South32's host communities. South32 will seek to achieve this through leaders and employees who stand for and live the values and implement appropriate systems to ensure safe, predictable and effective operations. Not only does South32 believe this is essential to maintain its licence to operate, but it considers that this has been and will continue to be one of its competitive advantages.

South32 believes that its strength will come from its workforce diversity and an inclusive workplace culture and environment where employees can meet their professional and personal development priorities.

South32's HSEC governance and risk management framework is set out below:

(1) Governance and sustainability

The South32 Board will establish a Sustainability Committee to assist in the oversight of HSEC and sustainability matters. This includes overseeing areas relating to risk control, compliance with applicable legal and regulatory requirements and with overall HSEC and sustainability performance of South32.

(2) Risk management

In addition to the legal requirements of the countries in which South32 operates, Corporate Standards will outline South32's approach to managing risks, including HSEC and sustainability risks. These documents will describe the mandatory minimum performance requirements and accountabilities across South32 and will be the foundation for developing and implementing risk controls across operations.

South32 will develop Corporate Standards which will also define its commitments to international policies, standards and selected management practices. South32's Risk Management Corporate Standard will provide the framework for embedding risk management into business activities, functions and processes.

(3) Commitment to integrity and transparency

South32 is committed to ethical business practices and high levels of governance and transparency in all its dealings. In support of this commitment, South32 intends to:

issue an annual sustainability report using the Global Reporting Initiative framework from FY2016;

report payments of taxes and royalties derived from resource developments on a country-by-country basis, consistent with South32's support for the Extractive Industries Transparency Initiative and the importance of transparency of government revenue from the extraction of natural resources in the fight against corruption.

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(b) Environment

South32 acknowledges the relationship between sustainable natural resource use and conservation and will demonstrate this by minimising its environmental impacts and contributing to enduring environmental conservation projects.

(1) Climate Change

South32 accepts the findings of the Intergovernmental Panel on Climate Change, in particular, that human activity impacts the climate and that physical effects are unavoidable. South32 intends to take actions to reduce emissions and support regulations to counter the effects of climate change. South32 recognises:

the risk that climate change poses to the South32 Business and is committed to reducing its emissions;

the importance of improving living standards by providing access to affordable, reliable energy, but South32 is transparent about the challenge that this presents in meeting climate change objectives;

the role of government as policymakers and will work with industry bodies to support development of effective, long-term policy frameworks.

South32 will continually look for opportunities to improve its energy efficiency with a specific focus on the energy and greenhouse gas emissions-intensive smelting assets.

Carbon pricing will be a key consideration in all of South32's current and future investment decisions. Governments globally are considering a variety of legislative and regulatory options to mitigate greenhouse gas emissions. South32 will engage with relevant governments in order to provide its views and perspective on any policy and the impacts it may have for South32 given its trade-exposed and energy intensive position.

(2) Biodiversity and land management

South32 will develop land and biodiversity management plans which specify measures to avoid, minimise, rehabilitate and apply compensatory actions as appropriate to manage the biodiversity and ecosystem impacts of its operations.

(3) Water Resource Management

South32 will seek to ensure effective management of the water resources it shares with its host communities and the environment.

South32 Businesses will be required to assess direct, indirect and cumulative impacts and risks to water resources by understanding the social, cultural, ecological and economic values of these resources within their area of influence.

Where water is identified as a material risk, South32's operations will be required to implement projects to improve the management of water resources to focus on the water challenges specific to the regions in which they operate.

(4) Closure planning

South32 recognises the significant potential risks associated with poorly managed closure activities and seeks to minimise these throughout the life cycle of its operations. South32 operations will be required to develop and maintain closure plans that address the details of rehabilitation activities for disturbed land, remediation requirements for contaminated land, and end uses for land and infrastructure. Closure plans will be also required to include community impacts post-closure. In addition, South32 will require closure plans to be developed as part of its major capital investments to ensure potential closure liabilities are understood and, where possible, reduced during the design stage. Closure plans will provide the basis for estimating costs and associated accounting for closure and rehabilitation obligations.

(c) Safety

South32's aspiration is to ensure that no person at work will be seriously hurt. Work will be well designed, planned, executed, supervised and improved by trained and competent people. All key processes and equipment will be governed by standards, and compliance to these standards is periodically tested and verified.

South32 will implement a consistent risk management process at its operations that ensures:

appropriate controls are implemented and effective;

systems are implemented to identify and effectively manage foreseeable crises and emergencies, ensuring South32's operations can deal with potential casualties, to limit harm and to safely return to full function as soon as possible.

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(d) Health

South32's priority is to ensure that employees and contractors are not exposed to harmful occupational health risks with a primary focus on controlling occupational exposures at their source. In situations where South32 cannot control the source, a range of measures will be employed, including the provision of personal protective equipment to safeguard its people.

Health risks faced by South32's people include fatigue and occupational exposures to noise, manganese, carcinogenic substances, such as silica, diesel exhaust particulate matter, nickel, sulphuric acid mist, fluorides and coal tar pitch.

South32 will have processes in place to make sure its people are fit for work and all operations have systems in place to minimise the risk of health exposures. The health risks faced by South32 Businesses are set out in further detail in Section 2.5(a)(1).

(e) Community

South32 will make a positive contribution to the quality of life of the communities, regions and countries where it operates. South32 will work with its local communities to better understand and manage the impact of its operations and to maximise the opportunities South32 has to help make these communities great places to live and work.

This will be done by:

Developing stakeholder engagement plans: Stakeholder engagement plans identify the interests and relationships of the stakeholders in the host communities within which South32 operates. These plans will contain a range of culturally and socially inclusive engagement activities to ensure open communications are maintained.

Making a positive contribution to society: Wherever South32 operates, it will contribute by:

paying taxes and royalties to governments, which in turn are used to provide important public services and amenities to their communities;

providing employment and procurement opportunities to its local communities.

Recognising Indigenous communities and respecting customary rights: South32 will recognise the traditional rights and values of Indigenous peoples, respect their cultural heritage and provide opportunities for inclusion and advancement. Many of South32's operations are located on or near Indigenous lands. South32 will:

provide cultural awareness and competency training for employees who engage with Indigenous peoples from host communities;

implement Indigenous engagement programs that are consistent with the ICMM Position Statement on Indigenous Peoples and Mining (which comes into effect in May 2015).

Committing to business practices which observe and respect human rights: South32 acknowledges its activities have the potential to impact human rights. South32 Businesses will be required to complete a human rights impact assessment to ensure potential risks are identified and measures are in place to effectively manage and mitigate these risks.

Through South32's commitment to the Voluntary Principles on Security and Human Rights, South32 will seek to protect people and property from risks presented by security threats.

Table of Contents**8 DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE**

Following implementation of the Demerger, South32 will have a Board of Directors and a senior management team with the combined skill and experience to discharge their respective responsibilities in a publicly listed, global, diversified metals and mining company.

In determining the number of South32 Directors, the workload of the South32 Board and its committees and the skills and experiences necessary to effectively govern South32 have been taken into account. Directors have been sought who together reflect industry expertise in the mining, refining, smelting and processing areas, as well as experience in the five countries in which South32 has assets and the jurisdictions where South32 Shares will be listed. It is intended that the initial composition of the South32 Board following the Demerger will reflect a range of geographical backgrounds, including Australia, South Africa and the United Kingdom. Regard has also been had for the need for diversity, in its broadest context.

David Crawford will be the Chairman of South32. The appointment has regard to Mr Crawford's deep governance experience, including his skill and experience in the areas of risk and financial controls both in the metals and mining sector and other industries, which are considered particularly important in the early years of South32's life. Keith Rumble and Xolani Mkhwanazi have also been asked to join the South32 Board as Non-executive Directors. Both have deep commercial experience in both the metals and mining sector and in the regions where South32 will operate, especially South Africa.

Graham Kerr will lead South32 as its first Chief Executive Officer. Mr Kerr has been a long-term employee of BHP Billiton with his most recent assignment being Chief Financial Officer. In addition to his financial expertise he brings operational experience, having run one of BHP Billiton's businesses based in the United Kingdom and Canada. He has participated in BHP Billiton's extensive talent and development programs for many years. His leadership skills have been recognised, as has his potential to succeed to the most senior leadership roles. He takes with him BHP Billiton's commitment to health and safety and its rigorous financial and operational disciplines.

Other members of the executive team who will leave BHP Billiton and join South32 (Brendan Harris, Ricus Grimbeek, Mike Fraser and Nicole Duncan) have all participated in BHP Billiton's talent and development programs. They have been selected for the respective operational and functional skills they will bring to their new roles and for their alignment with BHP Billiton's charter values. They are considered the best people for these crucial roles.

Biographies for these proposed directors and senior management of South32 are set out below.

South32 intends to appoint additional Non-executive Directors in time.

As part of its commitment to South Africa, South32 has given undertakings to the FinSurv Department that, among other things, the South32 Board and management team of South32 will include strong South African representation, South32 Board meetings will be regularly convened in South Africa and South32's African operations will be managed from a regional head office in South Africa.

8.1 DIRECTORS**(a) Biographies**

As at the date of this document, the known members of the South32 Board at the ASX Listing Date are:

Table 8.1: South32 Directors

| Name | Age | Nationality | Position |
|------------------|------------|--------------------|---|
| David Crawford | 71 | Australian | Chairman and Independent Non-executive Director |
| Graham Kerr | 43 | Australian | Chief Executive Officer and Executive Director |
| Keith Rumble | 60 | South African | Independent Non-executive Director |
| Xolani Mkhwanazi | 59 | South African | Non-executive Director |

(1) David Crawford AO, BComm, LLB, FCA, FCPA, 71

Chairman and Independent Non-executive Director

Mr Crawford will be the Chairman of South32.

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

Chairman of Australia Pacific Airports Corporation Limited (since May 2012).

Chairman of Lend Lease Corporation Limited (since May 2003) and director (since July 2001).

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Former director of BHP Billiton Limited (from May 1994 to November 2014) and BHP Billiton Plc (from June 2001 to November 2014).

Former Chairman (from November 2007 to December 2011) and former director (from August 2001 to December 2011) of Foster's Group Limited.

(2) Graham Kerr, BBus, FCPA, 43

Chief Executive Officer and Executive Director

Mr Kerr joined BHP Billiton in 1994 and was appointed Chief Financial Officer in November 2011. Mr Kerr retired from the BHP Billiton Group Management Committee, and as Chief Financial Officer of BHP Billiton, on 1 October 2014. Prior to his appointment as Chief Financial Officer of BHP Billiton, Mr Kerr was President of Diamonds and Specialty Products. Mr Kerr has worked in a wide range of operational and commercial roles across the BHP Billiton Group.

As President of Diamonds and Specialty Products, Mr Kerr was accountable for the EKATI Diamond Mine in Canada, the Richards Bay Minerals Joint Venture in South Africa, diamonds exploration in Angola, the Corridor Sands Project in Mozambique and the development of BHP Billiton's potash portfolio in Canada. Prior to that Mr Kerr held the positions of Chief Financial Officer of Stainless Steel Materials, Vice President Finance BHP Billiton Diamonds and Finance Director for the BHP Canadian Diamonds Company. In 2004 Mr Kerr left BHP Billiton for a two-year period when he was General Manager Commercial for Iluka Resources Ltd.

(3) Keith Rumble, BSc, MSc (Geology), 60

Independent Non-executive Director

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

Mr Rumble will retire from the BHP Billiton Board at or around the time of the BHP Billiton Shareholder vote on the Demerger Resolution.

Other directorships and offices (current and recent):

Director (non-executive) of BHP Billiton Limited and BHP Billiton Plc (since September 2008).

Director of Enzyme Technologies (Pty) Limited (since September 2011).

Director of Elite Wealth (Pty) Limited (since August 2010).

Board of Governors of Rhodes University (since April 2005).

Trustee of the World Wildlife Fund, South Africa (since October 2006).

Former director of Aveng Group Limited (from September 2009 to December 2011).

(4) Xolani Mkhwanazi, BSc, MSc, PhD (Applied Physics), 59

Non-executive Director

Dr Mkhwanazi joined BHP Billiton in February 2005 as President and Chief Operating Officer South Africa Aluminium. Dr Mkhwanazi was appointed Chairman of BHP Billiton in South Africa in 2009. Dr Mkhwanazi previously served as Chief Executive Officer of Bateman Africa Ltd and the National Electricity Regulator. Prior to that, he held senior positions at the Council for Scientific and Industrial Research. During this period, he played a key role in the formulation of 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.

(b) Remuneration

South32 intends to remunerate its Non-executive Directors at the level necessary to attract and retain high-quality individuals, to reflect the size and complexity of South32, and considering the anticipated workload and time commitment of the role. In setting its fees, South32 will take advice from an appropriately qualified independent remuneration adviser.

The initial maximum aggregate amount available for fees for Non-executive Directors as approved by BHP Billiton as shareholder prior to listing will be A\$3,900,000 per annum. In accordance with the ASX Listing Rules and South32's Constitution, South32 will seek shareholder approval for changes to the maximum aggregate amount available for fees for Non-executive Directors. Executive Directors of South32 will be remunerated in their capacity as executives and their remuneration will not contribute towards the maximum aggregate amount.

Non-executive Directors will receive additional fees, from within the maximum aggregate approved amount, for services as chairs and members of South32 Board committees. The Chairman of the South32 Board will not receive any additional fees for his participation in South32 Board committees. The initial fees to be paid to the South32 Chairman and Non-executive Directors (which will include superannuation contributions) will be:

Table of Contents**Table 8.2: Director and committee Fees**

| | A\$ Per annum^(a) |
|--|------------------------------------|
| Chairman ^(b) | 550,000 |
| Non-executive Directors (excluding the Chairman) | 180,000 |
| Chair of Risk and Audit Committee | 45,000 |
| Chair of Remuneration Committee | 45,000 |
| Chair of Sustainability Committee | 45,000 |
| Member of Risk and Audit Committee | 22,500 |
| Member of Remuneration Committee | 22,500 |
| Member of Sustainability Committee | 22,500 |

- (a) These fees were set after considering fee levels for comparable roles in companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. They reflect the responsibilities, location, qualifications and experience considered necessary to discharge the responsibilities of the Board. In assessing the appropriate fee level independent advice was sought from appropriately qualified experts. US dollar fees of US\$500,000 per annum for the Chairman and US\$160,000 per annum (base) for Non-executive Directors were endorsed. The Australian dollar fees were derived after applying an exchange rate of US\$0.90 per Australian dollar. While a matter for South32, it is expected that Directors domiciled in locations outside Australia will be offered the choice of having fees denominated in Australian dollars or the currency of domicile.
- (b) Mr David Crawford was announced as the proposed Non-executive Chairman of South32 in August 2014. Mr Crawford was subsequently appointed as a Non-executive Director and Chairman of South32 on 2 February 2015 in order to assist in the implementation of the Demerger. Mr Crawford will receive total fees of approximately A\$171,000 in respect of his services to South32 in the period leading up to the Demerger (estimated for the period 2 February to 26 May 2015). These fees reflect the level of assistance provided and have been derived from the annual Chairman's fee of A\$550,000 above, prorated for the time period up to the date of Demerger. Non-executive Directors are not eligible to participate in any short-term or long-term incentive arrangements and there are no provisions in any of the Non-executive Directors' appointment arrangements for compensation payable on early termination of their directorship.

Non-executive Directors will apply 25 per cent of their fees to the purchase of South32 Shares until they achieve a minimum shareholding level of one year's fees. Thereafter, they must maintain at least that minimum shareholding level of one year's fees throughout their tenure.

Recognising the global nature of South32, travel allowances will be provided for extended travel for Board business.

The remuneration of the Chief Executive Officer is summarised in Section 8.2(b).

(c) Director and officer indemnity arrangements

South32 intends to enter into a deed of indemnity, insurance and access with each of the South32 Directors. These deeds will indemnify the South32 Directors against liability to any person (other than South32 or a related body

corporate) that may arise from their acting as an officer of South32. There is an exception to the indemnity where the liability arises out of conduct involving a lack of good faith, or is otherwise prohibited by law.

8.2 SENIOR MANAGEMENT

(a) Biographies

South32 will be led by an experienced and capable management team which has a deep understanding of South32's business. Key members of South32's senior management team will include:

(1) **Graham Kerr, BBus, FCPA, 43**

Chief Executive Officer and Executive Director

In August 2014, Mr Kerr was appointed as Chief Executive Officer (**CEO**) designate of South32. Information about Mr Kerr is contained in Section 8.1(a)(2).

(2) **Brendan Harris, BSc, 43**

Chief Financial Officer

Mr Harris joined BHP Billiton as Vice President Investor Relations Australasia in July 2010 and was appointed Head of Investor Relations in July 2011. Prior to joining BHP Billiton he held various roles in investment banking over almost a decade including Executive Director Metals and Mining Research, Macquarie Equities, where he had primary responsibility for Australian listed metals and mining research. During Mr Harris' early career as an exploration geologist he was involved in iron ore exploration in the Pilbara region of Western Australia with Robe River Iron Associates and gold and base metals exploration in the Gawler Craton in South Australia. Mr Harris also gained experience with Western Geophysical in Perth, Western Australia where he participated in the reprocessing of seismic data. Mr Harris holds a Bachelor of Science in geology and geophysics.

¹ In addition to senior management personnel discussed below, Jo McConnell was appointed as Acting Chief People Officer of South32.

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(3) Ricus Grimbeek, BEng, 45

President and Chief Operating Officer, Australia

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

(4) Mike Fraser, BCom, MBL, 49

President and Chief Operating Officer, Africa

Mr Fraser joined BHP Billiton in January 2000 as Head of Compensation and Benefits. Mr Fraser was appointed President, Human Resources and a member of the Group Management Committee in August 2013. Previously Mr Fraser led BHP Billiton's Mozal operation in Mozambique as Asset President from September 2009 to October 2012. Prior to taking up this role Mr Fraser worked across a number of roles in BHP Billiton's Coal, Manganese and Aluminium businesses in a number of geographies. Prior to joining BHP Billiton Mr Fraser held a variety of leadership roles in a large internationally diversified industrial business. Mr Fraser holds a Master of Business Leadership and a Bachelor of Commerce from the University of South Africa.

(5) Nicole Duncan, BA (Hons), LLB, 43

Chief Legal Officer and Company Secretary

Ms Duncan joined BHP Billiton in July 2000 as a Counsel in Group Legal and was appointed Vice President, Company Secretariat in September 2013. Prior to this role, Ms Duncan held various legal and commercial roles within BHP Billiton. Ms Duncan was Vice President, Supply, Group Information Management from October 2011 to August 2013. Previously, Ms Duncan held the role of Senior Manager, Group Legal, supporting the marketing function and prior to that played a key role in operations, major expansions and merger and acquisition projects. Prior to joining BHP Billiton, she was a lawyer at Ashurst (formerly Blake Dawson Waldron) in Melbourne. Ms Duncan graduated from the Australian National University with a degree in Law and an Honours degree in History.

(b) Remuneration

The South32 Board recognises that remuneration will have an important role to play in supporting the implementation and achievement of South32's strategy and ongoing performance. It will be designed to align the activities of management to the interests of shareholders.

Remuneration will be set at a level that takes into account responsibilities, location, skills, experience and performance.

The key principles that underpin the design of remuneration arrangements are:

support the execution of South32's strategy in alignment with its risk framework;

be market competitive and designed to attract, retain and motivate talented individuals and teams, without paying more than is necessary;

comprise fixed and at-risk components which link a significant proportion to performance and the creation of value for shareholders;

apply demanding performance conditions to at-risk components, including financial and non-financial measures;

limit termination benefits to pre-agreed contractual and approved obligations;

be equitable and be set having regard to the expectations of shareholders.

South32's remuneration arrangements will be designed to ensure that executives take a long-term approach to decision-making, and do not promote a focus on short-term results at the expense of longer-term business growth and success.

A significant portion of total remuneration for the CEO and other members of senior management will be accrued and paid in accordance with the terms and conditions of the South32 Equity Incentive Plan. The South32 Equity Incentive Plan is intended to be established shortly after the implementation of the Demerger on the terms and conditions more fully described in Section 8.7(a) below. Accordingly, a significant portion of total remuneration for the CEO and other members of senior management will be at-risk (that is, dependent largely on the performance of the business of South32). In the case of the CEO, 71 per cent of his total target remuneration is at-risk. The equity component of an award under the short-term incentive (**STI**) plan will be deferred for an additional period. Performance under the long-term incentive (**LTI**) plan will be measured over an extended period aligned with South32's strategy. The actual rewards received by the CEO and other members of senior management will therefore reflect South32's performance and share price over a prolonged time frame.

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While the performance conditions attaching to both the STI and the LTI will be a matter for the Board of South32, the structure has been designed to provide an appropriate focus on South32's sustained performance beyond the end of the initial measurement period. This approach will also provide a transparent mechanism for clawback or adjustment in the event of a restatement of South32's results through changes to the vesting or non-vesting of deferred awards.

An important feature of the remuneration arrangements is that they will not be driven by a purely formulaic approach. The South32 Board will hold discretion to determine that awards are not provided or vested in circumstances where it would be inappropriate to do so.

The remuneration of the CEO, which is set out in Table 8.3 below, was set having regard to remuneration levels for comparable roles in global companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. It was assessed against levels in the 10th-40th largest companies on the ASX by market capitalisation. Reference was also had to an international resources peer group for this role. The level reflects the CEO's responsibilities, location, qualifications and experience. Advice was sought from appropriately qualified experts and guidance derived from the principles outlined in Section 8.2(b) above.

Table 8.3: CEO annual target remuneration

The STI is entirely performance based and comprises half cash STI and half deferred STI. It will be based on a scorecard of financial and non-financial measures for each year. This target is 120 per cent of base salary. The maximum is 180 per cent of base salary (or A\$3.186 million).

| | | Base salary | STI (target) | LTI (fair value) | Total |
|----------------------------|------------|------------------------|-------------------------|---------------------------------|--------------|
| Graham Kerr ^(a) | A\$ (000) | 1,770 | 2,124 | 2,177 | 6,071 |
| | % | 29 | 35 | 36 | 100 |

The CEO will earn this amount as base salary. It includes minimum superannuation contributions required by law. There is no pension payment in addition to this sum.

The LTI is entirely performance based and aligned to shareholder interests. This value is based on 300 per cent face value of base salary together with a fair value estimate taking into account an estimated 41 per cent probability of vesting over the performance period. The actual value of this LTI award cannot be determined until after the end of the performance period. The maximum value at grant date that can be received from the LTI is 300 per cent of base salary (or A\$5.310 million).

At-risk remuneration

Fixed remuneration

- (a) Remuneration was first determined in US dollars to allow for effective benchmarking and converted to Australian dollars by applying an exchange rate of 0.90. Going forward, remuneration arrangements will be a matter for South32 and its shareholders.

(c) Employment contracts

A summary of the key terms of the employment contract and remuneration arrangements for Mr Graham Kerr in his capacity as CEO is outlined in Table 8.4 below:

Table 8.4: Graham Kerr employment contract and remuneration summary

| | |
|---------------------------------|--|
| Total fixed remuneration | <p>Mr Kerr's fixed remuneration comprises base salary and other minor benefits. Mr Kerr's base salary will be A\$1,770,000 per annum, and it includes superannuation contributions required by law.</p> <p>This base salary was set after considering remuneration levels for comparable roles in global companies of similar complexity, size, geographic footprint, listing jurisdictions, reach and industry. It reflects the CEO's responsibilities, location, qualifications and experience. This sum will be reviewed annually.</p> |
| Short-term incentive | <p>Mr Kerr will be eligible to participate in South32's STI arrangements. The purpose of STI is to focus Mr Kerr's efforts on those performance measures and outcomes that are priorities for South32 for the relevant financial year, and to motivate Mr Kerr to strive to achieve stretch performance objectives. They will comprise financial and non-financial measures for each year and will be set on the basis that they are expected to have a significant short-term and long-term impact on the success of South32. The measures are set at the commencement of each financial year.</p> <p>The target opportunity for Mr Kerr will be 120 per cent of base salary, with a maximum award of 180 per cent of base salary for stretch performance. Half of any STI will be delivered in cash at the end of the performance year, with the other half delivered in rights under the South32 Equity Incentive Plan, as outlined in Section 8.7(a). Deferral of a portion of STI awards in deferred equity over South32 Shares encourages a longer-term focus aligned to that of shareholders.</p> |

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Long-term incentive Mr Kerr will be eligible to participate in South32's LTI arrangements under the South32 Equity Incentive Plan, as outlined in Section 8.7(a), and will have a maximum LTI opportunity of up to 300 per cent of base salary on a face value basis. The purpose of the LTI is to focus Mr Kerr's efforts on the achievement of sustainable long-term value creation and success of South32 (including appropriate management of business risks). The provision of LTI awards also encourages long-term share exposure for Mr Kerr, and aligns the long-term interests of Mr Kerr and shareholders. This alignment will be demonstrated by performance being measured under the LTI over an extended time period, aligned to South32's strategy. LTI awards will be subject to a relative TSR performance condition, which must be achieved over the performance period. Relative TSR has been chosen as the most appropriate measure as it allows for an objective external assessment over a sustained period on a basis that is familiar to shareholders. Full vesting of the LTI award will only occur where South32's TSR significantly outperforms the TSR of the comparator group(s). The comparator group(s) and required outperformance for full vesting will be determined by South32 in relation to each grant. To ensure that the LTI performance conditions continue to support operational excellence, risk management and the execution of South32's strategy, the LTI award may be subject to further performance measures to supplement the relative TSR performance condition. Should this be the case, the vesting of a portion of any LTI award may instead be linked to performance against the new measure(s). South32 expects that in the event of introducing an additional performance measure(s), the weighting of the relative TSR measure would remain significant.

Contract duration Employment will be effective on the date on which the Demerger takes effect and will continue for an indefinite term.

Cessation of employment South32 may terminate Mr Kerr's employment by giving six months' notice of termination. Mr Kerr may terminate by giving six months' notice. South32 has discretion to make payment in lieu of notice in either circumstance.

South32 may terminate without notice in certain circumstances, including serious misconduct and conduct which adversely affects the reputation of South32.

Mr Kerr may terminate without notice within two months of a fundamental change that materially diminishes his status, duties, authority, reporting lines or terms and conditions of his employment (other than in circumstances agreed with South32) and will receive payment in lieu of six months' notice.

The consequences for unvested incentive awards on termination of Mr Kerr's appointment will be in accordance with the South32 Equity Incentive Plan and terms of grant.

Post-employment restraints Mr Kerr will be subject to a number of post-employment restraints for a period of six months after his employment with South32 ends, including restrictions on working with South32's competitors and on soliciting South32 employees or customers.

South32 has entered into employment agreements with other members of senior management which are, in general, consistent with the arrangements that apply to the CEO (as described above), except as described below.

Mr Fraser has been asked to assume the role of President and Chief Operating Officer Africa at South32. Mr Fraser was selected because of his extensive experience in southern Africa, having worked in the BHP Billiton Group's coal, aluminium and manganese assets before being appointed Asset President of the Mozal aluminium smelter. He brings deep operational and functional expertise to this key leadership role. As a long term BHP Billiton employee he has participated over many years in the company's talent assessment and development program and is considered to have

the skills and experiences necessary to lead this important part of South32's business. These include the operational expertise required to lead the large South African based assets, along with a relentless commitment to health and safety; a set of values fully aligned to those in the BHP Billiton Charter; and an understanding of the need to work in harmony with our local communities.

Before agreeing to take this role, Mr Fraser was a member of the BHP Billiton Group Management Committee. His target remuneration for his new role in South32 has been benchmarked against similar roles in comparator companies and is approximately 23 per cent lower than his current remuneration. It is not considered appropriate to propose a permanent remuneration package for Mr Fraser that is out of step with the benchmarking data for like roles. However, it is considered appropriate to put some transitional arrangements in place that will provide an opportunity for him to bridge the gap between his current 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.

Those arrangements will take the form of transitional performance awards. They will comprise three tranches of performance awards valued at US\$820,000 each and which will be available to vest in August 2016, 2017 and 2018. The awards will not automatically vest and will be subject to performance conditions. Vesting can be in whole, in part or nil and will be subject to an assessment by the South32 Remuneration Committee on factors including (1) Mr Fraser's ongoing service; (2) South32's performance, including its relative TSR; and (3) Mr Fraser's personal performance. The performance assessment will be conducted by the South32 Remuneration Committee and the outcomes will be reported in the South32 Remuneration Report.

Table of Contents**8.3 SHAREHOLDINGS AND INTERESTS OF SOUTH32 DIRECTORS, SENIOR MANAGEMENT AND OTHER SPECIFIED PERSONS**

All South32 Shares are currently held by BHP Billiton Limited. Therefore, no shares of South32 are held by the South32 Directors or senior management of South32.

The South32 Directors and senior management of South32 hold the following shares, or right to shares, in BHP Billiton as at 14 March 2015. Where applicable, the information includes shares held in the name of a spouse, superannuation fund, nominee and/or other controlled entities:

Table 8.5: South32 Directors and senior management BHP Billiton shareholding (and indirect holding in South32)

| Name | BHP Billiton Shares | Limited | BHP Billiton Shares | Plc |
|---------------------------------|----------------------------|---------------------|----------------------------|-----------------------|
| Directors | | | | |
| David Crawford | | 33,127 | | 6,000 |
| Graham Kerr | | 94,661 | | |
| Keith Rumble | | | | 20,680 |
| Xolani Mkhwanazi ^(a) | | | | 28,854 |
| | | | Rights Limited | Rights |
| | | | (subject to | Plc |
| | | | to | (subject to |
| | | | service | service and/or |
| | | | and/or | performance |
| | BHP Billiton | BHP Billiton | performance | performance |
| | Shares | Shares | conditions) | conditions) |
| Senior management | | | | |
| Graham Kerr | 94,661 | | 285,306 | |
| Brendan Harris | 18,925 | 216 | 27,187 | 164 |
| Ricus Grimbeek | | 89,821 | | 49,450 |
| Mike Fraser | | 172,696 | 132,931 | 45 |
| Nicole Duncan | 8,429 | 754 | 17,217 | |

(a) Xolani Mkhwanazi holds 79,067 BHP Billiton Plc rights.

Immediately following the Demerger, the South32 Directors and senior management of South32 will hold the following South32 Shares, or rights to South32 Shares:

Table 8.6: South32 Directors and senior management South32 shareholding following the Demerger

| Name | South32 Shares |
|----------------------------|-----------------------|
| Directors | |
| David Crawford | 39,127 |
| Graham Kerr ^(a) | 94,661 |

| | |
|---------------------------------|---------|
| Keith Rumble | 20,680 |
| Xolani Mkhwanazi ^(a) | 28,854 |
| Senior management | |
| Graham Kerr ^(a) | 94,661 |
| Brendan Harris ^(a) | 19,141 |
| Ricus Grimbeek ^(a) | 89,821 |
| Mike Fraser ^(a) | 172,696 |
| Nicole Duncan ^(a) | 9,183 |

- (a) Where rights over BHP Billiton Shares are being cancelled and replaced with equivalent rights over South32 Shares (as described in Table 8.8), the number of rights over South32 Shares granted to affected participants will be determined taking into account the value of the rights over BHP Billiton Shares being cancelled, with the replacement rights over South32 Shares having equivalent value. In assessing the relative value of the rights, the five-day VWAPs of BHP Billiton and South32 Shares following South32's listing on the ASX will be taken into account.

No South32 Director currently has any interests (beneficial or non-beneficial) in the share capital of South32. Except as set out above, no South32 Director holds an interest in any other securities of South32.

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8.4 CONFLICTS OF INTEREST

In respect of any South32 Director (listed in Section 8.1) or member of South32's senior management (listed in Section 8.2), except as set out in Section 8, there are no actual or potential conflicts of interests between their duties to South32 and the private interests and/or other duties they may also have. In particular, none of the South32 Directors or members of South32's senior management:

holds or has any interest in any South32 assets (other than any indirect interests as a holder of BHP Billiton Shares);

has acquired, disposed or leased any South32 asset;

has or had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by any member of the South32 Group during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed;

has or had a beneficial interest in any contract to which any member of the South32 Group was a party during the current or immediately preceding financial year; or

was selected to be a South32 Director pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the South32 Group (with the exception of BHP Billiton).

None of the South32 Directors, officers, promoters or major shareholders or their families had any interest, direct or indirect, in any transaction during the last two financial years or in any proposed transaction which has affected or will materially affect South32 or its investment interests or subsidiaries (except to the extent set out in this document).

8.5 CONFIRMATIONS

Each person who will be a director of South32 at the ASX Listing Date has submitted duly completed directors declarations. The South32 Directors and members of its senior management do not have any information to declare pursuant to JSE Listing Rules 7.B.2(f) to (m).

In particular, as at the date of this document, no South32 Director or senior manager has:

been convicted in relation to offences involving dishonesty, fraud, theft, misrepresentation, forgery, perjury or embezzlement;

been associated with any bankruptcy, receivership, voluntary compromise arrangement, insolvency or liquidation acting in their personal capacity or the capacity of a director with an executive function within the company or other officer (other than in the provision of professional services to companies in such circumstances);

been subject to any public criticism and/or sanctions by any statutory or regulatory authorities (including designated professional bodies); or

been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

In addition, there are no family relationships between any of the South32 Directors or members of the administrative, management and/or supervisory bodies of South32.

No fees have been paid by South32 or accrued to a third party in lieu of director's fees.

There will not be any variation in the remuneration receivable by South32 Directors as a consequence of the Demerger.

No amount has been paid or agreed to be paid by South32 within the three years preceding the date of this document, directly or indirectly, to any South32 Director to induce them to accept a directorship or to qualify them as a director or otherwise for the rendering of services by them in connection with the promotion or formation of South32 (except as disclosed in Section 8.1 and 8.2).

8.6 BUSINESS ADDRESS

The current business address of all South32 Directors and senior management is Level 32 Brookfield Place, 125 St Georges Terrace, Perth, WA, 6000, Australia, and it is proposed that following implementation of the Demerger the principal business address will be Level 35, 108 St Georges Terrace, Perth, WA, 6000, Australia.

8.7 EQUITY INCENTIVE PLANS

(a) South32 Equity Incentive Plan

South32 intends to establish an equity plan (**South32 Equity Incentive Plan**) to facilitate the grant of South32 equity awards to employees. The purpose of these awards will be to assist in the motivation, retention and reward of employees, and to further align the interests of employees with the interests of South32 Shareholders by linking a portion of remuneration to South32's ongoing success.

The rules of the South32 Equity Incentive Plan will be broad enough to cover all awards of equity granted as remuneration (including incentives) to employees, with the flexibility for the South32 Board to determine the specific conditions that will apply to each award at the time of grant. While the rules of the South32 Equity Incentive Plan will set up default treatments that will apply in certain circumstances (for example cessation of employment), the South32 Board will have the ability to apply different treatments for a particular award. This will enable the terms of awards under the South32 Equity Incentive Plan to be tailored based on the participant group and the nature and purpose of the award.

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The rules of the South32 Equity Incentive Plan and the specific conditions that are intended to apply to the short-term and long-term arrangements under the initial terms of grant are set out in Table 8.7 below:

Table 8.7: South32 Equity Incentive Plan summary

Grant of awards South32 will be able to grant awards under the South32 Equity Incentive Plan in the form of nil-cost or market-priced options over fully paid ordinary shares, or rights to receive fully paid ordinary shares or fully paid ordinary shares (collectively referred to as **awards**). Any grant of awards to the CEO under the South32 Equity Incentive Plan will be subject to approval by shareholders at South32's Annual General Meeting.

This gives South32 broad flexibility to select the most appropriate equity instrument to effectively incentivise employees, which may vary depending on the seniority of the executive, the jurisdiction in which they are issued, or prevailing market and regulatory conditions.

Upon vesting of awards, participants will receive fully paid ordinary shares in South32. The South32 Board can decide whether to purchase shares on-market or issue new shares in order to satisfy vesting. The South32 Board will also have the discretion to settle awards in cash rather than equity, but only in circumstances where this is considered appropriate by the South32 Board.

The transitional awards, and initial awards under the STI and LTI, will be granted in the form of rights.

Eligibility to participate Grants may be made at the South32 Board's discretion to employees of South32 or its related bodies corporate or any other person the South32 Board determines to be eligible to receive a grant.

Vesting conditions The South32 Board will determine the vesting conditions applying to awards at the time of grant. These can be service-based or performance-based vesting conditions (or a combination of both, as will be the case for LTI awards in respect of the CEO). Again, this provides flexibility for the South32 Board to tailor the conditions according to the nature of the award, the relevant participants and to reflect market practice as it evolves.

Any rights that remain unvested at the end of the applicable performance, service or holding period will lapse immediately.

Price As awards under the South32 Equity Incentive Plan constitute part of participants remuneration, generally no payment is required by the participant for the grant of an award (unless the South32 Board determines otherwise).

Malus/clawback The South32 Board will have a broad discretion to reduce or clawback awards in certain circumstances to ensure that no inappropriate benefit is obtained by the participant. The South32 Board's discretion will apply to vested and unvested awards, including shares allocated or cash paid in connection with vested awards.

The circumstances in which the South32 Board's discretion is intended to apply include:

in relation to the personal performance of a participant, including for any fraud and/or misconduct;

in relation to the performance of the division or function in which the participant is employed or for which they have accountability, or which is relevant in relation to the participant's role;

in relation to the performance of South32;

where a participant's award vests or may vest as a result of the fraud or misconduct of another person, and would not have otherwise vested;

where South32 becomes aware of a material misstatement or omission in the financial statements of a South32 Group company or the South32 Group;

where South32 is required or entitled by law or South32 policy to reclaim remuneration from a participant; or

where any circumstances occur or any other factor exists (relating to such other different consideration or criteria) that the South32 Board determines in good faith to have resulted in an inappropriate benefit to the participant.

In addition, the South32 Board will have discretion to determine that a participant's awards will lapse notwithstanding that any performance hurdles have been met, if the Board considers that vesting the award is not justified.

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| | |
|---|--|
| Corporate action or capital reorganisation | If there is a corporate action or capital reorganisation of South32 (including bonus issues and rights issues), the South32 Board may make appropriate adjustments to the terms of awards to ensure there is no material advantage or disadvantage to the participant. |
| Restrictions on dealing | Participants must not sell, transfer, encumber, hedge or otherwise deal with awards. Participants will be free to deal with the shares allocated on vesting of awards, subject to South32's Securities Dealing Policy and any other restrictions imposed by the South32 Board at its discretion as a condition of the award. |
| Cessation of employment | The provisions of the South32 Equity Incentive Plan will give the South32 Board the discretion to determine the treatment of a participant's awards on cessation of their employment, including that they will lapse, vest or cease to be subject to restrictions. The relevant treatment on cessation of employment can be set at the time of grant. For the CEO and other senior management, award terms under the STI and LTI will provide that: <ul style="list-style-type: none"> where a participant resigns or is terminated for cause, their awards will lapse; if a participant ceases employment due to death, serious injury, disability or illness that prohibits continued employment, or total and permanent disablement, all of their unvested awards will immediately vest; if the participant ceases employment in any other circumstances then under the STI the rights will remain on foot (subject to a South32 Board discretion to forfeit some or all of the awards) and under the LTI a pro rata portion of the unvested awards will remain on foot and subject to the original performance hurdles, and will vest or lapse in the ordinary course (subject to a South32 Board discretion to determine that some or all of a participant's awards will lapse or vest with effect from the date the participant ceases employment, or such other date the South32 Board determines). <p>The South32 Board retains the discretion to lapse a participant's unvested award after they have been permitted to continue holding them where a change in circumstance means it is no longer appropriate for the participant to retain their unvested award.</p> |
| Change of control | In the circumstance of a change of control the award terms for the CEO and other members of senior management will not allow for the early vesting of equity awards without reference to the performance conditions under which grants were made. In the case of awards made under the STI plan in relation to the assessment of past performance and for which vesting has been deferred, those awards will vest in full. In the case of grants made under the LTI plan, the South32 Board will have the discretion to assess performance against the published performance conditions at the time of the change of control and, if satisfied, can exercise its discretion to vest awards to the extent represented by that performance. The number of awards that will vest will also be pro rated to reflect the period of time from the commencement of the performance period to the date of the change of control. Those awards that do not vest will lapse. Awards may also lapse or be cancelled if the South32 Board determines in its absolute discretion that a term of the change of control is that |

holders of those awards will participate in an acceptable alternative employee share incentive scheme which is reasonably acceptable to the South32 Board.

If an actual change of control occurs before the South32 Board has exercised this LTI discretion, a pro rata portion of awards equal to the portion of the relevant performance period that has elapsed and tested against the performance hurdle up to the actual date of the change of control will immediately vest.

For other employees, the South32 Board has the discretion under the South32 Equity Incentive Plan rules to determine that some or all awards will vest or cease to be subject to restrictions where there is likely to be a change in the control of South32.

However, the South32 Board may choose to specify the treatment of awards on change of control in the terms of grant, and if it does so, then typically:

under the STI, all rights will vest in the event of a likely change of control; and

under the LTI, the South32 Board will retain the discretion to accelerate vesting of some or all rights if there is a likely change of control, and the balance will lapse (if the change of control occurs before the South32 Board has exercised its discretion, a pro rata portion of rights will immediately vest, and the South32 Board will decide whether the balance should vest or lapse).

Dividends and voting rights

Awards granted under the STI and LTI do not carry dividends or voting rights prior to vesting. However, the South32 Board may determine that a grant of awards will include an entitlement to a dividend equivalent payment in respect of awards that vest.

Minimum shareholding requirement

The CEO and other members of senior management will be expected to grow their holdings to the minimum shareholding requirement from the scheduled vesting of their awards over time.

Table of Contents**(b) All employee share plan for South32**

South32 intends to establish an employee share plan to provide employees with an opportunity to receive fully paid ordinary shares in South32, which will assist in aligning their interests with those of South32 Shareholders. South32 is considering the most appropriate structure for this plan and details regarding the plan will be made publicly available once these have been determined.

(c) Treatment of BHP Billiton awards for transferring employees

BHP Billiton currently operates STI and LTI programs, under which employees may receive cash and/or rights to receive BHP Billiton Shares subject to meeting defined performance and/or service conditions.

For members of the BHP Billiton Group Management Committee (**GMC**), these awards are delivered under the Short Term Incentive Plan (**STIP**), which replaced the Group Incentive Scheme (**GIS**) from FY2014 onwards, the Long Term Incentive Plan (**LTIP**), or provided as Transitional GMC awards. For other employees, these awards are delivered under the Management Award Plan (**MAP**) and the Group Short Term Incentive Plan (**GSTIP**).

BHP Billiton also operates an all-employee share plan (**Shareplus**), through which employees contribute funds after tax to purchase shares. If employees satisfy an employment condition and hold their purchased shares for a specified length of time, they receive an allocation of Matched Shares at the end of that period.

The BHP Billiton Board and BHP Billiton Remuneration Committee have given careful consideration as to how the Demerger will affect employees who currently participate in these plans. The BHP Billiton Board considers it important that any changes to these plans as a result of the Demerger are fair to shareholders and at the same time ensure that employees continue to be appropriately treated.

The treatment of the unvested awards for current participants in the BHP Billiton employee plans who will be employed within South32 if the Demerger proceeds is described below.

Table 8.8: Treatment of the unvested awards for participants who will be part of South32 following the Demerger

| Award | Scheduled vesting date | Treatment |
|--------------|-------------------------------|--|
| GIS FY2013 | August 2015 | As the vesting period will have been substantially completed at the time of the Demerger, awards will vest after approval of the Demerger by BHP Billiton Shareholders. Participants will receive BHP Billiton Shares and participate in the Demerger as ordinary shareholders. |
| GSTIP FY2013 | | |
| MAP FY2013 | | |
| GSTIP FY2014 | August 2016 | For all employees except those transferring to senior management of South32, these awards will continue on foot (except to the extent taxation obligations arise on Demerger, in which case sufficient awards may be vested to fund those obligations), however the relevant vesting |
| MAP FY2014 | August 2016 | |

| | | |
|--|-------------|--|
| MAP FY2015 | August 2017 | <p>conditions will be modified so that they relate to service with South32 from the date of the Demerger. In addition, the number of awards will be adjusted to reflect the dilution in value of BHP Billiton after South32 is demerged. The new number of awards will be the number of awards held before the Demerger multiplied by ((the BHP Billiton five-day VWAP plus South32 five-day VWAP) divided by BHP Billiton five-day VWAP). Prices will be based on the first five trading days following South32's listing on the ASX, subject to any adjustment that the BHP Billiton Board considers appropriate in the event that the relevant five-day VWAP is reasonably determined by the BHP Billiton Board to have been distorted by an unforeseen temporary market event unrelated to either BHP Billiton or South32.</p> <p>For employees transferring to senior management, these awards will be cancelled and replaced with awards of equivalent value in South32 with similar terms, including the service period and vesting date.</p> |
| LTI FY2013 | August 2017 | <p>These awards (which only relate to employees transferring to senior management) will be cancelled and replaced with awards of equivalent value in South32 with similar terms, including service and performance conditions. Performance conditions will relate to BHP Billiton up to the date of the Demerger, and to South32 from the Demerger onwards.</p> |
| LTI FY2014 Transitional GMC FY2013 | August 2018 | |
| | August 2015 | |
| Transitional GMC FY2014 | August 2016 | |
| | August 2016 | |
| | August 2017 | |

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| Award | Scheduled vesting date | Treatment |
|--------------|-------------------------------|---|
| Shareplus | April 2016 | <p>Holder of Acquired Shares (being shares purchased under Shareplus by or on behalf of a participant using their own funds in accordance with the rules of that plan) will participate in the Demerger as ordinary shareholders.</p> <p>Participants who meet the requirements under the rules of Shareplus are awarded one share for each Acquired Share that they hold. These are referred to as Matched Shares.</p> <p>Matched Shares that participants have accrued in respect of their Acquired Shares will vest after approval of the Demerger by BHP Billiton Shareholders. Participants will receive BHP Billiton Shares and participate in the Demerger as ordinary shareholders.</p> |
| | April 2017 | |
| LTI FY2015 | | For reasons of practicality and proximity to the Demerger, these awards (which would normally have been granted in late 2014, under the same terms and conditions which applied for LTI FY2015, STI FY2014, GSTIP FY2014 and MAP FY2015 grants made to other participants) were withheld for executives transferring to senior management roles with South32. Substitute awards of equivalent value in South32 with similar terms, including service and performance conditions, will be provided by South32 to affected participants. |
| STI FY2014 | | |
| GSTIP FY2014 | | |
| MAP FY2015 | | |

8.8 CORPORATE GOVERNANCE

Set out below is a summary of the main corporate governance policies and practices to be adopted by South32. Details of South32's key policies and practices and the charters for the South32 Board and each of its committees will be made available on the South32 website in due course.

The South32 Board plays a key role in overseeing the policies, performance and strategies of South32. It will be accountable to South32's members as a whole and must act in the best interests of South32. The South32 Board seeks to ensure that South32 is properly managed to protect and enhance members' interests, and that South32, its directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the South32 Board will adopt a framework for managing South32, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for South32's business and which are designed to promote the responsible management and conduct of South32.

South32 will apply for a listing of the South32 Shares on the ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations 3rd Edition (**ASX Recommendations**) for Australian-listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but rather guidelines designed to produce an outcome that is effective and of high quality and integrity. Under the ASX Listing Rules, South32 will be required to provide a statement in its annual report, or the URL of the page on its website where such a statement is located, disclosing the extent to which it has followed the ASX

Recommendations during each reporting period. Where South32 does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. South32 aims to comply with all of the ASX Recommendations from the time of its listing.

(a) The South32 Board

As recommended by the ASX Recommendations, the new South32 Board will comprise a majority of Independent Non-executive Directors. The South32 Board composition also reflects South32's interests in, and focus on, South Africa.

Details of the South32 Directors to be appointed to the South32 Board prior to the ASX Listing Date are set out in Section 8.1. South32 intends to appoint additional Non-executive Directors in time. Each South32 Director who has been appointed as a director of South32 as at 16 March 2015 has consented in writing to act as a director of South32 and has signed a letter of appointment to that effect.

(b) Board Charter

The Board Charter is a statement of the practices and processes the South32 Board will adopt to discharge its responsibilities. It will include the processes the South32 Board will implement to undertake its own tasks and activities, the matters it reserves for its own consideration and decision-making, and the authority it delegates to the CEO. It will provide guidance on the way in which the CEO can execute that authority and the relationship between the South32 Board and the CEO. The Board Charter also specifies the role of the Chairman, the membership of the South32 Board and the role and conduct of Non-executive Directors.

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(c) Board committees

To assist the South32 Board in exercising its authority, the Board will establish the following committees:

Risk and Audit Committee;

Remuneration Committee;

Sustainability Committee;

Nomination and Governance Committee.

Board committee membership will be restricted to Non-executive Directors of South32. Each committee will have terms of reference that set out the roles, responsibilities, composition and processes of each committee. These terms of reference will be available on the South32 website in due course.

The intended roles and responsibilities of each of these committees are set out below:

(1) Risk and Audit Committee

The role of the Risk and Audit Committee will be to assist the South32 Board in monitoring the decisions and actions of the CEO and the South32 Group and to gain assurance that progress is being made towards South32's corporate objectives within the limits imposed by the South32 Board.

The Committee will assist the South32 Board in overseeing the:

integrity of South32's financial statements;

appointment, remuneration, qualifications, independence and performance of the external auditor and the integrity of the audit process as a whole;

effectiveness of the systems of internal controls and risk management;

plans, performance, objectivity and leadership of the internal audit function and the integrity of the internal audit process as a whole;

South32 Group's systems for compliance with applicable legal and regulatory requirements within the Risk and Audit Committee's area of responsibility.

(2) Remuneration Committee

The role of the Remuneration Committee will be to assist the South32 Board in overseeing the remuneration policy, its specific application to the CEO, the CEO's direct reports and Non-executive Directors, and its general application to all employees.

The Committee will also be responsible for:

overseeing the adoption of South32's incentive schemes;

evaluating the performance of the CEO by giving guidance to the South32 Chairman;

determining of levels of reward for the CEO and approval of reward to the CEO's direct reports;

overseeing South32's compliance with applicable legal and regulatory requirements associated with remuneration matters;

preparing the remuneration report for inclusion in South32's annual report;

communicating the remuneration policy (and any proposed changes to the policy) to shareholders.

(3) Sustainability Committee

The role of the Sustainability Committee will be to assist the South32 Board to take reasonable steps in overseeing the:

adequacy of the South32 Group's HSEC framework and management system;

South32 Group's compliance with applicable legal and regulatory requirements associated with HSEC matters;

preparation of any annual sustainability report;

performance, resourcing and leadership of HSEC matters;

South32 Group's performance in relation to HSEC matters, including any HSEC component of senior management incentive awards.

(4) Nomination and Governance Committee

The role of the Nomination and Governance Committee will be to assist in ensuring the South32 Board comprises individuals who are best able to discharge the responsibilities of a director, having regard to the highest standards of governance, the strategic direction of South32 and the diversity aspirations of the South32 Board.

The Committee will also be responsible for assisting the South32 Board in its consideration of:

the South32 Board succession planning process, including the succession planning process for the Chairman and the CEO and the identification of suitable candidates for appointment to the South32 Board;

board and director performance evaluation;

the provision of appropriate training and development opportunities for directors;

the South32 Group's corporate governance practices;

the independence and time requirement for Non-executive Directors.

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(d) Corporate governance policies

The South32 Board will adopt the following corporate governance policies, each prepared having regard to the ASX Recommendations and which will be made available on South32's website.

(1) Market Disclosure and Communications Policy

South32 is committed to promoting high standards of disclosure to ensure that trading in South32 Shares occurs in an efficient and well-informed market and it is aware of the obligations it will have under the Corporations Act and ASX Listing Rules in particular.

To safeguard the effective dissemination of information and to ensure that directors and employees are aware of their obligations, South32 will adopt a Market Disclosure and Communications Policy that outlines how South32 intends to comply with the continuous disclosure obligations imposed by law, including how South32 identifies and distributes information to shareholders and market participants in a timely manner.

Information will be communicated to South32 Shareholders through lodgement with the ASX and the other exchanges on which South32 Shares are quoted, and announcements will be made available on South32's website.

(2) Securities Dealing Policy

South32 will adopt a Securities Dealing Policy to explain the regulations applying to dealings in securities and to establish best practice procedures for buying and selling securities.

The Securities Dealing Policy will apply to all employees, and to directors, members of senior management and other nominated employees of South32 and its related bodies corporate and their connected persons (**Relevant Persons**). The policy will provide that employees and Relevant Persons must not deal in South32 securities when they are in possession of unpublished price-sensitive information, and the Relevant Persons must not deal on a short term trading basis, nor during designated prohibited periods (except in exceptional circumstances).

Otherwise, trading will only be permitted by:

directors (other than the Chairman of the South32 Board) and the CEO with prior written approval from the Chairman of the South32 Board;

the Chairman of the South32 Board with prior written approval from the South32 Board or the Chair of the Risk and Audit Committee;

members of senior management (other than the CEO) and nominated employees with prior written approval of the CEO.

(3) Code of Business Conduct

South32 is committed to a high level of integrity and ethical standards in all business practices. For this purpose, South32 will adopt a Code of Business Conduct that will apply to all employees, contractors and officers engaged by South32 entities across all jurisdictions.

The Code of Business Conduct will specify the responsibilities of employees, contractors and officers to:

act in the best interests of South32;

act honestly and with high standards of personal integrity;

comply with applicable laws and regulations;

not knowingly participate in any illegal or unethical activity;

not enter into any arrangement or participate in any activity that would conflict with South32's best interests or that would be likely to negatively affect South32's reputation;

not take advantage of the property or information of South32 or its customers for personal gain or cause detriment to South32 or its customers;

not take advantage of their position, or the opportunities arising from it, for personal gain.

A breach of those principles or requirements is regarded as serious misconduct which may lead to disciplinary action, including termination.

Approval and reporting requirements will apply in relation to the receipt of gifts, hospitality and entertainment. The Code will also be supported by other procedures adopted by South32, including in relation to competition law and anti-corruption.

Business conduct investigations and the management of queries and concerns will be undertaken and recorded in accordance with defined processes supporting the Code to prevent, detect and respond correctly to business conduct incidents.

(4) Diversity and Inclusion Policy

The South32 Board will adopt a Diversity and Inclusion Policy in order to facilitate a diverse and representative workforce, particularly in management and leadership, and to address the representation of employees from diverse backgrounds in senior management positions and on the Board. South32's aspiration is to have a workforce that best represents the communities in which the South32 Businesses are located and where South32 employees live.

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At a South32 Board and senior management level, gender and ethnicity have been identified as key areas of focus for South32. Accordingly, the primary focus of the Diversity and Inclusion Policy will be achieving, over a reasonable transition period, adequate representation of women and employees from diverse ethnic backgrounds in senior management positions and on the South32 Board.

Each year, the South32 Board will set measurable objectives with a view to progressing towards a balanced gender representation at a board and senior management level, and may also consider setting measurable objectives relevant to ensuring other forms of diversity at a board and senior management level. The South32 Board will report to shareholders annually, including in relation to South32's progress towards achieving these measurable objectives.

(5) Communications strategy

South32 aims to ensure that South32 Shareholders are kept informed of all major developments affecting the state of South32's affairs. In addition to South32's continuous disclosure obligations, South32 recognises that potential investors and other market participants may wish to obtain information about South32 from time to time. South32 intends to communicate this information regularly through a range of forums and publications.

Copies of announcements lodged with the exchanges on which South32 Shares are quoted, including investor briefings, half-yearly financial statements, annual reports and notices of meetings and explanatory notes will be available on South32's website. It is intended that the website will also contain a facility for South32 Shareholders to direct queries to South32.

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Table of Contents**9 SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION****9.1 OVERVIEW**

The following is a summary of South32's historical combined financial information for the periods indicated. The data has been extracted from, and is qualified in its entirety by reference to, the historical combined financial information in Annexures 1 and 2, except for the non-IFRS measures, which are explained in Section 3.5. The summary should be read in conjunction with the information in those sections and with Section 5 and Section 11. Investors are advised to read the whole of this document and not rely on just the key or summarised information.

The historical combined financial information for the six months ended 31 December 2014 (H1 FY2015) and the six months ended 31 December 2013 (H1 FY2014), which has been extracted from the historical combined financial information of South32 set out in Annexure 2, and for the twelve months ended 30 June 2014 (FY2014), the twelve months ended 30 June 2013 (FY2013) and the twelve months ended 30 June 2012 (FY2012), which has been extracted from the historical combined financial information of South32 set out in Annexure 1 (**Reporting Periods** and each a **Reporting Period**) has been prepared by aggregating historical financial information relating to the businesses that will be held by South32 at the date of Demerger including assets, liabilities and transactions directly attributable to South32. No pro forma adjustments have been applied to this historical combined financial information.

The historical combined financial information has been prepared with the objective of presenting the results, net assets and cash flows of South32 for the Reporting Periods. The entities which comprise South32 have been under common management and control of BHP Billiton throughout the Reporting Periods covered in the historical combined financial information. Consequently, this historical combined financial information may not necessarily be indicative of the financial performance that would have been achieved if South32 had operated as an independent entity for the Reporting Periods, nor may it be indicative of the results of operations of South32 for any future period.

The historical combined financial information for South32 has been prepared specifically for the purpose of this document and, except for the departures from the financial reporting requirements and/or UKLA Prospectus Rules and JSE Listing Rules as noted in the **Basis of preparation of historical combined financial information** section to the historical combined financial information in Section 1.6 of Annexure 1, in order to comply with Sections 8.1 to 8.13 of the JSE Listing Rules and the applicable UKLA Listing Rules and Prospectus Directive.

IFRS does not provide for the preparation of combined financial information, and accordingly in preparing the historical combined financial information certain accounting conventions commonly used for the preparation of historical financial information as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the United Kingdom Auditing Practices Board have been applied. The application of these conventions results in certain departures from IFRS (as described more fully in the **Basis of preparation of historical combined financial information** section to the historical combined financial information in Section 1.6 of Annexure 1).

Table of Contents**9.2 SUMMARY OF SOUTH32 S HISTORICAL COMBINED FINANCIAL INFORMATION****Table 9.1: Summary of South32 s historical combined financial information**

| US\$M, unless otherwise stated | 6 months ended December | | FY2014 | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | | FY2013 | FY2012 |
| Combined income statement | | | | | |
| Revenue | 5,040 | 5,348 | 10,444 | 12,093 | 13,835 |
| Profit/(loss) from operations | 1,251 | 554 | 774 | (963) | 2,060 |
| Profit/(loss) attributable to members of South32 | 688 | 317 | 132 | (1,467) | 1,401 |
| Earnings/(loss) per ordinary share (basic) (US cents) | 12.92 | 5.95 | 2.48 | (27.55) | 26.31 |
| Earnings/(loss) per ordinary share (diluted) (US cents) | 12.88 | 5.94 | 2.47 | (27.46) | 26.20 |
| Combined balance sheet | | | | | |
| Total assets | 26,723 | 19,683 | 19,690 | 19,543 | 24,012 |
| Total liabilities | 9,176 | 9,394 | 9,870 | 9,423 | 10,200 |
| Invested capital attributable to members of South32 ^(c) | 16,710 | 9,396 | 8,953 | 9,213 | 13,010 |
| Other financial information | | | | | |
| Underlying EBITDA ^(a) | 1,306 | 976 | 2,055 | 2,118 | 2,831 |
| Underlying EBIT ^(a) | 800 | 510 | 1,070 | 1,154 | 1,926 |
| Underlying Earnings ^{(a),(b)} | 534 | 369 | 614 | 755 | 1,258 |
| Net operating assets | 11,460 | 11,412 | 11,290 | 11,409 | 13,641 |
| Capital expenditure | 411 | 394 | 769 | 1,139 | 2,013 |
| Net operating cash flows | 1,249 | 493 | 1,670 | 1,426 | 2,393 |
| Summary financial ratios | | | | | |
| Underlying EBIT margin | 16.6% | 10.5% | 11.3% | 10.5% | 16.0% |
| Margin on third party products | 7.4% | 3.6% | 2.3% | 3.8% | 4.0% |

(a) Refer to Section 3.5 of this document for the definition of Underlying Earnings, Underlying EBIT and Underlying EBITDA.

(b) Refer to Section 11.3 of this document for the calculation of Underlying Earnings.

(c) During H1 FY2015 there was an issue of shares to BHP Billiton Limited of US\$8 billion to enable the acquisition of the companies that will comprise South32. The proceeds were primarily placed on deposit with BHP Billiton. Contingent liabilities and commitments at 30 June 2014, 2013 and 2012 are set out in note 18 Contingent liabilities and note 19 Commitments of Annexure 1, respectively.

Table of Contents**9.3 CAPITALISATION AND INDEBTEDNESS STATEMENT**

The following tables show the South32 Group's combined capitalisation and indebtedness.

The information presented in Section 9.3 is not representative of South32's net indebtedness on a standalone basis following implementation of the Demerger. In particular, the Unguaranteed/Unsecured non-current debt in Table 9.2 and Other non-current loans in Table 9.3 primarily comprise BHP Billiton intercompany arrangements that will be settled prior to implementation of the Demerger (without issuance of new equity to third parties). Refer to Section 10.7 for a pro forma summary of South32's net indebtedness.

(a) Capitalisation and indebtedness

The financial information relating to the South32 Group as at 31 December 2014 in the following table has been extracted from the historical combined financial information set out in Annexure 2 and sets out the capitalisation and indebtedness of the South32 Group as at 31 December 2014:

Table 9.2: Capitalisation and indebtedness summary

| US\$M | As at 31 December 2014 |
|---|------------------------------|
| Current debt | |
| Secured ^(a) | 13 |
| Unguaranteed/Unsecured ^(b) | 123 |
| Total current debt | 136 |
| Non-current debt (excluding current portion of long-term debt) | |
| Secured ^(a) | 682 |
| Unguaranteed/Unsecured ^(b) | 3,923 |
| Total non-current debt | 4,605 |
| Invested capital | |
| Invested capital attributable to members of South32 ^(c) | 16,710 |
| Invested capital attributable to non-controlling interests | 837 |
| Total invested capital | 17,547 |

(a) Secured debt comprises finance leases of US\$695 million.

(b) Represents bank overdraft, short-term borrowings and other unsecured loans; primarily comprises intercompany arrangements with BHP Billiton that will be settled prior to the implementation of the Demerger.

(c)

Invested capital attributable to members of South32 comprises share capital of South32 of US\$8,651 million and reserves and retained earnings of US\$8,059 million.

The following adjustments to the capitalisation and indebtedness information set out above will take place as part of implementation of the Demerger:

The settlement of net intercompany balances with BHP Billiton through the issue of South32 equity and cash settlements;

South32 will undertake a share division so that the number of South32 Shares immediately before implementation of the Demerger is equal to the number of BHP Billiton Limited Shares on issue;

BHP Billiton Plc will be issued with a number of South32 Shares so that it will hold a number of South32 Shares equal to the number of BHP Billiton Plc Shares on issue as at the Plc Record Date (or a subsidiary of BHP Billiton Plc will be issued with those South32 Shares and on-transfer them to BHP Billiton Plc), with each South32 Share being issued at the VWAP of South32 Shares traded on the ASX over the five trading days from the ASX Listing Date;

BHP Billiton Limited will subscribe for one South32 Share for cash consideration, and separately South32 may return capital to BHP Billiton Limited, in such amounts as are required for South32 to arrive at the post-Demerger targeted net cash balance for South32 described in Section 14.4.

Table of Contents**(b) Net indebtedness**

The financial information relating to the South32 Group as at 31 December 2014 in the following table has been extracted from the historical combined financial information set out in Annexure 2 and sets out the net indebtedness of the South32 Group as at 31 December 2014:

Table 9.3: Net indebtedness summary

| US\$M | 31 December 2014 |
|--|-----------------------------|
| Cash ^(a) | (426) |
| Cash equivalents | (7) |
| Liquidity | (433) |
| Current bank debt | 121 |
| Other current financial debt ^{(b)(c)} | 15 |
| Current financial debt | 136 |
| Net current financial indebtedness | (297) |
| Other non-current loans ^(c) | 4,605 |
| Non-current financial indebtedness | 4,605 |
| Net financial indebtedness^{(d)(e)} | 4,308 |

- (a) Excludes US\$26 million cash that is restricted by legal or contractual arrangements.
(b) Other current financial debt includes finance leases and unsecured other borrowings.
(c) Includes finance leases of US\$695 million.
(d) Net financial indebtedness does not include the fair value of South32's derivatives.
(e) Excludes receivables from related parties.

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10 SUMMARY OF PRO FORMA HISTORICAL FINANCIAL INFORMATION

10.1 OVERVIEW

Section 10, Annexure 3 and Annexure 4 contain pro forma historical financial information of South32 (**South32 pro forma historical financial information**) including:

South32 summary pro forma historical consolidated income statements for H1 FY2015 and FY2014;

South32 summary pro forma historical consolidated cash flow statements before financing activities and tax and after capital expenditure for H1 FY2015 and FY2014;

South32 pro forma historical consolidated balance sheet as at 31 December 2014.

References to South32 pro forma historical financial information are references to the pro forma historical consolidated financial information of South32 during the relevant period or at the relevant time, being the businesses that are being transferred and restructured to form South32, which is proposed to be demerged to BHP Billiton Shareholders. Reference to South32 pro forma historical financial information refers to South32 on a consolidated basis.

The South32 pro forma historical financial information in Section 10 is presented in an abbreviated form and does not contain all the disclosures required by IFRS or the Corporations Act.

The Independent Accountant has prepared an Independent Accountant's Assurance Report in respect of the South32 pro forma historical financial information, a copy of which is included in Section 12. The comments made in relation to the scope and limitations in this report should be noted.

Section 10 should also be read in conjunction with the risks to which South32 is subject as set out in Section 2. All amounts disclosed in tables are expressed in millions of US dollars and, unless otherwise noted, are rounded to the nearest million US dollars.

10.2 BASIS OF PREPARATION

The South32 pro forma historical financial information has been prepared and is intended for illustrative purposes only and addresses a hypothetical situation and therefore does not purport to reflect the actual financial performance or the actual financial position that South32 would have obtained if South32 had operated as a standalone entity for the periods presented. Further, the information is not necessarily indicative of the results South32 expects in future periods, for reasons including:

South32 did not operate independently of BHP Billiton during the periods for which South32 pro forma historical financial information is presented;

South32 pro forma historical financial information includes allocations to South32 of certain corporate expenses incurred by BHP Billiton and directly attributable to South32;

South32 pro forma historical financial information may not reflect the strategies or operations that South32 may have followed or undertaken had it acted as a standalone entity rather than as part of the BHP Billiton Group;

the financing arrangements under which South32 operated during the periods presented do not reflect the anticipated financing arrangements of South32 following the Demerger;

the application of tax laws in relation to the assets and operations of South32 under BHP Billiton ownership may not reflect the application of tax laws to South32. This will include the tax consequences of tax elections that may be made by South32, including, but not limited to, the formation and operation of South32's own Australian tax consolidated group. Taxation expense reflects the tax charges recorded in the underlying income statements of South32 which have been affected by the tax sharing arrangements within BHP Billiton and are not necessarily representative of the tax charges that would have been reported had South32 been an independent group throughout the relevant periods;

South32 may have been exposed to different risks had it operated as a standalone entity rather than as part of BHP Billiton.

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The South32 pro forma historical financial information which is the responsibility of the South32 Directors has been derived from, and should be read in conjunction with, the historical combined financial information of South32 contained in Annexures 1 and 2.

South32's pro forma historical financial information has been prepared in accordance with:

the recognition and measurement principles prescribed in IFRS, except that these standards do not provide for the preparation or reporting of pro forma financial information;

accounting policies including the basis of preparation adopted by South32 as set out in note 1 Accounting policies to the historical combined financial information in Annexures 1 and 2;

items 1 to 6 of Annex II of the Commission Regulation 809/2004/EC (the UK Prospectus Directive Regulation). The summary pro forma historical consolidated income statements and consolidated cash flow statements have been prepared on the basis that South32 moved to joint control of the Manganese Business and the impact of the Demerger (including adjustments to reflect the reversal of intercompany net financing costs and dividends), as if they had occurred at 1 July 2013. Historically, financial results of the Manganese Business have been included on a consolidated basis with recognition of a non-controlling interest. In contemplation of the Demerger, BHP Billiton and Anglo American Plc agreed to make certain changes to the agreement that governs their interests in the Manganese Business. For accounting purposes, BHP Billiton and Anglo American Plc are taken to share joint control of the Manganese Business from 2 March 2015. South32 has discontinued consolidation of the Manganese Business and accounts for its equity interest as an equity accounted joint venture.

No pro forma adjustments have been made to South32's pro forma historical consolidated income statements or cash flow statements to reflect the anticipated additional corporate overhead costs or savings of South32 operating as a standalone entity (refer to Section 11.2(d)), as compared to the corporate costs while South32 formed part of the BHP Billiton Group in accordance with the Commission of the European Communities' Commission Regulation 809/2004/EC Prospectus Directives regulations in the United Kingdom for the preparation of pro forma financial statements. Discussion of these additional corporate overhead costs is contained in Section 11.2(d) (as footnote (a) to Table 11.7).

The pro forma historical consolidated cash flow statements in Section 10 have been presented to net operating cash flows before financing activities and tax and after capital expenditure, as following the Demerger, South32's cash flows could be significantly altered due to a different tax and financing profile as a result of South32 operating on a standalone basis.

The South32 pro forma historical consolidated balance sheet has been prepared on the basis that the Demerger was effected and completed on 31 December 2014 and that the South32 assets and liabilities have been transferred from BHP Billiton to South32 at their historical book value on a consolidated basis with pro forma adjustments made to reflect:

the move to joint control of the Manganese Business referred to above as if it had occurred on 31 December 2014;

settlement of intercompany balances between South32 and BHP Billiton through the issue of South32 Shares to South32 Shareholders in conjunction with cash settlements;

tax adjustments that reflect the exit of relevant South32 entities from the BHP Billiton tax consolidated groups on preparation for and implementation of the Demerger and subsequent formation of the South32 tax consolidated group; and

Demerger set up costs to be incurred by South32 after the Demerger takes effect.

Table of Contents**10.3 SOUTH32 SUMMARY PRO FORMA HISTORICAL CONSOLIDATED INCOME STATEMENTS**

The South32 summary pro forma historical consolidated income statements for H1 FY2015 and FY2014 are as follows:

Table 10.1: South32 summary pro forma historical consolidated income statements

| US\$M | H1 FY2015 | FY2014 |
|--|------------------|---------------|
| Revenue | 4,089 | 8,344 |
| Other income | 150 | 269 |
| Expenses excluding net finance costs | (3,550) | (8,338) |
| Share of operating profit of equity accounted investments ^(a) | 35 | 62 |
| Profit from operations | 724 | 337 |
| Net finance costs | 5 | (187) |
| Taxation expense | (423) | (47) |
| Profit after taxation | 306 | 103 |
| Basic earnings per share (US cents) ^(b) | 5.75 | 1.93 |
| Other financial information | | |
| Profit from operations | 724 | 337 |
| Earnings adjustments ^(c) to derive Underlying EBIT | (76) | 323 |
| Underlying EBIT^(c) | 648 | 660 |
| Depreciation and amortisation | 417 | 823 |
| Underlying EBITDA^(c) | 1,065 | 1,483 |
| Profit after taxation | 306 | 103 |
| Earnings adjustments after taxation | 136 | 343 |
| Underlying Earnings^(c) | 442 | 446 |
| Underlying basic earnings per share (US cents) ^(b) | 8.30 | 8.38 |

(a) The share of operating profit of equity accounted investments includes the Manganese Business operations which were previously consolidated.

(b) The number of shares used for the purpose of calculating earnings per share is 5,324 million. (c) Underlying Earnings, Underlying EBIT and Underlying EBITDA are defined in Section 3.5.

See Section 3.2 of Annexure 3 for the reconciliation of the pro forma adjustments made to the South32 pro forma historical consolidated income statement.

Table of Contents**10.4 SOUTH32 SUMMARY PRO FORMA HISTORICAL CONSOLIDATED CASH FLOW STATEMENTS BEFORE FINANCING ACTIVITIES AND TAX AND AFTER CAPITAL EXPENDITURE**

The South32 summary pro forma historical consolidated cash flow statements before financing activities and tax and after capital expenditure for H1 FY2015 and FY2014 are as follows:

Table 10.2: South32 summary pro forma historical consolidated cash flow statements before financing activities and tax and after capital expenditure

| US\$M | H1 FY2015 | FY2014 |
|---|-----------|--------|
| Profit from operations | 724 | 337 |
| Other non-cash items | 445 | 1,129 |
| Profit from equity accounted investments | (35) | (62) |
| Change in working capital | (205) | 15 |
| Cash generated from operations | 929 | 1,419 |
| Dividends received (including equity accounted investments) | 131 | 206 |
| Capital expenditure | (317) | (590) |
| Net operating cash flows before financing activities and tax and after capital expenditure | 743 | 1,035 |

See Section 3.4 of Annexure 3 for the reconciliation of the pro forma adjustments made to the South32 pro forma historical cash flow statements.

Following the Demerger, South32, operating as a standalone entity, will incur additional ongoing corporate and financing costs and benefit from savings from the implementation of the regional organisational model (refer to Section 11.2(d)). Adjustments have not been made to reflect the impacts of these items and the impacts of financing costs and taxation across the historical periods presented as South32's corporate and operating structure, financing facilities, tax arrangements and capital structure following the Demerger may be significantly different to the arrangements in place during the periods presented.

Table of Contents**10.5 SOUTH32 PRO FORMA HISTORICAL CONSOLIDATED BALANCE SHEET**

The following table sets out South32's pro forma historical consolidated balance sheet as at 31 December 2014. For the purpose of presenting the pro forma historical consolidated balance sheet, it has been assumed that the Demerger was effected and completed on 31 December 2014.

Table 10.3: South32 pro forma historical consolidated balance sheet

| | Change of control in Manganese Business | | | | | | South32 Pro forma 31 December 2014 |
|--|---|--|--|--|---|---------------------------------------|--|
| | South32 combined balance sheet 31 December 2014 ^(a) | Removal of con- solidated balances ^(b) | Equity accounted interest ^(c) | Inter- company settlement and debt draw down ^(d) | South32 set up costs ^(e) | Tax con- solidation ^(f) | |
| US\$M | | | | | | | |
| ASSETS | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 459 | (43) | | 59 | (111) | | 364 |
| Trade and other receivables | 1,098 | (139) | | | | | 959 |
| Receivable from BHP Billiton | 9,508 | (295) | | (9,213) | | | |
| Receivable from related party | | | 60 | | | | 60 |
| Other financial assets | 15 | | | | | | 15 |
| Inventories | 1,406 | (382) | | | | | 1,024 |
| Current tax assets | 107 | | | | | | 107 |
| Other | 37 | (11) | | | | | 26 |
| Total current assets | 12,630 | (870) | 60 | (9,154) | (111) | | 2,555 |
| Non-current assets | | | | | | | |
| Trade and other receivables | 185 | (4) | | | | | 181 |
| Receivables from related party | | | 240 | | | | 240 |
| Other financial assets | 508 | (158) | | | | | 350 |
| Investments accounted for using the equity method | 13 | | 3,027 | | | | 3,040 |
| Inventories | 60 | | | | | | 60 |
| Property, plant and equipment | 12,220 | (1,907) | | 18 | 22 | | 10,353 |
| Intangible assets | 290 | (74) | | 90 | | | 306 |
| Deferred tax assets | 801 | (43) | | | | (174) | 584 |
| Other | 16 | | | | | | 16 |
| Total non-current assets | 14,093 | (2,186) | 3,267 | 108 | 22 | (174) | 15,130 |
| Total assets | 26,723 | (3,056) | 3,327 | (9,046) | (89) | (174) | 17,685 |

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| | Change of control in Manganese Business | | | | | | South32 Pro forma 31 December 2014 |
|--|--|---|--|---|---|--|---|
| | South32 combined balance sheet 31 December 2014^(a) | Removal of con- solidated balances^(b) | Equity accounted interest^(c) | Inter- company settlement and debt draw down^(d) | South32 set up costs^(e) | Tax con- solidation^(f) | |
| US\$M | | | | | | | |
| LIABILITIES | | | | | | | |
| Current liabilities | | | | | | | |
| Trade and other payables | 1,232 | (228) | | | | | 1,004 |
| Payable to BHP Billiton | 41 | (2) | | (39) | | | |
| Interest bearing liabilities | 136 | (4) | | 150 | | | 282 |
| Other financial liabilities | 6 | | | | | | 6 |
| Current tax payables | 104 | (30) | | | (23) | 28 | 79 |
| Provisions | 413 | (52) | | | | | 361 |
| Deferred income | 4 | (1) | | | | | 3 |
| Total current liabilities | 1,936 | (317) | | 111 | (23) | 28 | 1,735 |
| Non-current liabilities | | | | | | | |
| Trade and other payables | 34 | | | | | | 34 |
| Interest bearing liabilities | 877 | (135) | | | | | 742 |
| Interest bearing liabilities payable to BHP Billiton | 3,728 | | | (3,728) | | | |
| Other financial liabilities | 18 | | | | | | 18 |
| Deferred tax liabilities | 569 | (26) | | | | 127 | 670 |
| Provisions | 2,010 | (478) | | | | | 1,532 |
| Deferred income | 4 | | | | | | 4 |
| Total non-current liabilities | 7,240 | (639) | | (3,728) | | 127 | 3,000 |
| Total liabilities | 9,176 | (956) | | (3,617) | (23) | 155 | 4,735 |
| Net assets | 17,547 | (2,100) | 3,327 | (5,429) | (66) | (329) | 12,950 |
| INVESTED CAPITAL | | | | | | | |
| Invested capital attributable to members of South32 | 16,710 | (1,263) | 3,327 | (5,429) | (66) | (329) | 12,950 |
| Invested capital attributable to non-controlling interests | 837 | (837) | | | | | |
| Total invested capital | 17,547 | (2,100) | 3,327 | (5,429) | (66) | (329) | 12,950 |

- (a) South32's historical combined balance sheet has been extracted, without material adjustment from the historical combined financial information in Annexure 2 (refer to discussion in Section 10.8(a) for transfer of assets and liabilities at existing book value).
- (b) Pro forma adjustment has been made to reflect the loss of control and subsequent de-consolidation of the Manganese Business assuming the changes to the joint venture agreement were effective 31 December 2014. This information has been extracted, without material adjustment from the underlying accounting records of South32.

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- (c) This adjustment represents the fair value of the equity accounted investment in the Manganese Business as at 2 March 2015 the date the change of control became effective and as disclosed in note 10 Subsequent events of Annexure 2.
- (d) This adjustment represents the settlement of net intercompany balances sourced from the South32 historical combined balance sheet (less the Manganese Business), the transfer of property, plant and equipment of US\$18 million and intangible assets of US\$90 million relating to the capital spend incurred by BHP Billiton on information technology infrastructure and corporate facilities for South32. The settlement of net intercompany receivables with BHP Billiton of US\$5,446 million (current receivables of US\$9,213 million, current payables of US\$39 million and non-current interest bearing liabilities payable of US\$3,728 million) will be by a return of South32 capital of US\$5,429 million and cash settlements. The cash settlement amount of US\$59 million is calculated to provide South32 with a target net cash and interest bearing liabilities position and assumes an indicative drawdown of US\$150 million from available debt facilities.
- (e) The adjustment made to cash reflects South32 set up costs associated with the Demerger to be incurred by South32 after the Demerger. These totals primarily include information technology set up costs and relocation costs as well as costs incurred under transitional service arrangements but exclude debt establishment fees.
- (f) As a consequence of the Demerger, South32 is required by Australian tax legislation to exit BHP Billiton's existing Australian tax consolidated groups and re-consolidate in its own, new Australian tax consolidated group. As a result, certain deferred tax assets will reduce due to the resetting of the tax bases of certain tangible and intangible assets. It is expected that there will be a step down in the South32 cost base for income tax and/or capital gains tax of US\$1,460 million that results in a reduction in South32's deferred tax assets of US\$174 million, a deferred tax liability of US\$127 million and a current tax liability of US\$28 million. The pro forma adjustment is based on the South32 Directors' best estimate of the value of tax cost bases at the effective date of the tax consolidation. Refer to Section 10.8(e) for more details.

10.6 DEBT FACILITIES

Prior to the Demerger, the South32 Group was funded by a combination of internal cash flows, working capital facilities and intercompany loans provided by BHP Billiton which have been funded by a combination of cash and short and long-term debt.

If the Demerger proceeds, ongoing funding for the South32 Businesses is expected to be provided in the same way, a combination of cash generated by the South32 Businesses, working capital facilities and intercompany loans provided by South32 which may be funded by a combination of cash, short and long-term debt and equity market raisings.

As at the date of this document, a new multicurrency revolving syndicated loan facility (**Facility**) has been executed by all parties and the Facility is committed subject to various conditions being satisfied, including those summarised below.

At the time the Demerger is implemented, South32 will have access to the Facility which may be used to fund its opening cash position.

The Facility contains market standard terms and conditions for a facility agreement of this nature. The key terms of the Facility are as follows:

Table 10.4: Facility summary

| | | |
|---|--|---|
| Facility type | Multicurrency revolving syndicated facility. | |
| Currencies | US dollar or optional currencies, including Australian dollar and Euro. | |
| Commitments and maturities | Commitment | Maturity date |
| | US\$1.5 billion | Five years after the date of the agreement plus two one-year extension options for those lenders which agree to extend. |
| Applicable interest rates | Base rate plus a margin which has been agreed at current commercial rates. | |
| | The applicable base rates include: | |
| | LIBOR for a loan in US dollars; | |
| | BBSW for a loan in Australian dollars; | |
| | EURIBOR for a loan in Euros. | |
| Conditions precedent to initial drawdown | The Facility contains conditions precedent to initial drawdown that are customary for a facility of this nature and other conditions precedent which relate to the implementation of the Demerger and listing of South32 on the ASX. | |
| Events of default | The Facility contains customary events of default including, but not limited to, payment default, breach of representation, breach of financial covenant and cross-default. | |
| Mandatory prepayment and cancellation events | The Facility includes customary mandatory prepayment and cancellation events, including a change of control provision which in certain circumstances allows a lender to cancel its commitments under the Facility and require full prepayment of amounts outstanding under the Facility. | |
| Covenants | The Facility contains a single financial covenant and undertakings which are customary for a facility of this nature including, but not limited to, provision of information, negative pledge and restrictions on subsidiary indebtedness and disposals of assets. | |
| Security | None. | |
| Guarantee | Each borrower under the agreement is a guarantor in respect of the obligation of each other borrower which is a subsidiary of it. | |

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The following table sets out South32's pro forma historical summary of net indebtedness as at 31 December 2014 extracted from the South32 pro forma historical consolidated balance sheet set out in Section 10.5. For the purpose of presenting this information, it has been assumed that the Demerger was effected and completed on 31 December 2014.

Table 10.5: Pro forma net indebtedness summary

| US\$M | 31 December 2014 |
|--|---------------------|
| Cash ^(a) | (343) |
| Cash equivalents | (7) |
| Liquidity^(b) | (350) |
| Current bank debt | 271 |
| Other current financial debt ^{(c)(d)} | 11 |
| Current financial debt | 282 |
| Net current financial indebtedness | (68) |
| Non-current loans ^(d) | 742 |
| Non-current financial indebtedness | 742 |
| Net financial indebtedness^{(e)(f)} | 674 |

(a) Excludes US\$14 million cash that is restricted by legal or contractual arrangements.

(b) Liquidity includes cash and cash equivalents. It does not include undrawn amounts under available facilities.

(c) Other current financial debt includes finance leases and unsecured other borrowings.

(d) Includes total finance leases of US\$680 million.

(e) Net financial indebtedness does not include the fair value of South32's derivatives.

(f) Excludes receivables from related parties.

10.8 ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of South32'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.

In accordance with IFRS, South32 is required to include information regarding the nature of the estimates and judgements and potential impacts on its financial results or financial position in the financial information. This information can be found in note 1 Accounting policies to the historical combined financial information in Annexure 1.

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The most important of these estimates and judgements are set out in the following subsections:

(a) Accounting for internal restructure

During FY2015, the Internal Restructure took place in preparation for the listing of South32. This resulted in South32 Limited (formerly BHP Coal Holdings Pty Limited) becoming the legal parent of the South32 Group. The South32 Directors elected to account for the restructure at pre-existing book values. In the South32 Directors' judgement, the continuation of the existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to list and most appropriately reflects the substance of the Internal Restructure. As such, the historical combined financial information of South32 has been presented as a continuation of the pre-existing accounting values of assets and liabilities in BHP Billiton's financial statements. In adopting this approach the South32 Directors note that there is an alternate view under which such a restructure is accounted for at fair value. An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain.

(b) Equity accounted investment in Manganese Business

In contemplation of the Demerger, BHP Billiton and Anglo American Plc agreed on 19 August 2014 (subject to receiving necessary regulatory approvals which were obtained on 2 March 2015) to make certain changes to the agreement which governs their interest in the Manganese Business. As a result of these changes, BHP Billiton will discontinue consolidation of the Manganese Business and account for its equity interest as an equity accounted joint venture. This will result in the equity accounted investment being remeasured at fair value of approximately US\$3 billion. This value is significantly higher than the historical book value and accordingly increases the potential risk of impairment in the future. The determination of fair value, and so recoverable amount of the investment, requires significant judgement and relies on future estimates.

(c) Closure and rehabilitation provisions

Closure planning is a key consideration in the planning and development of South32's projects and operations. Operations are required to maintain closure plans, which describe the proposed methods to rehabilitate and remediate following resource development and also address closure obligations. The closure plans provide the basis for estimating the closure costs and the associated accounting for closure and rehabilitation provisions.

Mining, extraction and processing activities normally give rise to obligations for site closure or rehabilitation. In accordance with South32's accounting policies, provisions have been created for all known closure and rehabilitation liabilities at the time that environmental disturbance occurs. When the extent of the disturbance increases over the life of an operation, the provision is increased accordingly. 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 specific to the country in which the operation is located. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

There can be no assurance that new information or regulatory requirements with respect to known sites or the identification of new remedial obligations at other sites will not require additional future provisions

for remediation and such provisions could be material. In addition to the uncertainties noted above, certain closure and rehabilitation activities are subject to legal disputes and depending on the ultimate resolution of these issues, the final liability for these matters could vary.

The following table sets out South32's pro forma closure and rehabilitation provisions as at 31 December 2014, which have been adjusted for the de-consolidation of the Manganese Business.

Table 10.6: South32 pro forma closure and rehabilitation provision overview^(a)

| US\$M | 31 December 2014 |
|--------------------|-------------------------|
| Open mines | 85 |
| Closed mines | 45 |
| Current | 130 |
| Open mines | 1,119 |
| Closed mines | 293 |
| Non-current | 1,412 |
| Total | 1,542 |

(a) Refer to Sections 2.4(b) and 2.5(a)(2) for more details on closure provisions.

Table of Contents**(d) Pro forma contingent liabilities**

In the normal course of business, contingent liabilities may arise from general legal proceedings, from guarantees or from closure and rehabilitation obligations connected with current or former sites. Where South32 considers that potential liabilities have a low probability of crystallising or it is not possible to quantify them reliably, they are disclosed as contingent liabilities. These are not provided for in the historical combined financial information but are disclosed in the notes to the historical combined financial information as follows:

Table 10.7: Pro forma contingent liabilities at balance date, not otherwise provided for in the pro forma historical consolidated balance sheet, are categorised as arising from:

| US\$M | 31 December 2014 ^(a) | Pro forma adjustments ^{(b)(c)} | 31 December 2014 pro forma |
|--|------------------------------------|--|-------------------------------|
| Associates and joint ventures | | | |
| Bank guarantees | | 4 | 4 |
| Actual or potential litigation ^(d) | | 44 | 44 |
| Other | | 15 | 15 |
| Total associates and joint ventures | | 63 | 63 |
| Subsidiaries and joint operations | | | |
| Bank guarantees | 6 | (6) | |
| Actual or potential litigation ^(d) | 653 | (72) | 581 |
| Other | 26 | 35 | 61 |
| Total subsidiaries and joint operations | 685 | (43) | 642 |
| Total contingent liabilities | 685 | 20 | 705 |

- (a) South32's contingent liabilities have been extracted, without material adjustment from the historical combined financial information in Annexure 2 note 9 contingent liabilities.
- (b) A pro forma adjustment has been made to reflect the loss of control and subsequent de-consolidation of the Manganese Business assuming the changes to the shareholder agreement were effective 31 December 2014. This column reverses the full amount of the Manganese Businesses contingent liabilities under the heading 'Subsidiaries and joint operations' and brings in South32's equity share under the heading 'Associates and joint ventures'. This information has been extracted, without material adjustment from the underlying accounting records of South32.
- (c) An adjustment is made to include potential liability that may arise from the Internal Restructure in preparation for the Demerger.
- (d) Actual or potential litigation amounts relate to a number of actions against South32 associates and joint ventures and subsidiaries and joint operations, some of which relate to commercially confidential information, and where South32 has assessed that the liability is not probable South32 has not provided for such amounts in the pro forma historical consolidated balance sheet. South32 is indemnified by BHP Billiton for certain of the above contingent liabilities that are subject to actual or potential litigation. The actual or potential litigation relates primarily to numerous tax assessments or matters arising from tax audits relating to transactions in prior years

in Brazil, Colombia and South Africa. Additionally, there are a number of legal claims or potential claims against South32, its subsidiaries or joint operations the outcome of which cannot be foreseen at present, and for which no amounts have been included in the table above.

(e) Tax consolidated group

Following the Demerger, South32 will form a new Australian tax consolidated group. Certain deferred tax balances will increase or decrease as the South32 Businesses exit the tax consolidated groups existing under BHP Billiton and tax cost bases of certain tangible and intangible assets are reset upon formation of the South32 tax consolidated group. It is expected that there will be a step down in the South32 tax cost base for income tax and/or capital gains tax purposes of US\$1,460 million that results in a corresponding reduction in South32's deferred tax asset of US\$174 million, a deferred tax liability of US\$127 million and a current tax liability of US\$28 million. These impacts are estimates and may vary subject to measurement of the tax cost bases when this is finalised post Demerger. The extent to which deferred tax balances must be recognised upon the tax consolidation of South32 will depend on a number of factors and assumptions, including the actual market value of South32 at the date of the tax consolidation.

10.9 TAXATION

Certain South32 Businesses operating in Australia currently pay tax as part of BHP Billiton's group taxation arrangements. As a standalone entity, the effective tax rate of South32 may vary from what it would have been if South32 remained part of BHP Billiton.

South32 Businesses operate in a number of countries with differing tax rates. For the 12 months to 30 June 2014, 68 per cent of the pro forma Underlying EBIT from operations of South32 was derived from Australia (standard current corporate tax rate of 30 per cent) and 20 per cent from South Africa (standard current corporate tax rate of 28 per cent). The remainder of South32's Underlying EBIT was derived from other countries with various tax rates.

Table of Contents**11 OPERATING AND FINANCIAL REVIEW AND PROSPECTS****11.1 INTRODUCTION**

The following operating and financial review is intended to convey the South32 Directors' perspective on South32's operating performance and its financial condition. The South32 Directors intend this disclosure to assist readers in understanding and interpreting the historical combined financial information set out in Annexures 1 and 2 and summarised in Section 9, which include the South32's historical combined financial information for FY2014, FY2013 and FY2012 and historical combined financial information for H1 FY2015 and H1 FY2014, respectively.

The basis of preparation of the historical combined financial information is set out in the Basis of preparation of historical combined financial information in note 1 Accounting policies in Annexures 1 and 2.

Investors should read Section 11 in conjunction with the risk factors in Section 2, South32 Business descriptions in Section 7 and the historical combined financial information set out in Section 9 and Annexures 1 and 2 and the other information included in this document, and should not rely solely on key or summarised information.

South32 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, as set out in Section 3.5, are important when assessing the underlying financial and operating performance of South32 and each of the South32 Businesses set out in Section 7.1.

(a) Overall financial performance

South32 uses several financial measures to monitor the financial performance of its business. The two key measures are Underlying Earnings for South32 as a whole and Underlying EBIT for the performance of the individual South32 Businesses.

Table 11.1: Summary historical combined financial information

| US\$M except where stated | 6 months ended December | | FY2014 | 12 months ended June | |
|--|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | | FY2013 | FY2012 |
| Combined income statement | | | | | |
| Revenue | 5,040 | 5,348 | 10,444 | 12,093 | 13,835 |
| Profit/(loss) from operations | 1,251 | 554 | 774 | (963) | 2,060 |
| Attributable profit/(loss) | 688 | 317 | 132 | (1,467) | 1,401 |
| Basic earnings/(loss) per share (US cents) | 12.92 | 5.95 | 2.48 | (27.55) | 26.31 |
| Other financial measures | | | | | |
| Net operating cash flows | 1,249 | 493 | 1,670 | 1,426 | 2,393 |
| Underlying EBITDA | 1,306 | 976 | 2,055 | 2,118 | 2,831 |
| Underlying EBITDA margin | 27.5% | 20.7% | 22.1% | 19.7% | 23.8% |
| Underlying EBIT | 800 | 510 | 1,070 | 1,154 | 1,926 |
| Underlying EBIT margin | 16.6% | 10.5% | 11.3% | 10.5% | 16.0% |
| Underlying Earnings | 534 | 369 | 614 | 755 | 1,258 |

Table of Contents**(b) Production**

A summary of South32's actual production volumes for H1 FY2015, H1 FY2014, FY2014, FY2013 and FY2012 is shown below. Further details are set out in Section 7.

Table 11.2: Summary of South32's actual production volumes

| | 6 months ended December | | 12 months ended June | | |
|--|----------------------------|-----------|-------------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Alumina (kt) | | | | | |
| Worsley Alumina | 1,953 | 1,970 | 3,916 | 3,675 | 2,917 |
| Brazil Aluminium | 680 | 633 | 1,262 | 1,205 | 1,235 |
| Aluminium (kt) | | | | | |
| South Africa Aluminium ^(a) | 356 | 415 | 804 | 761 | 719 |
| Mozal Aluminium | 135 | 134 | 266 | 264 | 264 |
| Brazil Aluminium | 26 | 63 | 104 | 154 | 170 |
| Energy coal (kt) | | | | | |
| South Africa Energy Coal ^(b) | 16,525 | 14,973 | 30,384 | 31,627 | 33,279 |
| Illawarra Metallurgical Coal | 880 | 741 | 1,539 | 1,278 | 1,305 |
| Metallurgical coal (kt) | | | | | |
| Illawarra Metallurgical Coal | 3,858 | 2,614 | 5,974 | 6,664 | 6,621 |
| Manganese ore (kt) | | | | | |
| Australia Manganese | 2,499 | 2,438 | 4,776 | 5,027 | 4,306 |
| South Africa Manganese ^(c) | 2,056 | 1,808 | 3,526 | 3,490 | 3,625 |
| Manganese alloy (kt) | | | | | |
| Australia Manganese | 139 | 123 | 269 | 234 | 198 |
| South Africa Manganese ^{(c)(d)} | 233 | 180 | 377 | 374 | 404 |
| Nickel (kt) | | | | | |
| Cerro Matoso | 21 | 24 | 44 | 51 | 49 |
| Lead (kt) | | | | | |
| Cannington | 99 | 94 | 187 | 213 | 239 |
| Zinc (kt) | | | | | |
| Cannington | 37 | 32 | 58 | 56 | 55 |
| Silver (koz) | | | | | |
| Cannington | 12,235 | 12,667 | 25,161 | 31,062 | 34,208 |

(a) Aluminium smelting at Bayside ceased with the closure of the final potline in June 2014.

(b) Shown on 100 per cent basis. South32's interest in saleable production is 90 per cent.

(c) Shown on 100 per cent basis. South32's interest in saleable production is 60 per cent except production of ore at Hotazel Mines, South Africa where South32's interest is 44.4 per cent.

(d) Production includes MCFeMn.

Table of Contents**11.2 EXTERNAL FACTORS AND TRENDS AFFECTING SOUTH32 S RESULTS**

Section 11.2 describes some of the external factors and trends that have had a material impact on South32's financial condition and results of operations. Details of South32's risk factors can be found in Section 2 and in note 23 Financial risk management to the historical combined financial information contained in Annexure 1.

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

(a) Commodity prices

The prices South32 obtains for its products is 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 FY2014 of changes to commodity prices is set out below:

Table 11.3: Commodity price sensitivity summary

| Estimated impact on FY2014 Underlying EBIT of change of: | US\$M |
|---|--------------|
| US\$5/t on alumina price | 26 |
| US\$20/t on aluminium price | 24 |
| US\$1/t on metallurgical coal price | 6 |
| US\$1/t on energy coal price | 15 |
| US¢5/dmtu on manganese ore price | 19 |
| US\$10/t on manganese alloy price | 7 |
| US\$150/t on nickel price | 7 |
| US\$20/t on lead price | 4 |
| US\$20/t on zinc price | 1 |
| US¢20/oz on silver price | 5 |

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The following table shows prices of South32's most significant commodities for H1 FY2015, H1 FY2014, FY2014, FY2013 and FY2012. These prices represent quoted prices from the relevant sources as indicated. These prices differ from the realised prices on the sale of South32's production due to contracts to which South32 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.

Table 11.4: Quoted commodity prices

| | 6 months ended December | | 12 months ended June | | |
|--|----------------------------|-----------|-------------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Alumina^(a) (US\$/t) | | | | | |
| Average | 338 | 320 | 321 | 327 | 334 |
| Closing | 355 | 333 | 312 | 318 | 305 |
| Aluminium (LME cash) (US\$/t) | | | | | |
| Average | 1,975 | 1,774 | 1,764 | 1,938 | 2,168 |
| Closing | 1,831 | 1,765 | 1,851 | 1,731 | 1,835 |
| Metallurgical coal^(b) (US\$/t) | | | | | |
| Average | 110 | 141 | 128 | 159 | 239 |
| Closing | 110 | 132 | 111 | 130 | 222 |
| Energy coal^(c) (US\$/t) | | | | | |
| Average | 68.00 | 78.01 | 77.48 | 84.66 | 105.56 |
| Closing | 65.13 | 85.05 | 73.88 | 74.18 | 87.71 |
| Manganese ore^(d) (US\$/dmu) | | | | | |
| Average | 4.34 | 5.21 | 4.95 | 5.29 | 4.90 |
| Closing | 4.32 | 5.08 | 4.20 | 5.54 | 5.06 |
| Manganese alloy^(e) (US\$/t) | | | | | |
| Average | 940 | 1,000 | 1,020 | 1,106 | 1,177 |
| Closing | 873 | 1,027 | 999 | 1,038 | 1,160 |
| Nickel (LME cash) (US\$/t) | | | | | |
| Average | 17,218 | 13,911 | 15,168 | 16,380 | 19,335 |
| Closing | 14,925 | 13,977 | 18,717 | 13,691 | 16,469 |
| Silver^(f) (US\$/oz) | | | | | |
| Average | 18.14 | 21.07 | 20.57 | 28.97 | 33.26 |
| Closing | 15.97 | 19.50 | 20.87 | 18.86 | 27.08 |
| Lead^(g) (US\$/t) | | | | | |
| Average | 2,091 | 2,107 | 2,104 | 2,134 | 2,128 |
| Closing | 1,853 | 2,206 | 2,129 | 2,058 | 1,796 |
| Zinc^(h) (US\$/t) | | | | | |
| Average | 2,273 | 1,884 | 1,967 | 1,928 | 2,019 |
| Closing | 2,167 | 2,085 | 2,205 | 1,823 | 1,843 |

(a) Platts PAX FOB Australia – market price assessment of calcined metallurgical/smelter grade alumina.

(b) Platts Low-Vol Hard Coking Coal Index FOB Australia – representative of high-quality hard coking coals.

(c) RBCT FOB (API 4).

- (d) Metal Bulletin manganese ore 44 per cent Mn China, except for FY2012 which was CRU CIF China import 43 per cent contained manganese.
- (e) Bulk FerroAlloy HCFeMn Western Europe DDP.
- (f) Daily LBMA Silver Fixing Prices.
- (g) Lead Settlement Daily Official US dollars per tonne monthly average.
- (h) Zinc Settlement LME Daily Official US dollars per tonne monthly average.

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The following summarises the pricing trends of South32's most significant commodities for H1 FY2015, FY2014 and FY2013 and significant trends.

During FY2014, commodity markets saw some support from a modest improvement in global economic activity, though economic growth was uneven across different regions. The United States and Japan saw underlying momentum increase, but emerging economies, notably China, saw economic growth slow.

During FY2013, commodity markets were impacted by a slower pace of economic growth in China that was balanced in part by increased stability in European sovereign debt markets and an improved private sector performance in the United States. The metals commodities attracted lower prices than the previous year as a result of supply growing faster than demand.

(1) Alumina

The Platts FOB Australia average alumina price increased by six per cent over the first half of FY2015 compared to the first half of FY2014. The alumina market was supported by strong Chinese demand, ramp-ups of newly commissioned smelters in Northwest China, and the ban on bauxite ore exports from Indonesia.

The Platts FOB Australia average price decreased by two per cent during FY2014. Although demand grew, driven by the commissioning of new smelters in China, increasing supply outpaced the growth in demand.

The Platts FOB Australia average alumina price decreased by two per cent during FY2013, with price support coming from increasing demand and supply disruptions during the year. The market remained balanced, with refinery production continuing to grow in China.

(2) Aluminium

The London Metal Exchange (LME) average aluminium cash settlement price increased by 11 per cent in the first half of FY2015 compared to the first half of FY2014. This reflects the improved fundamentals of the market, with demand growth strengthening and supply responses to lower prices having an effect.

The LME aluminium average cash settlement price decreased by nine per cent during FY2014. Demand continued to increase, but new supply offset the curtailment of high-cost capacity. Delays in implementing changes to LME warehouse rules contributed to record high regional premiums ex-China as inventories were constrained by warehouse queues.

The LME aluminium average cash settlement price decreased by 11 per cent during FY2013. Demand growth slowed, while simultaneously new supply continued to be added, which contributed to an increasing market surplus. During this period, LME stocks reached record levels, driven by the attractiveness of warehouse financing deals to investors.

(3) Metallurgical coal

The Platts Low-Vol Hard Coking Coal Index average price for the first half of FY2015 decreased by 22 per cent compared to the first half of FY2014. The price decrease was underpinned by continuing seaborne supply growth. Demand from traditional markets remained positive, whilst Chinese seaborne demand decreased due to intense

competition with domestic coking coal supply.

The average Platts Low-Vol Hard Coking Coal Index decreased by 19 per cent during FY2014. While demand from traditional markets recovered steadily, the price decrease was mainly driven by continuing supply growth from Australia. The year-end price was 13 per cent lower than the average price for the year.

The average Platts Low-Vol Hard Coking Coal Index decreased by 33 per cent during FY2013, driven by decreased growth rates of global pig iron production. Pig iron production decreased in Europe, which historically accounts for a large share of hard coking coal import demand. Supply increased during the year, particularly from Australia and Canada.

(4) Energy coal

The Richards Bay FOB average price for thermal coal for the first half of FY2015 decreased by 13 per cent compared to the first half of FY2014. The price decrease was driven by moderating demand growth with strong growth from India offset by China, coupled with healthy supply from Australia and Indonesia.

The Richards Bay Coal Terminal FOB average price decreased by eight per cent during FY2014. The decrease was driven by weaker import demand growth from India and China, coupled with supply growth from Australia, Russia and Indonesia.

The Richards Bay Coal Terminal FOB average price decreased by 20 per cent during FY2013. Seaborne demand growth was driven by China and India, where volumes reached all-time record levels. Prices decreased as Indonesian, Australian and United States exports increased simultaneously.

(5) Manganese

The Metal Bulletin manganese ore China CIF average price decreased by 17 per cent during the first half of FY2015 compared to the first half of FY2014. Demand growth slowed, while South African and Australian supply increased amidst higher Chinese inventory levels. The Western Europe spot HCFeMn average manganese alloy price decreased by six per cent during the first half of FY2015, driven by persistent oversupply and the currency depreciation of major producers in India, Australia, South Africa and Europe.

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The Metal Bulletin manganese ore China CIF average price decreased by six per cent during FY2014. Demand growth slowed, while South African supply increased amid higher Chinese inventory levels. The Western Europe spot HCFeMn average alloy price decreased by eight per cent during FY2014. Weaker alloy prices led to decreased production in South Korea and the United States.

The Metal Bulletin manganese ore China CIF average price increased by eight per cent during FY2013 compared to the CRU China manganese ore average import price in FY2012. Rising ore prices in the second half of FY2013 were supported by record Chinese steel output, while supply from South Africa, Australia and Gabon increased to meet the higher demand. The Western Europe spot HCFeMn average alloy price decreased six per cent during FY2013. Declining alloy prices were driven by oversupply in a weak export market due to lower steel production in the developed economies of Europe and the United States.

(6) Nickel

The average LME nickel cash settlement price increased by 24 per cent for the first half of FY2015 compared to the first half of FY2014 as a result of the Indonesian ore export ban impacting supply. However, the price at 31 December 2014 decreased by 20 per cent from the 30 June 2014 price, as overall the market remained well supplied as evidenced by rising LME stocks.

The average LME cash settlement nickel price decreased by seven per cent during FY2014. Increased supply growth coming mainly from Chinese nickel pig iron and new production from greenfield projects was greater than demand growth in the first half of the year. The price increase in the second half of the year was driven by decreased low-cost supply due to an ore export ban imposed in Indonesia, which is one of the largest global suppliers. Demand growth increased, supported by a recovery in stainless steel production in Europe and the United States. The year-end price was 23 per cent higher than the average price for the year.

The average LME cash settlement nickel price decreased by 15 per cent during FY2013. Demand for nickel continued to grow, but at a lower rate compared with that for the previous year. The price decreased as a result of the demand growth being outpaced by increasing supply tonnages, coming mainly from Chinese nickel pig iron, as well as new production from greenfield projects.

(7) Silver

The average daily LBMA silver price for the first half of FY2015 dropped 14 per cent compared to the first half of FY2014 as demand fell through this period.

During FY2014, the average daily LBMA Silver Fixing Price decreased by 29 per cent, with monthly averages spending the year consistently above US\$19 per ounce. There was no significant imbalance in supply and demand, with price movements driven primarily by investors.

There was a general downtrend in the average daily LBMA Silver Fixing Price during FY2012 and FY2013. During FY2013, there was no significant imbalance in supply and demand; however, the average price fell by 13 per cent.

(8) Lead

The average Lead Settlement Daily Official price for the first half of FY2015 decreased by one per cent compared to the first half of FY2014 with the market remaining well supplied as the growth in consumption was met with increased supply.

The average Lead Settlement Daily Official price decreased by one per cent in FY2014. The market remained finely balanced, as shown by the lack of change in price.

The average Lead Settlement Daily Official price traded, from a monthly average high of US\$2,683 per tonne to a lower range between US\$1,800 per tonne to US\$2,200 per tonne during FY2012. This movement was driven by investor concerns regarding the state of the European economy. In FY2013, the average Lead Settlement Daily Official price was flat.

(9) Zinc

The average Zinc Settlement LME Daily Official price for the first half of FY2015 increased by 21 per cent compared to the first half of FY2014 as the refined market was in deficit with supply unable to keep up with rising demand.

In FY2014, the average Zinc Settlement LME Daily Official price increased by two per cent. The market remained balanced for the first half of FY2014. Towards the end of FY2014, the price increased on the back of modest demand, but with constrained growth in refined supply. Investor demand pushed this price further in anticipation of further tightening in supply.

In FY2013, the average Zinc Settlement LME Daily Official price decreased by five per cent. The market traded at similar levels, albeit with lower volatility and with supply and demand balanced. Day-to-day movements were dominated by macroeconomic news, investor sentiment and risk appetite rather than developments in zinc market dynamics. The average Zinc Settlement LME Daily Official price traded over a large range in FY2012, driven primarily by investor sentiment. There was some downward pressure due to consumption slowing in Europe and China.

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South32 is exposed to exchange rate risk on foreign currency sales, purchases and expenses, as no active currency hedging is in place. Because a majority of South32's sales are denominated in US dollars, and the US dollar plays a dominant role in its 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. Foreign exchange gains and losses reflected in operating costs owing to fluctuations in the local currencies relative to the US dollar may potentially offset one another.

South32 is also exposed to exchange rate translation risk in relation to net monetary liabilities, being foreign currency denominated monetary assets and liabilities, including debt and other long-term liabilities. Historically, the majority of South32's monetary assets and liabilities were held in US dollars. Details of South32's exposure to foreign currency fluctuations are contained within note 23 Financial risk management to the historical combined financial information contained in Annexure 1.

The following table indicates the estimated impact on FY2014 Underlying EBIT of a strengthening of the US dollar against the principal currencies to which South32 is exposed.

The sensitivities below 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.

Table 11.5: Exchange rate sensitivity summary

| Estimated impact on FY2014 Underlying EBIT of strengthening US\$ relative to: | US\$M |
|--|--------------|
| Australian dollar (US1 cent/A\$) | 30 |
| South African rand (0.1 rand/US\$) | 15 |
| Brazilian real (0.02 real/US\$) | 3 |
| Colombian peso (20 peso/US\$) | 3 |
| Mozambican metical (0.5 metical/US\$) | 1 |

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

Table 11.6: Exchange rates

| | 6 months ended December | | 12 months ended June | | |
|--|------------------------------------|------------------|---------------------------------|---------------|---------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Australian dollar^(a) | | | | | |
| Average | 0.89 | 0.92 | 0.92 | 1.03 | 1.03 |
| Closing | 0.82 | 0.89 | 0.94 | 0.92 | 1.00 |
| Brazilian real | | | | | |

| | | | | | |
|---------------------------|-------|-------|-------|-------|-------|
| Average | 2.40 | 2.28 | 2.29 | 2.04 | 1.78 |
| Closing | 2.66 | 2.34 | 2.20 | 2.18 | 2.08 |
| Colombian peso | | | | | |
| Average | 2,037 | 1,910 | 1,935 | 1,814 | 1,825 |
| Closing | 2,392 | 1,927 | 1,881 | 1,923 | 1,807 |
| South African rand | | | | | |
| Average | 10.99 | 10.07 | 10.39 | 8.84 | 7.77 |
| Closing | 11.55 | 10.53 | 10.60 | 10.00 | 8.41 |
| Mozambican metical | | | | | |
| Average | 31.32 | 29.92 | 30.63 | 29.56 | 27.36 |
| Closing | 33.33 | 30.01 | 31.55 | 29.80 | 27.95 |

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

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The appreciation of the US dollar began at the start of H1 FY2015 and continued to strengthen against most currencies through the six-month period to end-December 2014. The most significant exchange rate movements and depreciation were in the Colombian peso, the Brazilian real and the Australian dollar in order of the absolute change from the spot at the beginning of H1 FY2015 and the spot rate at the end of H1 FY2015. The South African rand also weakened against the US dollar, but experienced slightly less currency depreciation. The significant movements in exchange rates reflected the relative change in market sentiment towards a stronger recovery in the US economy, and the expectations around the timing of the US Federal Reserve Bank raising interest rates in 2015, against the rising uncertainty in growth prospects in other economies.

In FY2014, the South African rand weakened throughout the year owing to the impact from disruptive labour action across many sectors of the economy amidst sluggish global economic growth, a widening trade deficit and the SARB raising interest rates to offset inflationary pressure. The end of the financial year coincided with the end of a five-month strike at platinum mines that had seen a rise in capital outflows amid loss in investor confidence. Overall, the Australian dollar and Colombian peso ended FY2014 stronger against the US dollar, while the Brazilian real weakened.

In FY2013, volatility in exchange rates increased compared with that in FY2012, with a strengthening of the US dollar in the last quarter of FY2013. Overall the Australian dollar, South African rand, Colombian peso and Brazilian real ended FY2013 weaker against the US dollar.

(c) Changes in product demand and supply

Global demand and supply for the commodities South32 produces is a key driver of commodity prices, and fluctuations in product demand and supply affect its results, including cash flows and asset values. Information on demand and supply trends is set out in Section 6.

(d) Operating costs

As the prices for South32's products are determined by the global commodity markets in which South32 operates, South32 does not generally have the ability to offset cost pressures through corresponding price increases. Therefore, controlling operating costs is a key driver of South32's results. Operating costs for the last three financial years and the most recent two half years are set out below:

Table 11.7: Operating costs summary^(a)

| US\$M | 6 months ended December | | 12 months ended June | | |
|--|----------------------------|-----------|-------------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Raw materials and consumables used | 1,641 | 1,552 | 3,308 | 3,584 | 3,496 |
| Employee benefits expense | 721 | 752 | 1,496 | 1,603 | 1,558 |
| External services (including transportation) | 842 | 993 | 1,837 | 2,438 | 2,734 |
| Third party commodity purchases | 394 | 748 | 1,233 | 1,601 | 2,265 |
| Net foreign exchange (gains)/losses | (83) | (47) | (68) | (97) | (100) |
| Fair value change on derivatives | (5) | 16 | 2 | 16 | (122) |

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| | | | | | |
|---|--------------|--------------|--------------|---------------|---------------|
| Government royalties paid and payable | 138 | 178 | 348 | 383 | 413 |
| Depreciation and amortisation expense | 506 | 466 | 985 | 964 | 905 |
| Exploration and evaluation expenditure | | 11 | 17 | 21 | 41 |
| Impairment of assets | | | 319 | 2,210 | 108 |
| Operating lease rentals | 38 | 46 | 94 | 97 | 96 |
| Other operating expenses | 121 | 191 | 419 | 391 | 441 |
| Total expenses | 4,313 | 4,906 | 9,990 | 13,211 | 11,835 |
| Less earnings adjustments | 87 | 33 | (391) | (2,129) | 114 |
| Total expenses included in Underlying Earnings | 4,400 | 4,939 | 9,599 | 11,082 | 11,949 |

- (a) The operating costs in this table for FY2014, FY2013 and FY2012 are extracted from the historical combined financial information. The operating costs for H1 FY2015 and H1 FY2014 are from the underlying accounting records. They do not include additional costs of running South32 relative to those incurred by the South32 Businesses as part of the BHP Billiton Group before the Demerger, estimated to be US\$60 million (pre-tax) per annum. They also do not include any ongoing overhead savings from implementation of South32's regional operating model, which South32 believes will outweigh the additional costs in the near term.

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During the first half of FY2015, South32 continued to focus on curtailing operating costs that form part of Underlying Earnings. This was demonstrated by a decrease in external services costs of US\$151 million and a reduction in employee benefits expense of US\$31 million compared to H1 FY2014. In addition, there was a decrease in third party commodity purchases of US\$354 million.

During FY2014, South32 focused on curtailing operating costs that form part of Underlying Earnings, demonstrated by a decrease in external services costs of US\$601 million, reduced production-related expenses of US\$276 million and a reduction in employee benefits expense of US\$107 million. In addition, there was a decrease of third party commodity purchases of US\$368 million.

Reductions in operating costs that form part of Underlying Earnings were also noted in FY2013 through a reduction in external services of US\$296 million. These savings were partly offset by an increase in production-related expenses of US\$88 million. In addition there was a decrease in third party commodity purchases of US\$664 million.

(e) Capital expenditure

Capital expenditure is disclosed for each South32 Business in Table 11.8 below (presented on a cash basis):

Table 11.8: Capital expenditure summary^(a)

| US\$M | 6 months | | FY2014 | 12 months | |
|----------------------------------|------------|------------|------------|--------------|--------------|
| | H1 FY2015 | H1 FY2014 | | FY2013 | FY2012 |
| Capital expenditure | | | | | |
| Worsley Alumina | 27 | 22 | 56 | 154 | 900 |
| South Africa Aluminium | 10 | 7 | 28 | 17 | 14 |
| Mozal Aluminium | 5 | 3 | 8 | 7 | 9 |
| Brazil Aluminium | 5 | 7 | 9 | 6 | 12 |
| <i>Alumina</i> | 3 | 2 | 4 | 4 | 8 |
| <i>Aluminium</i> | 2 | 5 | 5 | 2 | 4 |
| South Africa Energy Coal | 58 | 22 | 65 | 133 | 162 |
| Illawarra Metallurgical Coal | 180 | 173 | 309 | 357 | 314 |
| Australia Manganese | 57 | 58 | 108 | 271 | 213 |
| <i>Manganese alloy</i> | 6 | 2 | 5 | 3 | 12 |
| <i>Manganese ore</i> | 51 | 56 | 103 | 268 | 201 |
| South Africa Manganese | 37 | 32 | 70 | 104 | 131 |
| <i>Manganese Alloy</i> | 9 | 10 | 17 | 42 | 58 |
| <i>Manganese Ore</i> | 28 | 22 | 53 | 62 | 73 |
| Cerro Matoso | 18 | 35 | 56 | 50 | 105 |
| Cannington | 14 | 30 | 60 | 39 | 73 |
| Group and unallocated items | | 5 | | 1 | 80 |
| Total capital expenditure | 411 | 394 | 769 | 1,139 | 2,013 |
| Exploration expenditure | 13 | 14 | 24 | 29 | 51 |

| | | | | | |
|--------------|-----|-----|-----|-------|-------|
| Total | 424 | 408 | 793 | 1,168 | 2,064 |
|--------------|-----|-----|-----|-------|-------|

(a) Capital expenditure is included on a cash basis and excludes capitalised interest.

Capital expenditure encompasses expenditure on investment projects and capital expenditure on sustaining and other items.

Table 11.9: Capital expenditure

| US\$M | 6 months ended December | | | 12 months ended June | |
|----------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Capital expenditure | | | | | |
| Major projects | 92 | 156 | 316 | 561 | 1,192 |
| Minor and maintenance | 319 | 238 | 453 | 578 | 821 |
| Total | 411 | 394 | 769 | 1,139 | 2,013 |

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South32's capital expenditure decreased significantly across the period from FY2012 to FY2014, reducing 62 per cent from US\$2,013 million to US\$769 million. In H1 FY2015, FY2014 and FY2013, South32 focused on reducing discretionary capital expenditure.

No major investment projects relating to the South32 Businesses were approved by BHP Billiton during the period from FY2012 through to FY2014.

(f) Interest rates

During the Reporting Period, the majority of South32's debt was raised under central BHP Billiton funding programs, and BHP Billiton has generally funded its businesses through intercompany balances. Interest rate risk for South32 has been managed as part of the portfolio risk mitigation strategy of BHP Billiton's central treasury function.

South32 was exposed to interest rate risk on its outstanding borrowings, primarily on net borrowings from BHP Billiton. Historically, interest rate exposure has been managed under BHP Billiton's policy for interest on borrowings to be on a US dollar floating interest rate basis. Deviation from this policy required the prior approval of BHP Billiton's Financial Risk Management Committee and was managed within the Cash Flow at Risk framework, which is described in note 23 Financial risk management to the historical combined financial information in Annexure 1. Interest rates on internal borrowings and receivables from BHP Billiton are generally on a floating interest rate basis.

11.3 OPERATING RESULTS UNDERLYING EARNINGS

As discussed in Section 3.3 of Annexure 3, Underlying Earnings will be the key measure that South32 management uses internally to assess the performance of the South32 Group. Underlying Earnings is included in note 2 Segment reporting to the historical combined financial information in Annexures 1 and 2. Underlying Earnings is reconciled to profit/(loss) after taxation as set out below.

Table 11.10: Underlying Earnings

| US\$M | 6 months ended December | | 12 months ended June | | |
|--|-------------------------|-----------|----------------------|---------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Profit/(loss) after taxation | 738 | 358 | 217 | (1,304) | 1,433 |
| Earnings adjustments refer Section 11.5(d) | (204) | 11 | 397 | 2,059 | (175) |
| Underlying Earnings | 534 | 369 | 614 | 755 | 1,258 |

11.4 CONSOLIDATED RESULTS OVERVIEW**(a) Half year ended 31 December 2014 compared with half year ended 31 December 2013**

South32's revenue in H1 FY2015 was US\$5,040 million, a decrease of US\$308 million, or six per cent, from US\$5,348 million for the corresponding period H1 FY2014. The revenue decrease can be largely attributed to Cannington (US\$119 million) and Australia Manganese (US\$111 million) with offsets at all other South32 Businesses, in particular at Worsley (US\$96 million increase in group production revenue). In addition revenue from

third party products decreased by US\$372 million.

The decrease in revenue was more than offset by a decrease in operating cash costs of US\$638 million resulting in an increase in Underlying EBITDA of US\$330 million from the corresponding period.

Depreciation and amortisation in H1 FY2015 of US\$506 million was US\$40 million higher than the corresponding period in H1 FY2014. As a result, Underlying EBIT in H1 FY2015 increased by US\$290 million to US\$800 million. Despite the challenging environment, South32 achieved an Underlying EBIT margin of 16.6 per cent excluding the impact of third party sales.

South32's Underlying Earnings in H1 FY2015 were US\$534 million, an increase of 45 per cent from US\$369 million in H1 FY2014.

(b) Year ended 30 June 2014 compared with year ended 30 June 2013

South32's revenue in FY2014 was US\$10.4 billion, a decrease of US\$1.7 billion, or 14 per cent, from US\$12.1 billion in the corresponding period. The revenue decrease was across most South32 Businesses with Illawarra Metallurgical Coal (US\$409 million), Cannington (US\$286 million) and Cerro Matoso (US\$208 million) being the most significant. In addition, revenue from third party products decreased US\$401 million.

The decreases in revenue at Illawarra Metallurgical Coal and Cannington were primarily due to substantially lower realised prices, which decreased revenue by US\$263 million and US\$143 million, respectively. Lower volumes at Cerro Matoso decreased revenue by US\$93 million.

Despite the decrease in revenue of US\$1.7 billion, total operating cash costs decreased by US\$1.6 billion resulting in a decrease in Underlying EBITDA of only US\$63 million, or three per cent, to US\$2,055 million. Increases in Underlying EBITDA for South Africa Energy Coal (US\$82 million), Worsley Alumina (US\$102 million) and Brazil Aluminium (US\$83 million) were more than offset by decreases for Cannington (US\$191 million), Illawarra Metallurgical Coal (US\$167 million) and Cerro Matoso (US\$147 million).

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Depreciation and amortisation in FY2014 of US\$985 million was US\$21 million higher than the prior year. As a result, Underlying EBIT in FY2014 declined by US\$84 million to US\$1,070 million, substantially in line with the fall in Underlying EBITDA. Despite the challenging environment, South32 achieved an Underlying EBIT margin of 11.3 per cent excluding the impact of third party sales.

South32's Underlying Earnings in FY2014 were US\$614 million, a decrease of 19 per cent from US\$755 million in FY2013.

Adjustments between Underlying Earnings and profit/(loss) after taxation, as set out in Section 11.5(d), were US\$397 million in FY2014, down from US\$2,059 million in FY2013.

Attributable profit in FY2014 was US\$132 million compared to a loss in FY2013 of US\$1,467 million.

South32's strong cash generating capacity was reflected in an increase in net operating cash flows to US\$1,670 million in FY2014, an increase of 17 per cent from US\$1,426 million in FY2013.

(c) Year ended 30 June 2013 compared with year ended 30 June 2012

South32's revenue in FY2013 was US\$12.1 billion, a decrease of US\$1.7 billion, or 13 per cent, from US\$13.8 billion in the corresponding period. The revenue decrease was across most South32 Businesses with South Africa Energy Coal (US\$436 million), Illawarra Metallurgical Coal (US\$414 million) and Cannington (US\$225 million) being the most significant. In addition, revenue from third party products decreased US\$696 million. The increase in production from the ramp up of an expansion project at Worsley Alumina contributed to an increase in revenue of US\$138 million.

The decrease in revenue in South Africa Energy Coal and Illawarra Metallurgical Coal were primarily due to lower realised prices of US\$366 million and US\$657 million, respectively. Lower volumes at Cannington decreased revenue by US\$138 million.

The decrease in revenue of US\$1.7 billion was partially offset by a decrease in operating cash costs of US\$1 billion, which led to a decrease in Underlying EBITDA of US\$713 million, or 25 per cent, to US\$2,118 million. Increases in Underlying EBITDA at Australia Manganese (US\$164 million), Worsley Alumina (US\$127 million) and South Africa Manganese (US\$129 million) were more than offset by decreases in Illawarra Metallurgical Coal (US\$516 million), South Africa Energy Coal (US\$301 million), Cannington (US\$242 million) and Cerro Matoso (US\$183 million).

Depreciation and amortisation in FY2013 of US\$964 million was US\$59 million higher than the prior year. As a result Underlying EBIT in FY2013 declined by US\$772 million to US\$1,154 million, primarily as a consequence of the fall in Underlying EBITDA. Despite the challenging environment, the South32 Group achieved an Underlying EBIT margin of 10.5 per cent.

South32's Underlying Earnings in FY2013 were US\$755 million, a decrease of 40 per cent from US\$1,258 million in FY2012.

Adjustments between Underlying Earnings and profit/(loss) after taxation, as set out in Section 11.5(d), were US\$2,059 million in FY2013, compared to a deduction of US\$175 million in FY2012.

Attributable profit in FY2013 was a loss of US\$1,467 million compared to a profit in FY2012 of US\$1,401 million.

Net operating cash flows of US\$1,426 million declined by 40 per cent from US\$2,393 million in FY2012.

11.5 OPERATING RESULTS

(a) Earnings movements

The following table describes the approximate impact of the principal factors that affected Underlying Earnings for H1 FY2015, FY2014 and FY2013:

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| US\$M | 6 months ended December H1 FY2015 | 12 months ended June FY2014 | FY2013 |
|---|---|-----------------------------------|---------|
| Underlying Earnings reported in the prior period | 369 | 755 | 1,258 |
| Changes in Underlying EBIT | | | |
| Change in volumes | (29) | (73) | 5 |
| Change in sales prices | 23 | (667) | (1,354) |
| Price-linked costs | 34 | 6 | 116 |
| Net price impact | 57 | (661) | (1,238) |
| Operating cash costs | 155 | 243 | 256 |
| Exchange rates | 170 | 602 | 334 |
| Inflation on costs | (98) | (229) | (228) |
| Non-cash costs | (10) | 13 | 86 |
| Change in costs | 217 | 629 | 448 |
| Other | 45 | 21 | 13 |
| Total changes in Underlying EBIT | 290 | (84) | (772) |
| Net finance costs | (38) | (79) | (15) |
| Taxation expense | (87) | 22 | 284 |
| Underlying Earnings | 534 | 614 | 755 |

The method of calculation of the factors that affected Underlying Earnings and the financial statement line items of revenue, expenses, net finance costs and taxation expense that are affected by the factors are as follows:

Table 11.12: Method of calculation of factors affecting Underlying Earnings

| Factor affecting Underlying Earnings | Method of calculation | Financial statement line item affected |
|---|--|---|
| Change in volumes | Change in volumes for each Business from the corresponding period to the current period multiplied by the prior period Underlying EBIT margin. | Revenue and expenses |
| Change in sales prices | Change in average realised price for each Business from the corresponding period to the current period multiplied by current period volumes. | Revenue |
| Price-linked costs | Change in price-linked costs for each Business from the corresponding period to the current period multiplied by current period volumes. | Expenses |
| Operating cash costs | Change in total costs, other than price-linked costs, exchange rates, inflation on costs, non-cash costs and one-off items as defined below for each Business from the corresponding period to the | Expenses |

current period.

| | | |
|--------------------|---|----------------------|
| Exchange rates | Change in exchange rate multiplied by current period local currency revenue and expenses. The majority of the South32 Group's selling prices are denominated in US dollars and so there is little impact of exchange rate changes on revenue. | Revenue and expenses |
| Inflation on costs | Change in inflation rate applied to expenses, other than depreciation and amortisation, price-linked costs, exploration and business development expenses. | Expenses |
| Non-cash costs | Includes non-cash items, mainly depreciation and amortisation. | Expenses |

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| Factor affecting Underlying Earnings | Method of calculation | Financial statement line item affected |
|---|--|---|
| Other | Variances not explained by the above factors. | Expenses |
| Net finance costs | Change in net finance costs from the corresponding period to the current period. | Net finance costs |
| Taxation expense | Change in taxation expense from the corresponding period to the current period. | Taxation expense |

The following commentary describes the principal factors outlined in the table above for H1 FY2015, FY2014 and FY2013.

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013**(A) Volumes**

Lower volumes at a number of South32 Businesses reduced Underlying EBIT in H1 FY2015 by US\$76 million; the major contributors were Cannington (US\$40 million), Australia Manganese (US\$27 million) and Illawarra Metallurgical Coal (US\$8 million). This was offset by volume efficiencies attributed to productivity and increased production in a number of South32 Businesses in H1 FY2015 that increased Underlying EBIT by US\$47 million. This was predominantly due to Brazil Aluminium (US\$15 million), Worsley Alumina (US\$12 million) and South African Energy Coal (US\$7 million).

(B) Prices

Higher average prices for most commodities increased Underlying EBIT in H1 FY2015 by US\$330 million; the major contributors were South Africa Aluminium (US\$121 million), Cerro Matoso (US\$73 million), Worsley (US\$59 million), Mozal Aluminium (US\$45 million) and Brazil Aluminium (US\$33 million). This was partially offset by lower average prices that reduced Underlying EBIT by US\$307 million, primarily at Illawarra Metallurgical Coal (US\$102 million), Manganese Australia (US\$68 million), Cannington (US\$72 million) and Manganese South Africa (US\$41 million).

(C) Operating cash costs

A broad-based improvement in productivity underpinned a decrease in operating cash costs of US\$155 million during H1 FY2015. The improvement in Underlying EBIT was most pronounced at Illawarra Metallurgical Coal (US\$139 million), Manganese Australia (US\$21 million) and Manganese South Africa (US\$21 million). The improvement was partially offset by increased costs at Brazil Aluminium (US\$41 million), Worsley Alumina (US\$32 million) and South Africa Aluminium (US\$23 million). The reduction can primarily be attributed to reduced labour, maintenance and consumables costs.

(D) Exchange rates

A stronger US dollar increased Underlying EBIT by US\$170 million in H1 FY2015. The benefit to Underlying EBIT was most pronounced in the South African South32 Businesses, with the benefits at South African Energy Coal, South Africa Manganese and South Africa Aluminium being US\$92 million in total. Average and closing exchange rates for H1 FY2015 are set out in Section 11.2(b).

(E) Inflation on costs

Inflation had an unfavourable impact on all South32 Businesses and reduced Underlying EBIT by US\$98 million during H1 FY2015. This was most notable in South Africa, where South African Energy Coal, South Africa Manganese and South Africa Aluminium had a total impact of US\$57 million.

(F) Non-cash costs

An increase in non-cash costs decreased Underlying EBIT by US\$10 million during the period.

(G) Other

Other items increased Underlying EBIT by US\$45 million.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

(A) Volumes

Lower volumes at a number of South32 Businesses reduced Underlying EBIT in FY2014 by US\$170 million, primarily at Cannington (US\$123 million) and Illawarra Metallurgical Coal (US\$23 million). This was offset by volume efficiencies attributed to productivity and increased production in a number of South32 Businesses in FY2014 that increased Underlying EBIT by US\$97 million. The major contributors were Australia Manganese (US\$45 million) and South Africa Energy Coal (US\$34 million).

(B) Prices

Lower average sale prices for most commodities reduced Underlying EBIT by US\$667 million in FY2014. The decreases were across all South32 Businesses except Worsley Alumina where realised prices for alumina in FY2014 of US\$318 per tonne were four per cent higher than FY2013, which increased Underlying EBIT by US\$55 million.

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For Illawarra Metallurgical Coal, there was a 22 per cent decline in the average realised price of coking coal to US\$130 per tonne, which reduced Underlying EBIT by US\$263 million.

For Cannington, lower average realised prices for silver, which fell 26 per cent to US\$20 per ounce, were offset by an increase in lead prices of 15 per cent to US\$2,344 per tonne, along with an increase in zinc prices resulting in a US\$143 million decrease in Underlying EBIT.

Lower realised prices for aluminium at South Africa Aluminium (decrease of seven per cent to US\$2,007 per tonne) and Mozal Aluminium (decrease of 10 per cent to US\$2,080 per tonne) resulted in reduced Underlying EBIT for South Africa Aluminium and Mozal Aluminium of US\$79 million and US\$24 million, respectively.

Lower realised prices for manganese ore and alloy reduced Underlying EBIT for South Africa Manganese and Australia Manganese by US\$35 million and US\$62 million, respectively.

Nickel prices rallied towards the end of FY2014 but remained lower on average for the period, reducing Underlying EBIT for Cerro Matoso by US\$46 million.

Price-linked cost reductions increased Underlying EBIT by US\$6 million during the period. Reductions in price-linked costs at a number of South32 Businesses totalling US\$68 million that increased Underlying EBIT were offset by higher costs at other South32 Businesses. Australia Manganese suffered the largest increase in price-linked costs with a reduction in Underlying EBIT of US\$41 million, followed by South Africa Energy Coal (US\$10 million) and South Africa Aluminium (US\$10 million).

(C) Operating cash costs

A broad-based improvement in productivity underpinned a decrease in operating cash costs of US\$243 million during FY2014. The improvement in Underlying EBIT was most pronounced at South Africa Aluminium (US\$142 million), Illawarra Metallurgical Coal (US\$58 million) and South Africa Energy Coal (US\$53 million). The reduced cost was primarily for labour, maintenance and consumables.

(D) Exchange rates

A stronger US dollar increased Underlying EBIT by US\$602 million in FY2014. The benefit to Underlying EBIT was most pronounced in the South African South32 Businesses, with the benefits at South Africa Manganese and South Africa Energy Coal being US\$108 million each. Average and closing exchange rates for FY2014 and FY2013 are set out in Section 11.2(b).

(E) Inflation on costs

Inflation had an unfavourable impact on all South32 Businesses and reduced Underlying EBIT by US\$229 million during FY2014. This was most notable in South Africa and Australia, where the impact on Underlying EBIT was US\$126 million and US\$71 million, respectively.

(F) Non-cash costs

A reduction in non-cash costs increased Underlying EBIT by US\$13 million during the period.

(G) Other

Other items increased Underlying EBIT by US\$21 million.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

(A) Volumes

Higher volumes through productivity efficiencies at a number of South32 Businesses increased Underlying EBIT in FY2013 by US\$141 million, primarily at Illawarra Metallurgical Coal (US\$100 million), Australia Manganese (US\$15 million) and Cerro Matoso (US\$14 million). This was offset by lower volumes at other South32 Businesses, primarily at Cannington (US\$112 million). Overall the impact of volumes on Underlying EBIT was an increase of US\$5 million.

(B) Prices

Lower average sale prices for most commodities reduced Underlying EBIT by US\$1,354 million in FY2013.

The decreases were across all South32 Businesses except Australia Manganese and South Africa Manganese where realised prices for manganese ore in FY2013 were higher than FY2012, which increased Underlying EBIT by US\$96 million.

For Illawarra Metallurgical Coal, there was a 35 per cent decline in the average realised price of coking coal to US\$167 per tonne, which reduced Underlying EBIT by US\$657 million.

For South Africa Coal, there was a 23 per cent decline in the average realised price of export energy coal to US\$75 per tonne, which reduced Underlying EBIT by US\$366 million.

For Cerro Matoso, there was a 15 per cent decline in the average realised price of nickel metal to US\$15,442 per tonne, which reduced Underlying EBIT by US\$133 million.

For Worsley Alumina, there was a nine per cent decline in the average realised price of alumina to US\$307 per tonne, which reduced Underlying EBIT by US\$90 million.

Lower realised prices for aluminium at South Africa Aluminium (decrease of seven per cent to US\$2,154 per tonne) and Mozal Aluminium (decrease of two per cent to US\$2,318 per tonne) resulted in a reduction in Underlying EBIT for South Africa Aluminium and Mozal Aluminium of US\$47 million and US\$42 million, respectively.

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For Cannington, lower average realised prices for silver, which fell 13 per cent to US\$27 per ounce, along with a small decrease in zinc prices, were offset by an eight per cent increase in lead prices, resulting in a US\$114 million decrease in Underlying EBIT.

Price-linked costs increased Underlying EBIT by US\$116 million during the period. Reductions in price-linked costs at a number of South32 Businesses totalling US\$145 million, primarily South Africa Aluminium (US\$77 million), Illawarra Metallurgical Coal (US\$31 million), Mozal Aluminium (US\$16 million) and Cerro Matoso (US\$16 million) increased Underlying EBIT. The increase in Underlying EBIT was offset by higher price-linked costs at Australia Manganese and South Africa Manganese totalling US\$29 million.

(C) Operating cash costs

Improvement in productivity at a number of South32 Businesses underpinned a decrease in operating cash costs of US\$256 million during FY2013. The improvement in Underlying EBIT was most pronounced at Worsley Alumina (US\$182 million), Australia Manganese (US\$96 million) and Illawarra Metallurgical Coal (US\$58 million) offset by higher costs at other South32 Businesses, primarily South Africa Aluminium (US\$46 million) and Cerro Matoso (US\$34 million). The reduced cost was primarily for contractor labour.

(D) Exchange rates

The US dollar had little impact on Australian dollar and Colombian peso costs in FY2013 whereas a stronger US dollar against the South African rand and Brazilian real resulted in an increase in Underlying EBIT of US\$334 million in FY2013. The benefit to Underlying EBIT was most pronounced in the South African South32 Businesses, with benefits at South Africa Manganese (US\$106 million), South Africa Energy Coal (US\$86 million) and South Africa Aluminium (US\$61 million). Average and closing exchange rates for FY2013 and FY2012 are set out in Section 11.2(b).

(E) Inflation on costs

Inflation had an unfavourable impact on almost all South32 Businesses and reduced Underlying EBIT by US\$228 million during FY2013. This was most notable in South Africa and Australia, where the impact on Underlying EBIT was US\$135 million and US\$67 million respectively.

(F) Non-cash costs

A reduction in non-cash costs increased Underlying EBIT by US\$86 million during the period.

(G) Other

Other items increased Underlying EBIT by US\$13 million.

(b) Net finance costs

South32's financing in historical periods was primarily provided on an intercompany basis by BHP Billiton. The analysis below is based on the historical combined financial information.

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Net finance costs decreased to US\$37 million from US\$108 million in H1 FY2015 compared to H1 FY2014. After excluding net finance costs associated with BHP Billiton centrally managed borrowings, net finance costs in H1 FY2015 were US\$2 million income compared to US\$64 million expense in H1 FY2014.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Net finance costs increased to US\$352 million from US\$133 million in the corresponding period.

After excluding net finance costs associated with BHP Billiton centrally managed borrowings, net finance costs in FY2014 were US\$262 million compared to US\$127 million in FY2013. This was primarily attributable to exchange rate variations on net debt, increasing from a US\$16 million exchange gain in FY2013 to a US\$40 million exchange loss in FY2014, additional interest on finance leases of US\$32 million and a US\$40 million increase in interest expense on borrowings other than bank loans.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Net finance costs increased to US\$133 million in FY2013 from US\$42 million in the corresponding period. After excluding net finance costs associated with BHP Billiton centrally managed borrowings, net finance costs in FY2013 were US\$127 million compared to US\$84 million in FY2012. Interest paid on a number of borrowings were higher in FY2013; however, there was no interest capitalised as compared to FY2012 when US\$82 million was capitalised for the Worsley Alumina expansion project.

(c) Taxation expense

The effective tax rates presented for the historical periods are based on BHP Billiton's structure and may not reflect South32's tax rate post Demerger. The tax rates set out in the historical combined financial information have been impacted by items outside the ordinary course of business. The table below presents the reconciliation between the statutory effective tax rate and the adjusted effective tax rate which is not an IFRS measure:

Table of Contents**Table 11.13: Adjusted effective tax rate**

| | H1 FY2015 | | | FY2014 | | | FY2013 | | | FY2012 | | |
|---|--------------------------------|-----------------------|------|--------------------------------|-----------------------|------|--------------------------------|-----------------------|--------|--------------------------------|-----------------------|------|
| | Profit/(Loss) before tax | Income tax expense | % | Profit/(Loss) before tax | Income tax expense | % | Profit/(Loss) before tax | Income tax expense | % | Profit/(Loss) before tax | Income tax expense | % |
| | US\$M | US\$M | | US\$M | US\$M | | US\$M | US\$M | | US\$M | US\$M | |
| Statutory effective tax rate | 1,214 | (476) | 39.2 | 422 | (205) | 48.6 | (1,096) | (208) | (19.0) | 2,018 | (585) | 29.0 |
| Less: | | | | | | | | | | | | |
| Amounts excluded from net finance costs | (66) | 20 | | 130 | (39) | | (10) | 3 | | (86) | 26 | |
| Amounts excluded from Underlying EBIT | (451) | 27 | | 296 | (21) | | 2,117 | (528) | | (134) | 48 | |
| Exchange rate movements | | 155 | | | 4 | | | 84 | | | 123 | |
| Remeasurement of deferred tax assets associated with the MRRT | | 111 | | | | | | 142 | | | (196) | |
| Non-recognition of tax benefits where tax benefit remains with BHP Billiton | | | | | 27 | | | 251 | | | 44 | |
| Adjusted effective tax rate | 697 | (163) | 23.4 | 848 | (234) | 27.6 | 1,011 | (256) | 25.3 | 1,798 | (540) | 30.0 |

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(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Total taxation expense, including royalty-related taxation, the tax impacts of amounts excluded from Underlying EBIT and exchange rate movements, was US\$476 million, representing an effective tax rate of 39.2 per cent.

The remeasurement of deferred tax assets associated with the MRRT impacted taxation expense by US\$111 million in H1 FY2015.

South32's adjusted effective tax rate, which excludes the influence of exchange rate movements, remeasurements of deferred tax assets associated with the MRRT, non-recognition of tax benefits when the tax benefit remains with BHP Billiton, the tax impact of earnings adjustments to net finance costs and the tax impacts of amounts excluded from Underlying EBIT, was 23.4 per cent.

Adjusted effective tax rate is not an IFRS measure and is reconciled to the statutory effective tax rate in Table 11.13.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Total taxation expense, including royalty-related taxation, the tax impacts of amounts excluded from Underlying EBIT and exchange rate movements, was US\$205 million, representing an effective tax rate of 48.6 per cent (FY2013: negative 19.0 per cent).

The remeasurement of deferred tax assets associated with the MRRT had no impact on taxation expense in FY2014 (FY2013: increase of US\$142 million). Royalty-related MRRT credits in Illawarra Metallurgical Coal decreased taxation expense by US\$40 million in FY2014 (FY2013: US\$nil).

South32's adjusted effective tax rate, which excludes the influence of exchange rate movements, remeasurements of deferred tax assets associated with the MRRT, non-recognition of tax benefits when the tax benefit remains with BHP Billiton, the tax impact of earnings adjustments to net finance costs and the tax impacts of amounts excluded from Underlying EBIT, was 27.6 per cent (FY2013: 25.3 per cent).

Other royalty and excise arrangements that are not profit-based are recognised as operating costs within profit/(loss) before taxation. These amounted to US\$348 million during the period (FY2013: US\$383 million).

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Total taxation expense, including royalty-related taxation, the tax impacts of amounts excluded from Underlying EBIT and exchange rate movements, was US\$208 million, representing an effective tax rate of negative 19.0 per cent (FY2012: 29.0 per cent).

The MRRT increased taxation expense by US\$142 million in FY2013 due to de-recognition of the tax base for MRRT purposes in Illawarra Metallurgical Coal (FY2012: decrease of US\$196 million).

South32's adjusted effective tax rate, which excludes the influence of exchange rate movements, remeasurements of deferred tax assets associated with MRRT, non-recognition of tax benefits when the tax benefit remains with BHP Billiton, the tax impact of earnings adjustments to net finance costs and the tax impacts of amounts excluded from Underlying EBIT, was 25.3 per cent (FY2012: 30.0 per cent).

Other royalty and excise arrangements that are not profit-based are recognised as operating costs within profit/(loss) before taxation. These amounted to US\$383 million during the period (FY2012: US\$413 million).

(d) Earnings adjustments

Earnings adjustments are excluded from Underlying EBIT and Underlying Earnings in order to enhance the comparability from period to period of, and provide clarity into, the underlying performance of South32's operations.

Table of Contents**Table 11.14: Earnings adjustments**

| US\$M | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|-------------|-------------|-------------------------|--------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Earnings adjustments to Underlying EBIT | | | | | |
| Exchange gains on restatement of monetary items | (82) | (47) | (68) | (97) | (100) |
| Impairment losses | | | 327 | 2,225 | 108 |
| Impairment reversals | | (2) | (8) | (15) | |
| Fair value (gain)/loss on derivative instruments | (5) | 16 | 2 | 16 | (122) |
| Dividends received from BHP Billiton | (364) | (11) | (11) | (12) | (20) |
| Other: | | | | | |
| Bayside closure costs | | | | | |
| (excluding impairments) | | | 138 | | |
| Gain on sale of Optimum coal rights | | | (84) | | |
| Total earnings adjustments to Underlying EBIT | (451) | (44) | 296 | 2,117 | (134) |
| Earnings adjustments to net finance costs | | | | | |
| Exchange variations on net debt | (105) | (1) | 40 | (16) | (44) |
| Interest on borrowings from BHP Billiton | 64 | 61 | 115 | 108 | 76 |
| Interest income on loans to BHP Billiton | (25) | (17) | (25) | (102) | (118) |
| Total earnings adjustments to net finance costs | (66) | 43 | 130 | (10) | (86) |
| Earnings adjustments to income tax expense | | | | | |
| Tax effect of earnings adjustments to Underlying EBIT | 27 | 8 | (21) | (528) | 48 |
| Tax effect of earnings adjustments to net finance costs | 20 | (13) | (39) | 3 | 26 |
| Exchange rate movements | 155 | 3 | 4 | 84 | 123 |
| Remeasurement of deferred tax assets associated with the MRRT | 111 | (25) | | 142 | (196) |
| Non-recognition of tax benefits where benefit remains with BHP Billiton | | 39 | 27 | 251 | 44 |
| Total earnings adjustments to income tax expense | 313 | 12 | (29) | (48) | 45 |
| Total earnings adjustments | (204) | 11 | 397 | 2,059 | (175) |

(1) Exchange gains on restatement of monetary items

South32's functional and reporting currency is US dollars. 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.

(2) Impairment losses and impairment reversals

There were no impairments or impairment reversals recorded in H1 FY2015.

Total impairment losses in FY2014 were US\$327 million. This primarily related to impairments at South Africa Energy Coal where impairments of property, plant and equipment of US\$244 million and of goodwill of US\$48 million were recognised as a result of royalty legislation changes, a decline in export prices, a required five per cent rail allocation to Junior BBBEE miners and increased geologic loss.

Total impairment losses in FY2013 were US\$2,225 million. This primarily related to an impairment of assets at Worsley Alumina of US\$2,190 million as a result of expected continued strength in the Australian dollar and weak alumina prices.

Total impairments in FY2012 were US\$108 million. This arose primarily as part of BHP Billiton's regular portfolio review, as a result of which production at TEMCO was temporarily suspended, Metalloys South Plant was permanently closed and the Samancor Manganese Gabon project was terminated. As a result, impairment charges of US\$93 million were recognised.

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(3) 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.

(4) Bayside closure

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

(5) Optimum coal rights

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

(6) Dividends received from BHP Billiton Group companies

Dividends received from BHP Billiton Group companies are excluded from Underlying Earnings because these amounts will not continue following the Demerger.

(7) Earnings adjustments to net finance costs

Exchange variations on net debt are excluded from Underlying Earnings, consistent with exchange variations included in profit from operations.

Interest expense on borrowings from BHP Billiton Group companies and interest income on loans to BHP Billiton Group companies are excluded from Underlying Earnings because these amounts will not continue following the Demerger.

(8) 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 costs. Exchange rate movements relate to the impact on income tax expense for companies in the South32 Group where the functional currency for taxation purposes is not US dollars. As a result, exchange gains and losses are calculated differently for accounting and tax purposes. Remeasurement of deferred tax assets associated with the MRRT is excluded because the tax has been repealed. Additional tax expense arising where the tax benefit of losses remains with BHP Billiton has been excluded from Underlying Earnings because these amounts will not continue following the Demerger.

11.6 BUSINESS PERFORMANCE

The following tables provide a summary of revenue and Underlying EBIT for H1 FY2015, H1 FY2014, FY2014, FY2013 and FY2012 of the South32 Businesses. The use of Underlying EBIT is explained in Section 11.3.

Table 11.15: Revenue contribution by Business

| US\$M | 6 months ended December | | 12 months ended June | | |
|------------------------------|----------------------------|--------------|-------------------------|---------------|---------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | | | | | |
| Worsley Alumina | 651 | 565 | 1,229 | 1,130 | 992 |
| South Africa Aluminium | 823 | 796 | 1,614 | 1,663 | 1,646 |
| Mozal Aluminium | 340 | 291 | 574 | 612 | 629 |
| Brazil Aluminium | 268 | 266 | 529 | 637 | 660 |
| South Africa Energy Coal | 683 | 639 | 1,247 | 1,458 | 1,894 |
| Illawarra Metallurgical Coal | 425 | 410 | 878 | 1,287 | 1,701 |
| Australia Manganese | 566 | 677 | 1,308 | 1,257 | 1,204 |
| South Africa Manganese | 386 | 350 | 788 | 856 | 932 |
| Cerro Matoso | 340 | 315 | 595 | 803 | 876 |
| Cannington | 486 | 605 | 1,079 | 1,365 | 1,590 |
| Third party products | 404 | 776 | 1,262 | 1,663 | 2,359 |
| Intersegment revenue | (332) | (342) | (659) | (638) | (648) |
| South32 Group | 5,040 | 5,348 | 10,444 | 12,093 | 13,835 |

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| US\$M | 6 months ended December | | | 12 months ended June | |
|------------------------------|----------------------------|------------|--------------|-------------------------|--------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Underlying EBIT | | | | | |
| Worsley Alumina | 67 | 45 | 24 | (115) | (194) |
| South Africa Aluminium | 167 | 48 | 121 | 1 | (83) |
| Mozal Aluminium | 70 | (1) | 16 | (3) | 18 |
| Brazil Aluminium | 101 | (7) | 44 | (40) | (80) |
| South Africa Energy Coal | (9) | (44) | 4 | (96) | 226 |
| Illawarra Metallurgical Coal | 20 | (8) | (35) | 154 | 659 |
| Australia Manganese | 162 | 216 | 414 | 436 | 282 |
| South Africa Manganese | 26 | (9) | 48 | 58 | (51) |
| Cerro Matoso | 86 | 1 | (1) | 155 | 337 |
| Cannington | 154 | 251 | 413 | 611 | 840 |
| Third party products | 30 | 28 | 29 | 63 | 94 |
| Group and unallocated items | (74) | (10) | (7) | (70) | (122) |
| South32 Group | 800 | 510 | 1,070 | 1,154 | 1,926 |

(a) Worsley Alumina**Table 11.17: Worsley Alumina financial information**

| US\$M, unless otherwise stated | 6 months ended December | | | 12 months ended June | |
|--------------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 651 | 565 | 1,229 | 1,130 | 992 |
| Underlying EBITDA | 143 | 108 | 162 | 60 | (67) |
| Underlying EBIT | 67 | 45 | 24 | (115) | (194) |
| Capital expenditure | 27 | 22 | 56 | 154 | 900 |
| Net operating assets | 3,413 | 2,862 | 3,418 | 2,868 | 5,105 |
| Production alumina (kt) | 1,953 | 1,970 | 3,916 | 3,675 | 2,917 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Alumina production decreased by one per cent to 1,953 kt for H1 FY2015.

Revenue in H1 FY2015 was US\$651 million, an increase of US\$86 million, or 15 per cent, from US\$565 million in the corresponding period. The increase in revenue at Worsley Alumina was primarily due to higher realised prices, which contributed to an additional increase of US\$59 million. During the period, the average realised price of alumina increased by 10 per cent to US\$335 per tonne.

Underlying EBITDA for H1 FY2015 increased by US\$35 million to US\$143 million. Movements in finished goods inventory at the Alumina refinery contributed to a reduction in Underlying EBITDA of US\$44 million. This was offset by the impact of a stronger US dollar against the Australian dollar, which increased Underlying EBITDA by US\$12 million.

Underlying EBIT for H1 FY2015 was US\$67 million, an increase of US\$22 million from the corresponding period. An increased fixed asset base at H1 2015 contributed to a US\$13 million increase in depreciation expense and non-cash costs, compared with the corresponding period.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Alumina production in FY2014 increased by seven per cent to a record 3,916 kt. An expansion project at Worsley Alumina, which commenced in FY2008 to increase the capacity of the refinery from 3.5 Mtpa to 4.6 Mtpa (100 per cent) of alumina, reached nominal capacity during the year, resulting in the annual production record.

Revenue in FY2014 was US\$1,229 million, an increase of US\$99 million, or nine per cent, from US\$1,130 million in the corresponding period. The increase in revenue at Worsley Alumina was primarily due to the increase in volume noted above, which contributed to an increase in revenue of US\$55 million, and to higher realised prices, which contributed to an additional increase of US\$55 million. Following the revision of pricing terms during the period, the average price of alumina increased by four per cent to US\$318 per tonne.

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Underlying EBITDA for FY2014 increased by US\$102 million to US\$162 million. The increase in production noted above resulted in an increase of US\$58 million in volume-related costs, with a net volume-related decrease in Underlying EBITDA of US\$3 million. A reduction in consumable costs and equipment debottlenecking (improving supply chain and processing efficiency and increasing the capacity of the refinery) contributed to the US\$8 million of productivity cost efficiencies achieved during the period. A stronger US dollar against the Australian dollar increased Underlying EBITDA by a further US\$79 million. In contrast, increases in costs attributable to inflation were US\$25 million.

Underlying EBIT for FY2014 was US\$24 million, an increase of US\$139 million from the corresponding period. Non-cash costs contributed US\$56 million in cost efficiencies, which was driven by lower depreciation expenses following impairments recognised in the corresponding period.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Alumina production increased by 26 per cent in FY2013 to 3,675 kt, underpinned by the ramp up of the expansion project.

Revenue in FY2013 was US\$1,130 million, an increase of US\$138 million, or 14 per cent, from US\$992 million in the corresponding period. The increase in revenue at Worsley Alumina was primarily due to the increase in volume noted above, which contributed to an increase in revenue of US\$237 million. In contrast, weaker markets continued to challenge the business with a nine per cent decline in average realised price of alumina to US\$307 per tonne, which reduced revenue by US\$90 million.

Underlying EBITDA for FY2013 increased by US\$127 million to US\$60 million. Volume related costs increased by US\$242 million in FY2013 in line with productivity movements noted above, with a net volume related decrease in Underlying EBITDA of US\$5 million. Productivity improvements enabled substantial savings in operating cash costs of US\$182 million to be achieved during the period, partially offset by the negative impact of inflation on costs which decreased Underlying EBITDA by US\$21 million.

Underlying EBIT for FY2013 was a loss of US\$115 million, a decrease of US\$79 million from the corresponding period. Non-cash costs contributed US\$16 million to the decrease in Underlying EBIT, which was driven by higher depreciation expenses following the completion of the Efficiency and Growth project.

(b) South Africa Aluminium**Table 11.18: South Africa Aluminium financial information**

| US\$M, unless otherwise stated | 6 months ended December | | | 12 months ended June | |
|--------------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 823 | 796 | 1,614 | 1,663 | 1,646 |
| Underlying EBITDA | 201 | 84 | 190 | 73 | (10) |
| Underlying EBIT | 167 | 48 | 121 | 1 | (83) |
| Capital expenditure | 10 | 7 | 28 | 17 | 14 |

| | | | | | | |
|---------------------------|--|-------|-------|-------|-------|-------|
| Net operating assets | | 1,195 | 1,399 | 1,195 | 1,382 | 1,528 |
| Production Aluminium (kt) | | 356 | 415 | 804 | 761 | 719 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Aluminium production at South Africa Aluminium decreased by 59 kt or 14 per cent to 356 kt in H1 FY2015.

Revenue in H1 FY2015 was US\$823 million, an increase of US\$27 million or three per cent from the prior period. The primary driver of this increase was the rise in realised prices of aluminium, which rose 18 per cent to US\$2,338 per tonne, resulting in a US\$121 million increase in revenue. This was offset by a US\$99 million decrease in revenue following the cessation of smelting activities at Bayside in June 2014.

Underlying EBITDA increased by US\$117 million in H1 FY2015 to US\$201 million. The reduction in operating cash costs related to the cessation of smelting activities at Bayside was US\$113 million, resulting in a net increase to Underlying EBITDA of US\$14 million. The weakening South African rand against the US dollar resulted in a positive impact to Underlying EBITDA of US\$18 million due to local currency costs. This was offset by an increase in structural operating-related costs, raw materials, labour and price-linked costs of US\$48 million.

Underlying EBIT increased by US\$119 million in H1 FY2015 to US\$167 million, in line with movements noted in Underlying EBITDA.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Aluminium production in FY2014 increased by 43 kt or six per cent to 804 kt, with Hillside reaching a new production record of 715 kt. This was partially offset by reduced volumes at Bayside, which fell seven per cent to 89 kt in FY2014.

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Revenue in FY2014 was US\$1,614 million, a decrease of US\$49 million or three per cent from the prior period. The increase in production volumes contributed to a US\$93 million increase to revenue. This was offset by the fall in realised aluminium prices, which fell seven per cent to US\$2,007 per tonne and resulted in a US\$79 million reduction in revenue.

Underlying EBITDA increased by US\$117 million in FY2014 to US\$190 million. Volume-related cost variances at Hillside and Bayside were US\$91 million, resulting in a net volume-related increase to Underlying EBITDA of US\$2 million. Efficiencies gained in electricity consumption and maintenance activities resulted in US\$142 million of operating cash cost savings and consequent increase to Underlying EBITDA. The impact of inflationary pressures on operating costs was a reduction to Underlying EBITDA of US\$22 million. The weakening South African rand against the US dollar resulted in a positive impact to Underlying EBITDA of US\$53 million due to local currency costs.

Underlying EBIT increased by US\$120 million in FY2014 to US\$121 million, in line with movements noted in Underlying EBITDA.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

The increased availability of pots in production in FY2013 contributed to a 42 kt increase in total production at Hillside and Bayside for the period.

Revenue in FY2013 was US\$1,663 million, an increase of US\$17 million from FY2012. The volume-related impact to revenue was an increase of US\$78 million. This was more than offset by the decrease in realised aluminium prices, which fell seven per cent to US\$2,154 per tonne, resulting in a US\$47 million reduction to revenue.

Underlying EBITDA increased by US\$83 million to US\$73 million in FY2013. The volume-related cost impact was an increase of US\$75 million resulting in a net volume-related increase in Underlying EBITDA of US\$3 million. Cost efficiencies noted in operating cash costs were offset by increased expenditure relating to maintenance of the processing plant, resulting in a net decrease to Underlying EBITDA of US\$46 million. Price-linked costs resulted in an increase to Underlying EBITDA of US\$77 million due to the decrease in the cost of alumina. Inflation in South Africa and the United States resulted in a reduction to Underlying EBITDA of US\$31 million. The weakening South African rand against the US dollar resulted in a US\$61 million favourable impact on local currency costs and increase to Underlying EBITDA.

Underlying EBIT increased by US\$84 million from FY2012, in line with movements in Underlying EBITDA.

(c) Mozal Aluminium**Table 11.19: Mozal Aluminium financial information**

| US\$M, unless otherwise stated | 6 months ended December | | | 12 months ended June | |
|--------------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 340 | 291 | 574 | 612 | 629 |
| Underlying EBITDA | 88 | 17 | 52 | 31 | 51 |

| | | | | | |
|---------------------------|-----|-----|-----|-----|-----|
| Underlying EBIT | 70 | (1) | 16 | (3) | 18 |
| Capital expenditure | 5 | 3 | 8 | 7 | 9 |
| Net operating assets | 628 | 634 | 627 | 669 | 777 |
| Production aluminium (kt) | 135 | 134 | 266 | 264 | 264 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Aluminium production remained fairly consistent at 135 kt over the period.

Revenue increased by US\$49 million in H1 FY2015 to US\$340 million, primarily driven by the impact of higher realised prices. Realised prices for aluminium increased by 21 per cent to US\$2,482 per tonne, which resulted in a US\$45 million increase in revenue.

Underlying EBITDA increased by US\$71 million from US\$17 million in H1 FY2014 to US\$88 million in H1 FY2015. The impact of higher realised prices noted above was offset by a US\$5 million increase in price-linked costs, relating to the cost of alumina. The focus on productivity improvements contributed to operating cost efficiencies of US\$31 million. Operating costs are subject to the impact of inflation on US dollar, South African rand and Mozambique metical denominated costs, which resulted in a reduction to Underlying EBITDA of US\$6 million. This was offset by the strength of the US dollar against both the South African rand and Mozambique metical contributing to a US\$6 million increase to Underlying EBITDA on the translation of local currency operating costs.

Underlying EBIT increased by US\$71 million from a loss of US\$1 million in H1 FY2014 to US\$70 million in H1 FY2015 in line with movements in Underlying EBITDA.

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Aluminium production remained fairly consistent at 266 kt over the period.

Revenue decreased by US\$38 million in FY2014 to US\$574 million, primarily driven by the impact of lower realised prices. Realised prices for aluminium decreased by 10 per cent to US\$2,080 per tonne, which resulted in a US\$24 million reduction in revenue.

Underlying EBITDA increased by US\$21 million from US\$31 million in FY2013 to US\$52 million in FY2014. The impact of lower realised prices noted above was offset by a US\$13 million saving in price-linked costs, relating to the cost of alumina. The focus on productivity improvements contributed to cost efficiencies of US\$15 million. Operating costs are subject to the impact of inflation on US dollar, South African rand and Mozambique metical denominated costs, which resulted in a reduction to Underlying EBITDA of US\$13 million. The strength of the US dollar against both the South African rand and Mozambique metical contributed to a US\$30 million increase to Underlying EBITDA on the translation of operating costs.

Underlying EBIT increased by US\$19 million from a loss of US\$3 million in FY2013 to US\$16 million in FY2014 in line with movements in Underlying EBITDA.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Aluminium production at Mozal Aluminium in FY2013 remained unchanged with production of 264 kt.

Revenue in FY2013 was US\$612 million, a decrease of US\$17 million from FY2012. Realised prices for aluminium fell two per cent to US\$2,318 per tonne in FY2013, which resulted in a US\$26 million decrease to revenue, net of price-linked costs.

Underlying EBITDA decreased by US\$20 million to US\$31 million in FY2013. Increased maintenance and electricity costs contributed to higher operating cash costs of US\$11 million and the impact of US, Mozambique and South African inflation further decreased Underlying EBITDA by US\$12 million. The weakening Mozambique metical and South African rand against the US dollar contributed to a US\$25 million increase to Underlying EBITDA.

Underlying EBIT decreased by US\$21 million to a loss of US\$3 million in FY2013 due to the decrease in Underlying EBITDA.

(d) Brazil Aluminium**Table 11.20: Brazil Aluminium financial information**

| US\$M, unless otherwise stated | 6 months ended December | | | 12 months ended June | |
|--------------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 268 | 266 | 529 | 637 | 660 |
| Underlying EBITDA | 140 | 35 | 127 | 44 | 3 |
| Underlying EBIT | 101 | (7) | 44 | (40) | (80) |

| | | | | | |
|---------------------------|-----|-------|-------|-------|-------|
| Capital expenditure | 5 | 7 | 9 | 6 | 12 |
| Net operating assets | 938 | 1,010 | 968 | 1,031 | 1,144 |
| Production alumina (kt) | 680 | 633 | 1,262 | 1,205 | 1,235 |
| Production aluminium (kt) | 26 | 63 | 104 | 154 | 170 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Alumina production at Brazil Aluminium increased by seven per cent in H1 FY2015 to 680 kt. In contrast, aluminium production decreased by 59 per cent to 26 kt in H1 FY2015, driven by the decision to keep potlines II and III curtailed following the suspension of production at June 2014.

Revenue increased by US\$2 million to US\$268 million in H1 FY2015. Volume-related variances arising from the production results noted above, contributed to a US\$34 million reduction in revenue. Realised prices for aluminium and alumina rose 20 per cent to US\$2,360 per tonne and 10 per cent to US\$323 per tonne respectively in H1 FY2015. The net impact of movements in realised prices year on year was a US\$34 million increase in revenue.

Underlying EBITDA increased by US\$105 million to US\$140 million in H1 FY2015 from US\$35 million in H1 FY2014. Volume-related savings in operating costs were US\$49 million, with a net volume-related increase in Underlying EBITDA of US\$15 million. The impact of inflation on operating costs against both the US dollar and the Brazil real resulted in a decrease to Underlying EBITDA of US\$12 million. This was offset by the strengthening US dollar against the Brazil real which contributed to a US\$22 million increase to Underlying EBITDA. The continued suspension of production from potlines II and III resulted in excess contracted power which was subsequently sold in the market at a positive margin, increasing Underlying EBITDA by US\$90 million.

Underlying EBIT increased by US\$108 million to US\$101 million in H1 FY2015, in line with movements in Underlying EBITDA.

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Alumina production reached annual production records in FY2014, increasing by five per cent to 1,262 kt. This was achieved through faster turnarounds during planned maintenance and structural improvements made to the plant equipment. In contrast, aluminium production decreased by 32 per cent to 104 kt in FY2014, driven by the decision to suspend production from potlines II and III due to challenging market conditions in primary aluminium and increased costs.

Revenue decreased by US\$108 million to US\$529 million in FY2014. Volume-related variances driven by production results noted above, contributed to a US\$77 million reduction in revenue. Realised prices for aluminium fell three per cent to US\$2,000 per tonne in FY2014. Alumina prices rose one per cent to US\$300 per tonne in FY2014. The net impact of movements in realised prices year on year was a US\$17 million reduction in revenue.

Underlying EBITDA increased by US\$83 million to US\$127 million in FY2014 from US\$44 million in FY2013. Volume-related savings in operating costs were US\$94 million, with a net volume-related increase in Underlying EBITDA of US\$17 million. The impact of inflation on operating costs against both the US dollar and the Brazil real resulted in a decrease to Underlying EBITDA of US\$11 million. This was offset by the strengthening US dollar against the Brazil real which contributed to a US\$8 million increase to Underlying EBITDA. The suspension of production from potlines II and III resulted in excess contracted power which was subsequently sold in the market at a positive margin, increasing EBITDA by US\$89 million.

Underlying EBIT increased by US\$84 million to US\$44 million in FY2014 in line with movements in Underlying EBITDA.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Aluminium production was reduced in FY2013 in an effort to reduce operational costs. This led to a decrease of nine per cent to 154 kt. Alumina production fell two per cent to 1,205 kt due to the high number of power sags.

Revenue fell US\$23 million or three per cent to US\$637 million in FY2013. The impact to revenue on the decrease in volumes was US\$44 million. Aluminium prices fell eight per cent to US\$2,061 per tonne, with alumina prices falling nine per cent to US\$296 per tonne, contributing to an overall decrease to revenue of US\$13 million.

Underlying EBITDA increased by US\$41 million to US\$44 million in FY2013. Volume-related cost savings due to lower sales volumes were US\$25 million with a net volume-related decrease in Underlying EBITDA of US\$19 million. Productivity improvements continued to advance in FY2013 leading to the achievement of cost savings of US\$22 million, while a stronger US dollar increased Underlying EBITDA by US\$34 million. In contrast, the impact of inflation resulted in a reduction to Underlying EBITDA of US\$18 million. Excess electricity from reduced production was sold in the market at a premium, resulting in an increase to Underlying EBITDA of US\$32 million.

Underlying EBIT increased by US\$40 million to a loss of US\$40 million in FY2013 in line with movements in Underlying EBITDA.

(e) South Africa Energy Coal**Table 11.21: South Africa Energy Coal financial information**

| US\$M, unless otherwise stated | 6 months ended December | | 12 months ended June | | |
|--------------------------------|----------------------------|-----------|-------------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 683 | 639 | 1,247 | 1,458 | 1,894 |
| Underlying EBITDA | 83 | 54 | 197 | 115 | 416 |
| Underlying EBIT | (9) | (44) | 4 | (96) | 226 |
| Capital expenditure | 58 | 22 | 65 | 133 | 162 |
| Net operating assets | 1,014 | 1,313 | 989 | 1,334 | 1,425 |
| Production energy coal (kt) | 16,525 | 14,973 | 30,384 | 31,627 | 33,279 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Energy coal production of 16,525 kt for H1 FY2015 was a 10 per cent increase from the corresponding period, as a direct result of yield gains from improved plant availability.

Revenue in H1 FY2015 was US\$683 million, an increase of US\$44 million or seven per cent from the prior period. Higher production volumes noted above contributed to a US\$98 million increase in revenue. This was offset by a decrease in average realised export prices for thermal coal, resulting in a US\$32 million decrease in revenue, inclusive of price-linked costs. Realised export thermal coal prices fell 13 per cent to US\$60 per tonne while the average realised domestic price increased from US\$22 per tonne in H1 FY2014 to US\$23 per tonne in H1 FY2015. A stronger US dollar against the South African rand contributed to a US\$18 million decrease in domestic local currency-based revenue.

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Underlying EBITDA increased by US\$29 million to US\$83 million in H1 FY2015. The impact of the increase in sales volumes on operational costs was US\$90 million, resulting in a net volume-related increase in Underlying EBITDA of US\$8 million. A reduction in labour and contractor head count contributed to cost savings and an increase in Underlying EBITDA of US\$47 million. These savings were offset by a US\$42 million reduction in Underlying EBITDA due to the impact of inventory movements on mining-related costs. Inflationary pressures in South Africa increased operating costs and reduced Underlying EBITDA by US\$36 million. This was partially offset by the benefit of translation of local currency operating costs which contributed to an increase to Underlying EBITDA of US\$32 million.

Underlying EBIT increased by US\$35 million to a loss of US\$9 million in H1 FY2015, in line with movements in Underlying EBITDA noted above.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Energy coal production of 30,384 kt for FY2014 was a four per cent decrease from the prior period as a direct result of extended outages at both a local utility and the Richards Bay Coal Terminal.

Revenue in FY2014 was US\$1,247 million, a reduction of US\$211 million or 14 per cent from the prior period. Lower production volumes noted above contributed to a US\$82 million reduction in revenue. A decrease in average realised prices for thermal coal resulted in a US\$47 million decrease in revenue. Realised export thermal coal prices fell 12 per cent to US\$66 per tonne due to a combination of market conditions and a higher weighting of lower quality coal sales for FY2014 compared to FY2013. The average domestic price realised decreased from US\$23 per tonne in FY2013 to US\$22 per tonne in FY2014. A stronger US dollar against the South African rand contributed to a US\$73 million decrease in domestic local currency-based revenue.

Underlying EBITDA increased by US\$82 million to US\$197 million in FY2014. The impact of the reduction in sales volumes on operational costs was US\$116 million, resulting in a net volume-related increase in Underlying EBITDA of US\$34 million. A reduction in labour, contractor and maintenance costs resulted in cost efficiencies and an increase to Underlying EBITDA of US\$53 million. Inflationary pressures in South Africa increased operating costs and reduced Underlying EBITDA by US\$65 million. This was more than offset by exchange gains realised on the translation of operating costs, which contributed to an increase to Underlying EBITDA of US\$182 million.

Underlying EBIT increased by US\$100 million to US\$4 million in FY2014, in line with movements in Underlying EBITDA noted above.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Energy coal production decreased by five per cent to 31,627 kt in FY2013 due to the depletion of Block A at Khutala in July 2012 and the impact of challenging geological and mining conditions at Wolvekrans mine.

Revenue in FY2013 was US\$1,458 million, a reduction of US\$436 million or 23 per cent from FY2012. Volume-related variances contributed to a US\$53 million reduction in revenue. Realised export and domestic thermal coal prices fell during FY2013, resulting in a US\$366 million decrease in revenue. The translation of domestic local currency revenue into US dollars, resulted in an unfavourable reduction to revenue of US\$59 million.

Underlying EBITDA decreased by US\$301 million or 72 per cent to US\$115 million in FY2013.

Volume-related operating cost variances were US\$60 million, resulting in a net volume-related increase in Underlying EBITDA of US\$7 million. Higher diesel, labour and contractor and equipment maintenance costs resulted in a decrease to Underlying EBITDA of US\$24 million. Inflationary pressures on mining and railage costs contributed to a US\$75 million reduction in Underlying EBITDA. The translation of operating costs resulted in a net increase to Underlying EBITDA of US\$174 million, due to the weakening South African rand to US dollar exchange rate.

Underlying EBIT decreased by US\$322 million to a loss of US\$96 million in FY2013. Further to the movements noted above, depreciation and amortisation expenses increased US\$21 million, resulting in a corresponding decrease to Underlying EBIT.

(f) Illawarra Metallurgical Coal

Table 11.22: Illawarra Metallurgical Coal financial information

| US\$M, unless otherwise stated | 6 months ended December | | 12 months ended June | | |
|------------------------------------|-------------------------|-----------|----------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 425 | 410 | 878 | 1,287 | 1,701 |
| Underlying EBITDA | 120 | 70 | 135 | 302 | 818 |
| Underlying EBIT | 20 | (8) | (35) | 154 | 659 |
| Capital expenditure | 180 | 173 | 309 | 357 | 314 |
| Net operating assets | 1,534 | 1,313 | 1,384 | 1,238 | 1,058 |
| Production energy coal (kt) | 880 | 741 | 1,539 | 1,278 | 1,305 |
| Production metallurgical coal (kt) | 3,858 | 2,614 | 5,974 | 6,664 | 6,621 |

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Metallurgical coal and energy coal production in H1 FY2015 increased by 48 per cent to 3,858 kt and 19 per cent to 880 kt, respectively. The increase was due to lower raw coal production out of the Dendrobium mine in H1 FY2014 as a result of extended outages.

Revenue in H1 FY2015 was US\$425 million, an increase of US\$15 million or four per cent from the corresponding period. The increase in raw coal production contributed to a US\$121 million increase in revenue compared with H1 FY2014. Furthermore, movements in the realised price of coal resulted in a decrease to revenue of US\$102 million. The realised price of hard coking coal and thermal coal decreased in H1 FY2015 by 22 per cent to US\$110 per tonne and 17 per cent to US\$57 per tonne respectively.

Underlying EBITDA increased by US\$50 million to US\$120 million in H1 FY2015. Volume-related cost variances were US\$129 million, resulting in a net volume-related decrease in Underlying EBITDA of US\$8 million. Cost efficiency savings were noted in raw materials, labour and contractors and mining costs resulting in an increase to Underlying EBITDA of US\$140 million. A stronger US dollar against the Australian dollar increased Underlying EBITDA by US\$9 million.

Underlying EBIT increased by US\$28 million from a loss of US\$8 million in H1 FY2014 to a profit of US\$20 million in H1 FY2015 in line with movements noted in Underlying EBITDA.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Metallurgical coal production in FY2014 decreased by 10 per cent to 5,974 kt. The decrease was driven by an extended outage at the Dendrobium mine which impacted performance in the first half of FY2014.

Revenue in FY2014 was US\$878 million, a decrease of US\$409 million or 32 per cent from the corresponding period. The fall in raw coal production contributed to a US\$132 million decrease in revenue compared with FY2013. The primary driver of the decrease in coal revenue was a 22 per cent decrease in the average realised price of coking coal, which fell from US\$167 per tonne in FY2013 to US\$130 per tonne in FY2014. This movement in price had a US\$263 million negative impact on revenue.

Underlying EBITDA decreased by US\$167 million to US\$135 million in FY2014. Volume-related cost variances were US\$109 million, resulting in a net volume-related decrease in Underlying EBITDA of US\$23 million. A one off cost incurred in FY2013 and benefits from the sale of cheaper coal produced in FY2013 all contributed to cost efficiencies in FY2014 of US\$58 million. A stronger US dollar against the Australian dollar increased Underlying EBITDA by US\$78 million.

Underlying EBIT decreased by US\$189 million to a loss of US\$35 million in FY2014, compared with Underlying EBIT of US\$154 million in FY2013. This movement was primarily due to the decrease in Underlying EBITDA as well as additional depreciation due to an increased asset base following increased capital investment and mining activity at West Cliff and Appin, which all had a corresponding decrease to Underlying EBIT of US\$38 million.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Illawarra Metallurgical Coal achieved record annual production in FY2013, with metallurgical production increasing to 6,664 kt. The increase in volumes was driven by increased capacity at West Cliff CPP and higher Dendrobium

run-of-mine production.

Revenue in FY2013 was US\$1,287 million, a decrease of US\$414 million from US\$1,701 million in FY2012. Despite an increase in production volumes contributing to higher revenue of US\$252 million, the fall in average realised prices caused a more than offsetting decrease to revenue of US\$657 million. The decrease in metallurgical coal prices reflected deteriorating market conditions in FY2013 compared to FY2012. These conditions saw the average realised price for hard coking coal decrease to US\$167 per tonne compared with US\$255 per tonne, and thermal coal prices decrease to US\$79 per tonne compared with US\$101 per tonne.

Underlying EBITDA decreased by US\$516 million to US\$302 million from US\$818 million in FY2012. Volume-related cost variances were US\$152 million decrease to Underlying EBITDA, resulting in a net volume-related increase in Underlying EBITDA of US\$100 million. In addition a reduction in price-linked costs increased Underlying EBITDA by US\$31 million. Illawarra Metallurgical Coal achieved cost efficiencies totalling US\$58 million in the period, largely due to the favourable volume impact on operating cost efficiencies, partially offset by unfavourable inventory movements due to stockpile drawdowns.

Underlying EBIT decreased by US\$505 million to US\$154 million in FY2013, in line with the decrease in Underlying EBITDA offset by a reduction in depreciation of US\$11 million.

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Table of Contents**(g) Australia Manganese****Table 11.23: Australia Manganese financial information**

| US\$M, unless otherwise stated | 6 months ended December | | 12 months ended June | | |
|---------------------------------|----------------------------|-----------|-------------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 566 | 677 | 1,308 | 1,257 | 1,204 |
| Underlying EBITDA | 215 | 252 | 505 | 499 | 335 |
| Underlying EBIT | 162 | 216 | 414 | 436 | 282 |
| Capital expenditure | 57 | 58 | 108 | 271 | 213 |
| Net operating assets | 890 | 887 | 825 | 846 | 621 |
| Production manganese ore (kt) | 2,499 | 2,438 | 4,776 | 5,027 | 4,306 |
| Production manganese alloy (kt) | 139 | 123 | 269 | 234 | 198 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Manganese ore production increased three per cent in H1 FY2015 to 2,499 kt. Manganese alloy production increased by 13 per cent in H1 FY2015 to 139 kt compared to 123 kt in H1 FY2014.

Revenue in H1 FY2015 decreased by US\$111 million to US\$566 million. Despite the increase in production, lower sales volumes for ore resulted in an overall decrease to revenue of US\$39 million. Lower average realised prices of manganese ore fell 20 per cent to US\$185 per tonne; whereas realised average prices for manganese alloy rose 16 per cent to US\$1,140 per tonne. The overall impact of changes in realised prices was a decrease to revenue of US\$68 million.

Underlying EBITDA decreased by US\$37 million to US\$215 million in H1 FY2015. Volume-related cost savings of US\$12 million were noted in the period, with a net decrease of US\$27 million to Underlying EBITDA. The reduction in revenue noted above had a corresponding US\$32 million decrease in royalties and an increase in Underlying EBITDA. Cost savings in raw materials and a reduction in headcount and contractor related activities resulted in a US\$17 million increase to Underlying EBITDA. Furthermore, the strength of the US dollar against the Australian dollar contributed to a US\$10 million increase to Underlying EBITDA.

Underlying EBIT decreased by US\$54 million to US\$162 million in H1 FY2015. Non-cash movements of US\$18 million were noted in H1 FY2015, following the completion and capitalisation of the GEMCO Expansion Project.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Manganese ore production declined five per cent in FY2014 to 4,776 kt as GEMCO was affected by higher than usual rainfall during the wet season. Manganese alloy production increased by 15 per cent in FY2014 compared to FY2013, which was affected by the temporary suspension of operations at TEMCO in FY2012.

Revenue in FY2014 increased by US\$51 million to US\$1,308 million. The decline in manganese ore production at GEMCO was more than offset by the increase in manganese alloy production at TEMCO resulting in a net increase to revenue of US\$101 million. Lower average realised prices of manganese ore and manganese alloy, which fell four per cent to US\$219 per tonne and down 20 per cent to US\$1,025 per tonne respectively, contributed to a decrease in

revenue of US\$62 million.

Underlying EBITDA increased by US\$6 million to US\$505 million in FY2014. The impact of an overall increase in production and sales volume resulted in additional operating and royalty costs amounting to a total of US\$97 million. Inflationary pressures on operating costs resulted in a decrease to Underlying EBITDA of US\$15 million. This was more than offset by the strength of the US dollar against the Australian dollar, which contributed to a US\$72 million increase to Underlying EBITDA.

Underlying EBIT decreased by US\$22 million to US\$414 million in FY2014. Non-cash movements of US\$22 million were noted in FY2014, reflecting additional depreciation following the capitalisation of the GEMCO Expansion Project.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Manganese ore production increased by 17 per cent to 5,027 kt in FY2013, benefiting from the completion of the GEMCO Expansion Project. The US\$167 million (South32 share) Expansion at GEMCO delivered first production during FY2013. The project increased processing capacity from 4.2 Mtpa to 4.8 Mtpa (100 per cent basis). Manganese alloy volumes ramped up in FY2013 to 234 kt, an increase of 18 per cent from FY2012, following the temporary suspension of operations at TEMCO in the corresponding period.

Revenue in FY2013 increased by US\$53 million or four per cent to US\$1,257 million in FY2013 from US\$1,204 million in FY2012. The increase in both ore and alloy production and sales volumes contributed to an increase in revenue of US\$74 million. Realised prices of manganese ore increased by eight per cent to US\$227 per tonne, but was partially offset by the seven per cent decline in realised prices of manganese alloy which fell to US\$1,282 per tonne, contributing to a US\$54 million increase in revenue, net of price-linked costs.

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Underlying EBITDA increased by US\$164 million to US\$499 million in FY2013. The increase in profitability is largely due to unit cost reductions achieved at GEMCO and TEMCO. Cost efficiencies of US\$96 million were achieved through a reduction in operating cash costs for raw materials, mining consumables, labour and fuel and energy and from the dilution of fixed costs associated with mining processes as a result of increased production volumes.

Underlying EBIT increased by US\$154 million to US\$436 million in FY2013, in line with movements in Underlying EBITDA.

(h) South Africa Manganese**Table 11.24: South Africa Manganese financial information**

| US\$M, unless otherwise stated | 6 months ended December | | 12 months ended June | | |
|---------------------------------|----------------------------|-----------|-------------------------|--------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 386 | 350 | 788 | 856 | 932 |
| Underlying EBITDA | 63 | 21 | 120 | 111 | (18) |
| Underlying EBIT | 26 | (9) | 48 | 58 | (51) |
| Capital expenditure | 37 | 32 | 70 | 104 | 131 |
| Net operating assets | 802 | 813 | 790 | 845 | 786 |
| Production manganese ore (kt) | 2,056 | 1,808 | 3,526 | 3,490 | 3,625 |
| Production manganese alloy (kt) | 233 | 180 | 377 | 374 | 404 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Manganese volumes increased in H1 FY2015 compared with the corresponding period, with manganese ore volumes increasing 14 per cent to 2,056 kt and manganese alloy volumes increasing 29 per cent to 233 kt.

Revenue in H1 FY2015 was US\$386 million, a US\$36 million increase or 10 per cent, compared to US\$350 million in H1 FY2014. The volume-related impact to revenue was an increase of US\$87 million. Realised prices for manganese alloy declined three per cent to US\$911 per tonne. The realised price of manganese ore declined 16 per cent to US\$117 per tonne. The overall impact was a decrease to revenue of US\$32 million, net of price-linked costs.

Underlying EBITDA increased by US\$42 million to US\$63 million in H1 FY2015. Volume-related increases to operating costs were US\$75 million, resulting in a net volume-related increase in Underlying EBITDA of US\$12 million. Productivity and operating efficiencies resulted in an increase to Underlying EBITDA of US\$33 million. A stronger US dollar against the South African rand increased Underlying EBITDA by US\$42 million.

Underlying EBIT increased from a loss of US\$9 million in H1 FY2014 to a profit of US\$26 million in H1 FY2014. The increase in Underlying EBIT is consistent with movements noted in Underlying EBITDA.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Manganese volumes in FY2014 remained fairly consistent compared with the corresponding period, with one per cent increases achieved in both ore and alloy volumes. Manganese ore volumes rose to 3,526 kt and manganese alloy volumes increased to 377 kt in FY2014.

Revenue in FY2014 was US\$788 million, a US\$68 million decrease or eight per cent, compared to US\$856 million in FY2013. The volume-related impact to revenue was a decrease of US\$35 million. Realised prices for both manganese ore and alloys decreased over the period, with manganese ore prices falling 15 per cent to US\$131 per tonne and manganese alloy prices falling five per cent to US\$990 per tonne. The overall impact was a decrease to revenue of US\$25 million, net of price-linked costs.

Underlying EBITDA increased by US\$9 million to US\$120 million in FY2014. Volume-related decreases to operating costs were US\$27 million, resulting in a net volume-related decrease in Underlying EBITDA of US\$8 million. This saving was partially offset by additional operating cash costs incurred due to unplanned shutdowns, which decreased Underlying EBITDA by US\$16 million. A stronger US dollar against the South African rand increased Underlying EBITDA by US\$108 million. In contrast, the impact of inflation on operating costs resulted in a decrease to Underlying EBITDA of US\$39 million.

Underlying EBIT decreased from US\$58 million to US\$48 million in FY2014. The decrease reflected the increase in Underlying EBITDA which was more than offset by an additional US\$19 million in depreciation expense as a result of capitalisation of large projects during the period.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Manganese ore production decreased by four per cent to 3,490 kt in FY2013, following plant maintenance shutdowns at Mamatwan during the year. The permanent closure of energy-intensive SiMn production in January 2012 resulted in a seven per cent decline in the production of manganese alloys. Revenue in FY2013 decreased by US\$76 million or eight per cent to US\$856 million from US\$932 million.

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The volume-related impact from movements in production on revenue amounted to a decrease of US\$28 million. Average realised prices for manganese ore rose 11 per cent to US\$154 per tonne. In contrast the average realised price of manganese alloys fell 12 per cent to US\$1,044 per tonne, resulting in a net decrease to revenue of US\$23 million.

Underlying EBITDA increased by US\$129 million in FY2013 to US\$111 million. Volume-related cost savings of US\$28 million offset the US\$28 million reduction in revenue due to lower sales volumes. Positive efficiencies were achieved through the production of manganese ore, which more than offset the closure impacts of the Metalloys South Plant and furnace instabilities on operating costs for FY2013. The inflation impact on these efficiencies resulted in a decrease to Underlying EBITDA of US\$29 million. The permanent closure of the Metalloys South Plant and the suspension of other minor capital projects resulted in a reduction to Underlying EBITDA of US\$49 million in FY2012, which was not noted in FY2013. In contrast, the weaker South African rand against the US dollar contributed to a US\$106 million increase to Underlying EBITDA.

Underlying EBIT increased by US\$109 million in FY2013 to US\$58 million from a loss of US\$51 million in the corresponding period. The increase reflected the increase in Underlying EBITDA offset by additional depreciation of US\$20 million.

(i) Cerro Matoso**Table 11.25: Cerro Matoso financial information**

| US\$M, unless otherwise stated | 6 months ended December | | | 12 months ended June | |
|--------------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 340 | 315 | 595 | 803 | 876 |
| Underlying EBITDA | 113 | 43 | 87 | 234 | 417 |
| Underlying EBIT | 86 | 1 | (1) | 155 | 337 |
| Capital expenditure | 18 | 35 | 56 | 50 | 105 |
| Net operating assets | 854 | 937 | 860 | 990 | 1,003 |
| Production nickel (kt) | 21 | 24 | 44 | 51 | 49 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Nickel production at Cerro Matoso in H1 FY2015 declined 13 per cent to 21 kt as a result of lower nickel grades.

Revenue in H1 FY2015 was US\$340 million, an increase of US\$25 million, or eight per cent, from US\$315 million in the corresponding period. The average realised nickel price rose 28 per cent in the period to US\$16,190 per tonne, contributing to an increase in revenue of US\$72 million. Lower production driven by lower nickel grades resulted in a US\$46 million decrease in revenue.

Underlying EBITDA for H1 FY2015 increased by US\$70 million to US\$113 million. The volume-related cost impact of the decrease in production was US\$46 million, with a net nil volume-related impact to Underlying EBITDA. Savings of US\$12 million were noted in labour related costs following reductions to headcount. This was offset by increased mine operating costs and raw materials of US\$24 million due to the impact of lower nickel grades on plant utilisation and nickel recovery. In contrast, a stronger than average US dollar contributed to an increase in EBITDA of

US\$10 million.

Underlying EBIT increased by US\$85 million to US\$86 million in H1 FY2015 driven by the increase in Underlying EBITDA and decrease in depreciation and amortisation of US\$15 million.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Production at Cerro Matoso in FY2014 was affected by kiln and furnace outages, and lower nickel grades, causing a decrease in nickel production of 14 per cent to 44 kt compared with 51 kt in the corresponding period.

Revenue in FY2014 was US\$595 million, a decrease of US\$208 million, or 26 per cent, from US\$803 million in the corresponding period. Nickel prices fell 14 per cent in the period to US\$13,222 per tonne, contributing to a decrease in revenue of US\$46 million. Lower production driven by lower nickel grades and plant performance resulted in a US\$93 million decrease in revenue.

Underlying EBITDA for FY2014 decreased by US\$147 million to US\$87 million. The volume-related cost impact of the decrease in production was US\$80 million, with a net volume-related decrease in Underlying EBITDA of US\$13 million. A reduction in headcount resulted in higher redundancy-related costs of US\$19 million. Non-cash costs also increased in the period by US\$45 million, primarily driven by inventory adjustments following reserve restatements. These additional expenses contributed to a US\$76 million decrease in Underlying EBITDA. In contrast, a stronger than average US dollar contributed to an increase in EBITDA of US\$4 million.

Underlying EBIT decreased by US\$156 million to a loss of US\$1 million in FY2014, driven by the decrease in Underlying EBITDA and a US\$9 million increase in depreciation expense following revisions made to the underlying mine asset base.

Table of Contents**(3) Year ended 30 June 2013 compared with 30 June 2012**

Following the replacement of the line 1 furnace, nickel production at Cerro Matoso increased by four per cent to 51 kt.

Revenue in FY2013 was US\$803 million, a decrease of US\$73 million from FY2012. The decrease in revenue was primarily driven by lower realised nickel prices, which fell by 15 per cent to US\$15,442 per tonne, with a corresponding impact to revenue of US\$133 million. This decrease was partially offset by a US\$36 million increase to revenue due to the production volumes noted above.

Underlying EBITDA for FY2013 decreased by US\$183 million to US\$234 million. The decrease in revenue of US\$133 million due to lower realised prices had a corresponding impact on Underlying EBITDA. Higher production volumes noted above had a corresponding increase in costs of US\$22 million and a net volume-related increase in Underlying EBITDA of US\$14 million. Increases in operating costs contributed to a decrease in Underlying EBITDA of US\$34 million.

Underlying EBIT for FY2013 decreased by US\$182 million to US\$155 million in line with the decrease to Underlying EBITDA noted above.

(j) Cannington**Table 11.26: Cannington financial information**

| US\$M, unless otherwise stated | 6 months ended December | | | 12 months ended June | |
|--------------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Revenue | 486 | 605 | 1,079 | 1,365 | 1,590 |
| Underlying EBITDA | 183 | 272 | 460 | 651 | 893 |
| Underlying EBIT | 154 | 251 | 413 | 611 | 840 |
| Capital expenditure | 14 | 30 | 60 | 39 | 73 |
| Net operating assets | 192 | 244 | 234 | 206 | 194 |
| Production lead (kt) | 99 | 94 | 187 | 213 | 239 |
| Production zinc (kt) | 37 | 32 | 58 | 56 | 55 |
| Production silver (koz) | 12,235 | 12,667 | 25,161 | 31,062 | 34,208 |

(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Lead and zinc production at Cannington increased in H1 FY2015 by five per cent to 99 kt and 16 per cent to 37 kt, respectively. Silver production decreased three per cent in the period to 12,235 koz compared with 12,667 koz in H1 FY2014.

Revenue in H1 FY2015 was US\$486 million, a decrease of US\$119 million, or 20 per cent, from US\$605 million in the corresponding period. Movements in the production of lead, zinc and silver resulted in an overall decrease to revenue of US\$46 million. Average realised prices of lead and silver both fell during the period; with lead falling 19 per cent to US\$1,950 per tonne and silver falling 15 per cent to US\$17 per tonne. These decreases were partially offset by a 19 per cent increase in the average realised price of zinc which rose to US\$2,273 per tonne. The overall impact of movements in realised prices was a US\$58 million decrease to revenue, net of price-linked costs.

Underlying EBITDA for H1 FY2015 fell by US\$89 million to US\$183 million from US\$272 million in H1 FY2014. The volume-related cost savings were US\$5 million, resulting in a net volume-related decrease in Underlying EBITDA of US\$41 million. Operating costs remained fairly consistent with the corresponding period, with no significant changes impacting results. A stronger US dollar against the Australian dollar resulted in a positive exchange variance of US\$7 million.

Underlying EBIT decreased by US\$97 million to US\$154 million in H1 FY2015, driven by the decrease in Underlying EBITDA and a US\$8 million increase in depreciation expense in line with the change in capital profile at Cannington.

(2) Year ended 30 June 2014 compared with year ended 30 June 2013

Lead and silver production at Cannington decreased in FY2014 by 12 per cent to 187 kt and 19 per cent to 25,161 koz, respectively. Zinc production increased slightly in the period to 58 kt compared to 56 kt in the corresponding period.

Revenue in FY2014 was US\$1,079 million, a decrease of US\$286 million, or 21 per cent, from US\$1,365 million in the corresponding period. Lower lead and silver production contributed to a decrease in revenue of US\$161 million, which was partially offset by the increase in zinc payable metals volume of US\$16 million. Lower average realised prices for silver, which fell 26 per cent to US\$20 per ounce, were partially offset by the increase in realised prices of lead and zinc, which rose 15 per cent to US\$2,344 per tonne and 12 per cent to US\$2,000 per tonne, respectively, resulting in a US\$122 million decrease in revenue, net of price-linked costs.

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Underlying EBITDA for FY2014 decreased by US\$191 million to US\$460 million. Volume-related cost savings were US\$21 million, resulting in a net volume-related decrease in Underlying EBITDA of US\$124 million. Operating costs remained fairly consistent with the corresponding period, with no significant changes impacting results. A stronger US dollar against the Australian dollar resulted in a positive exchange variance of US\$57 million.

Underlying EBIT decreased by US\$198 million to US\$413 million in FY2014, driven by the decrease in Underlying EBITDA and a US\$7 million increase in depreciation expense associated with capital profile and useful life adjustments made during the period.

(3) Year ended 30 June 2013 compared with year ended 30 June 2012

Lead production decreased 11 per cent with silver production decreasing nine per cent, with silver falling from 34,208 koz to 31,062 koz and lead from 239 kt to 213 kt. Zinc production remained consistent across both periods.

Revenue in FY2013 was US\$1,365 million, a decrease of US\$225 million, or 14 per cent, from US\$1,590 million in FY2012. Lower production of lead and silver due to a combination of lower lead grades and lower plant throughput resulted in a corresponding decrease to revenue of US\$138 million. Average realised prices of silver and zinc fell 13 per cent to US\$27 per ounce and seven per cent to US\$1,787 per tonne respectively, partially offset by the eight per cent increase in the realised price of lead to US\$2,030 per tonne resulting in a net decrease in revenue of US\$109 million, net of price-linked costs.

Underlying EBITDA for FY2013 decreased by US\$242 million to US\$651 million. Savings in volume-related costs were US\$25 million resulting in a net volume-related decrease in Underlying EBITDA of US\$113 million. Labour-related productivity cost efficiencies increased Underlying EBITDA by US\$10 million, reflecting insourcing initiatives and the broader optimisation of contractor activities across South32. Furthermore, the inflation factor on operating costs resulted in a US\$11 million decrease to EBITDA.

Underlying EBIT decreased by US\$229 million to US\$611 million, driven by the decrease in Underlying EBITDA partially offset by reduced depreciation costs of US\$13 million following the change in accounting for a lease arrangement in the period from operating lease to finance lease.

11.7 THIRD PARTY SALES

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

Table 11.27: Underlying EBIT and third party product margin

| | 6 months ended December | | FY2014 | 12 months ended June | |
|---------------------------|----------------------------|-----------|--------|-------------------------|--------|
| | H1 FY2015 | H1 FY2014 | | FY2013 | FY2012 |
| South32 production | | | | | |
| Revenue | 4,636 | 4,572 | 9,182 | 10,430 | 11,476 |

| | | | | | |
|--------------------------------|---------|---------|---------|---------|---------|
| Related operating costs | (3,866) | (4,090) | (8,141) | (9,339) | (9,644) |
| Underlying EBIT | 770 | 482 | 1,041 | 1,091 | 1,832 |
| Underlying EBIT margin | 16.6% | 10.5% | 11.3% | 10.5% | 16.0% |
| Third party products | | | | | |
| Revenue | 404 | 776 | 1,262 | 1,663 | 2,359 |
| Related operating costs | (374) | (748) | (1,233) | (1,600) | (2,265) |
| Third party Underlying EBIT | 30 | 28 | 29 | 63 | 94 |
| Margin on third party products | 7.4% | 3.6% | 2.3% | 3.8% | 4.0% |

South32 engages in third party trading for the following reasons:

production variability and occasional shortfalls from the South32 Businesses means that South32 sometimes sources third party materials to ensure a steady supply of product to its customers;

to optimise its supply chain outcomes, South32 may buy physical product from third parties;

in order to support the development of liquid markets, South32 will sometimes source third party physical product and manage risk through both the physical and financial markets.

Table of Contents**11.8 CASH FLOW ANALYSIS**

Full historical combined cash flow statements are contained in the historical combined financial information in Annexures 1 and 2. The explanatory notes appear in note 20 Notes to the combined cash flow statement to the historical combined financial information in Annexure 1. A summary table has been presented below to show the key sources and uses of cash.

Table 11.28: Cash flow

| US\$M | 6 months ended December | | | 12 months ended June | |
|---|----------------------------|--------------|--------------|-------------------------|----------------|
| | H1 FY2015 | H1 FY2014 | FY2014 | FY2013 | FY2012 |
| Cash generated from operations | 1,131 | 781 | 2,108 | 2,138 | 2,899 |
| Dividends received and net interest paid | 252 | (37) | (120) | (15) | 36 |
| Taxation paid | (134) | (251) | (318) | (697) | (542) |
| Net operating cash flows | 1,249 | 493 | 1,670 | 1,426 | 2,393 |
| Purchases of property plant and equipment | (411) | (394) | (769) | (1,139) | (2,013) |
| Exploration expenditure | (13) | (14) | (24) | (29) | (51) |
| Exploration expenditure expensed and included in operating cash flows | 9 | 11 | 17 | 21 | 41 |
| Purchases of intangibles | | (1) | | (20) | |
| Investment in financial assets | (13) | (12) | (24) | (21) | (8) |
| Proceeds from sale of property, plant and equipment | 6 | 11 | 48 | 64 | |
| Proceeds from financial assets | 7 | 46 | 52 | 19 | 8 |
| Net investing cash flows | (415) | (353) | (700) | (1,105) | (2,023) |
| Proceeds from interest bearing liabilities | 7 | 235 | 251 | 2,274 | 74 |
| Repayment of interest bearing liabilities | (103) | (463) | (456) | (112) | (366) |
| Proceeds from issue of shares | 8,000 | | | 9 | |
| Deposit with BHP Billiton | (7,565) | | | | |
| Dividends paid | (661) | (343) | (505) | (2,296) | (79) |
| Dividends paid to non-controlling interests | (85) | (52) | (133) | (59) | (56) |
| Other financing activities | (327) | 298 | (116) | (107) | 13 |
| Net financing cash flows | (734) | (325) | (959) | (291) | (414) |
| Net increase/(decrease) in cash and cash equivalents | 100 | (185) | 11 | 30 | (44) |

(a) Half year ended 31 December 2014 compared with half year ended 31 December 2013

Net operating cash flows after interest and tax increased by 153 per cent to US\$1,249 million for H1 FY2015. An increase in cash generated from operations of US\$350 million was the major contributor to the increase.

Net investing cash outflows increased by 18 per cent to US\$415 million. Purchases of property, plant and equipment in the period of US\$411 million were slightly higher than the previous period and related to minor and maintenance

expenditure.

Net financing cash flows included the proceeds on the issue of shares to BHP Billiton of US\$8.0 billion to enable the acquisition of the companies that will comprise South32. During H1 FY2015, the proceeds were primarily placed on deposit with BHP Billiton. Dividend payments to BHP Billiton Group companies were US\$661 million, up from US\$343 million in the corresponding period.

(b) Year ended 30 June 2014 compared with year ended 30 June 2013

Net operating cash flows after interest and tax increased by 17 per cent to US\$1,670 million for FY2014. A US\$379 million reduction in taxation paid was the major contributor to the increase.

A US\$405 million reduction in net investing cash outflows to US\$700 million primarily reflects greater purchase of property, plant and equipment in FY2013 of US\$1,139 million related to assets under construction in conjunction with capital expenditure on asset sustaining activities.

Net financing cash flows included repayment of borrowings of US\$456 million and dividend payments of US\$505 million paid to BHP Billiton Group companies partially offset by proceeds from borrowings of US\$251 million.

Table of Contents**(c) Year ended 30 June 2013 compared with year ended 30 June 2012**

Net operating cash flows after interest and tax decreased by 40 per cent to US\$1,426 million for FY2013. A US\$761 million reduction in cash generated from operations (after changes in working capital balances) was the major contributor to the decline. Higher net income tax paid further reduced net operating cash flows after interest and tax by US\$155 million.

Investing cash flows decreased by US\$918 million, which primarily reflects greater purchase of property, plant and equipment in FY2012 of US\$2,013 million related to assets under construction in conjunction with capital expenditure on asset sustaining activities.

Net financing cash flows included proceeds from borrowings of US\$2,274 million offset by dividend payments of US\$2,296 million to BHP Billiton Group companies.

11.9 NET DEBT AND SOURCES OF LIQUIDITY

Historically, South32 has sourced debt and working capital requirements under the BHP Billiton centrally managed treasury function. The calculation of gearing based on the historical combined financial information is not meaningful in light of the proposed settlement of outstanding intercompany debt balances prior to the Demerger. The table below presents gearing based on South32's pro forma balance sheet as at 31 December 2014:

Table 11.29: Pro forma balance sheet, gearing^(a)

| US\$M | 31 December 2014 |
|---------------------------|---------------------|
| Cash and cash equivalents | (350) |
| Current external debt | 282 |
| Non-current external debt | 742 |
| Net debt | 674 |
| Net assets | 12,950 |
| Gearing | 4.9% |

(a) Current external debt, non-current external debt and net assets have been extracted without material adjustment from Table 10.5 in Section 10.7. Cash and cash equivalents excludes restricted cash of US\$14 million. Gearing is the ratio of net debt to net debt plus net assets.

(a) Capital management

On a pro forma basis, net debt, comprising interest bearing liabilities less cash and cash equivalents, was US\$674 million at 31 December 2014 (as sourced from Table 10.5 in Section 10.7). Gearing, which is the ratio of net debt to net debt plus net assets, was 4.9 per cent at 31 December 2014 based on the pro forma balance sheet.

Pro forma cash at bank and in hand at 31 December 2014 was US\$350 million. Included within this were short-term deposits at 31 December 2014 of US\$7 million. Restricted cash and cash equivalents of US\$14 million were excluded.

(b) Funding sources

Funding has historically been provided through BHP Billiton's centrally managed treasury function. Post-Demerger, South32 will source its own funding through long-term facilities and other methods as deemed appropriate. Further details on South32's anticipated funding structure can be found in Section 10.6.

(c) Quantitative and qualitative disclosures about market risk

South32's primary market risks are identified in Section 11.2. A description of how South32 manages its market risks, including both quantitative and qualitative information about its market risk sensitive instruments outstanding at 30 June 2014, is contained in note 23 Financial risk management to the historical combined financial information at Annexure 1.

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12 INDEPENDENT ACCOUNTANT S ASSURANCE REPORT

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Private and confidential

The Directors

South32 Limited

108 St Georges Terrace

Perth WA 6000

16 March 2015

Dear Directors

Independent Accountant s Assurance Report on the compilation of pro forma historical financial information and Financial Services Guide

Independent Accountant s Assurance Report

Introduction

We have been engaged by the directors of South32 Limited (the **Company** or **South32**) to prepare this report on the compilation of Pro forma historical financial information of South32 in connection with the demerger of South32 from BHP Billiton Limited and BHP Billiton Plc (the **Demerger**) and (1) the proposed primary listing of South32 on the Australian Securities Exchange (the **Australian Listing**), (2) the proposed secondary listing on the Johannesburg Stock Exchange (the **JSE Listing**), and (3) the proposed admission of the ordinary shares to listing on the Standard segment of the Official List of the UKLA Financial Conduct Authority and to trading on the London Stock Exchange (the **UK Listing**) (together the **Transaction**).

The directors of South32 have prepared a single document dated on or about 16 March 2015 that will form the basis of:

an Information Memorandum in respect of the Australian Listing (the **ASX listing document**);

a prospectus in respect of the UK Listing (the **UK Prospectus**);

a pre-listing statement in respect of the JSE Listing (the **JSE Pre-listing Statement**).

The ASX listing document, the UK Prospectus and JSE Pre-listing Statement are together referred to as the **South32 Documents** .

This report is intended to satisfy the requirements of paragraph 7 of Annex II of the Commission Regulation 809/2004/EC (the **Prospectus Directive Regulation**) and is given for the purpose of complying with that paragraph.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

Table of Contents*South32 Limited**16 March 2015***Pro forma historical financial information**

We have completed our assurance engagement to report on the South32 pro forma historical financial information, comprising the pro forma historical consolidated balance sheet as at 31 December 2014, summary pro forma historical consolidated income statements for the half year ended 31 December 2014 and financial year ended 30 June 2014, summary pro forma historical consolidated cash flow statements before financing activities and tax and after capital expenditure for the half year ended 31 December 2014 and financial year ended 30 June 2014, pro forma net indebtedness summary as at 31 December 2014 and pro forma segment financial information for the half year ended 31 December 2014 and the year ended 30 June 2014 as set out in Sections 10.3, 10.4, 10.5, 10.7, 10.8 and Annexures 3 and 4 of the South32 Documents (the **Pro forma historical financial information**).

The Pro forma historical financial information has been prepared and compiled by the directors of South32 on the basis stated in Section 10.2 of the South32 Documents, for illustrative purposes only, to provide information about how the: (1) events and transactions related to the Demerger; and (2) discontinued consolidation of the Manganese business and subsequent accounting for South32's equity interest as an equity accounted joint venture, might have affected the historical financial information presented on the basis of the accounting policies adopted by South32 in preparing its historical combined financial information.

The historical combined financial information of South32 extracted by the directors of South32 from the Annexures 1 and 2 Historical combined financial information in compiling the Pro forma historical financial information was reviewed, for the half year ended 31 December 2014, and was audited for the financial year ended 30 June 2014. The historical combined financial information for the financial year ended 30 June 2014 was audited by KPMG in accordance with International Standards on Auditing and Australian Auditing Standards. The historical combined financial information for the half year ended 31 December 2014 was reviewed by KPMG in accordance with ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* as issued by the Australian Auditing and Assurance Standards Board. The independent audit report and review report issued to the Directors of South32 relating to this historical combined financial information was unmodified, however wording was added to emphasise the matter of basis of preparation.

Directors' responsibilities for the Pro forma historical financial information

The directors of South32 are responsible for the preparation and compilation of the Pro forma historical financial information on the basis described in Section 10.2 of the South32 Documents, including the selection and determination of the pro forma adjustments made to the historical combined financial information and included in the Pro forma historical financial information and such basis being consistent with the accounting policies of South32.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of Pro forma historical financial information that is free from material misstatement, whether due to fraud or error.

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South32 Limited

16 March 2015

Our responsibility

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, about whether the Pro forma historical financial information has been compiled by the directors of South32 on the basis stated and such basis is consistent with the accounting policies of South32, and to report that opinion to you.

Basis of opinion

We have conducted our work in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors of South32 have compiled the Pro forma historical financial information on the basis stated.

In providing our report we are not responsible for updating, refreshing or re-issuing any audit reports or review reports previously made on any historical combined financial information used in the compilation or preparation of the Pro forma historical financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in preparing the Pro forma historical financial information.

The purpose of the Pro forma historical financial information is to illustrate how the (1) events and transactions related to the Demerger; and (2) discontinued consolidation of the Manganese business and subsequent accounting for South32's equity interest as an equity accounted joint venture, might have affected the historical combined financial information.

Due to its nature, the Pro forma historical financial information does not represent South32's actual or prospective financial position, financial performance and/or cash flows. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at the dates stated would have been as presented.

A reasonable assurance engagement to report on whether the Pro forma historical financial information has been properly compiled on the basis stated involves performing procedures to assess whether the basis used by the directors of South32 in the compilation of the Pro forma historical financial information provides a reasonable basis for presenting the significant effects directly attributable to the Transaction and to obtain sufficient appropriate evidence about whether:

the related pro forma adjustments give appropriate effect to the basis stated;

the Pro forma historical financial information reflects the proper application of those pro forma adjustments to the unadjusted historical combined financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Company, the Transaction in respect of which the Pro forma historical financial information has been compiled and other

relevant engagement circumstances.

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South32 Limited

16 March 2015

The engagement also involves evaluating the overall presentation of the Pro forma historical financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

the Pro forma historical financial information has been properly compiled on the basis stated; and

such basis is consistent with the accounting policies of South32.

Declaration for the purposes of the UK Prospectus

For the purposes of Prospectus Rule 5.5.3R (2)(f) of the Financial Conduct Authority we are responsible for this report as part of the UK Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the UK Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed Transaction, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of BHP Billiton and South32 and from time to time, KPMG also provides BHP Billiton and South32 with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the South32 Documents, to provide investors with general information only and does not take into account the objectives, financial Situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our opinion, we draw attention to Sections 10.1 and 10.2 of the South32 Documents, which describe the purpose of the Pro forma historical financial information, included in the South32 Documents. As a result, the Pro forma historical financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the Pro forma historical financial information to which it relates, for any purpose other than that for which it was prepared.

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South32 Limited

16 March 2015

KPMG Transaction Services has consented to the inclusion of this report in the South32 Documents in the form and context in which it is included.

Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the ASX listing document, the UK Prospectus and the JSE Pre-listing Statement.

Yours faithfully

Nick Harridge

Authorised Representative

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Financial Services Guide

Dated 16 March 2015

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**KPMG Transaction Services**), and Nick Harridge as an authorised representative of KPMG Transaction Services, authorised representative number 405346 (**Authorised Representative**).

This FSG includes information about:

KPMG Transaction Services and its Authorised Representative and how they can be contacted

the services KPMG Transaction Services and its Authorised Representative are authorised to provide

how KPMG Transaction Services and its Authorised Representative are paid

any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative

how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them;

the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Independent Accountant's Assurance Report (**Report**) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (**PDS**). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such

as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

deposit and non-cash payment products;

derivatives;

foreign exchange contracts;

government debentures, stocks or bonds;

interests in managed investments schemes including investor directed portfolio services;

securities;

superannuation;

carbon units;

Australian carbon credit units;

eligible international emissions units,

to retail and Wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

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financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by BHP Billiton Limited, BHP Billiton Plc (**BHP Billiton**) and South32 Limited (**South32**) (**Client**) to provide general financial product advice in the form of a Report to be included in ASX listing document (**Document**) prepared by BHP Billiton in relation to the proposed Demerger of South32, and listing on the Australian Securities Exchange (**Transaction**).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. In this instance, BHP Billiton has agreed to pay KPMG Transaction Services time based fees of US\$1.9 million for preparing the Report and US\$7.3 million for other services provided relating to the Transaction.

KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the **KPMG Partnership**). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit and tax services to the Client for which professional fees are received. Over the past two financial years ended, professional fees of US\$57.1 million have been received from BHP Billiton. None of those services have related to the Transaction or alternatives to the Transaction.

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No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (**FOS**). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO
Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399

Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services

A division of KPMG Financial Advisory

Services (Australia) Pty Ltd

10 Shelley St

Sydney NSW 2000

PO Box H67

Australia Square

NSW 1213

Telephone: (02) 9335 7000

Facsimile: (02) 9335 7200

Nick Harridge

C/O KPMG

PO Box H67

Australia Square

NSW 1213

Telephone: (02) 9335 7000

Facsimile: (02) 9335 7200

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13 TAXATION

13.1 IMPORTANT INFORMATION

Section 13 contains a general outline of the taxation implications of holding South32 Shares and South32 ADSs, for certain investors that are tax resident in Australia, New Zealand, the United Kingdom, the United States and South Africa.

This does not constitute tax advice. This document does not take into account South32 Shareholders or South32 ADS holders individual investment objectives, financial situation or needs. This outline is not a complete analysis of all taxation laws which may apply in relation to the holding of South32 Shares or South32 ADSs. All South32 Shareholders and South32 ADS holders should consult with their own independent taxation advisers regarding the taxation implications of holding South32 Shares or South32 ADSs given the particular circumstances which apply to them.

The taxation implications of participating in the Demerger of South32 are not addressed in this document.

Special rules may apply to certain shareholders such as tax exempt organisations, listed investment companies, insurance companies, superannuation funds, banks, South32 Shareholders who hold their South32 Shares as trading stock, South32 Shareholders and their associates that hold 10 per cent or more of the issued share capital in South32, South32 Shareholders (other than Australian tax residents) that use South32 Shares at any time in carrying on the business through an Australian permanent establishment, South32 Shareholders that hold shares as part of a straddle or a hedging or conversion transaction and South32 Shareholders who hold their South32 Shares in connection with an employee share scheme. This outline does not address any of the above circumstances or special rules and all South32 Shareholders and South32 ADS holders should consult with their own independent taxation advisers regarding the particular circumstances which apply to them.

This outline relates solely to matters governed by, and should be interpreted in accordance with, the laws of the various countries as in force and as interpreted at 9:00am (AEDT) on the date of this document. Future amendments to taxation legislation, or its interpretation by the courts or the taxation authorities may take effect retrospectively and/or affect the conclusions drawn. This outline does not take into account or anticipate changes in the law (by legislation or judicial decision) or practice (by ruling or otherwise) after that time.

13.2 AUSTRALIAN TAX CONSEQUENCES OF HOLDING SOUTH32 SHARES

(a) Scope

The following is a general outline of the main Australian taxation implications for South32 Shareholders who (i) are residents of Australia for income tax purposes (and are not tax residents of any other country), (ii) hold their South32 Shares on capital account for income tax purposes and (iii) are not subject to the rules concerning the taxation of financial arrangements contained in Division 230 of the Income Tax Assessment Act 1997 (Cth) in respect of their South32 Shares (**Australian South32 Shareholders**).

The Australian dividend withholding tax implications for South32 Shareholders that are not residents of Australia for income tax purposes are outlined in Section 13.2(c).

(b) Outline of Australian taxation implications of holding South32 Shares

(1) Dividends

Australian South32 Shareholders will be required to include dividends in respect of South32 Shares in their assessable income for the income year in which the dividends are received.

Dividends may be franked to the extent determined by South32. However, an Australian South32 Shareholder must be a qualified person by satisfying the holding period rule, or qualifying for an exemption from that rule, to be entitled to the benefit of franking credits in respect of their South32 Shares.

South32's initial franking account balance and intention in respect of franking credits in the context of its dividend policy are set out in Section 5.5.

On the assumption that an Australian South32 Shareholder is a qualified person, the tax treatment of dividends received from South32 will be as follows:

Individuals: Dividends and any franking credits will be included in the individual's assessable income. A tax offset for the amount of the franking credits will be available to reduce the tax payable by the individual. Any excess tax offset (i.e. to the extent it exceeds income tax payable by the individual) may be refundable to the individual.

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Companies: Dividends and any franking credits will be included in the company's assessable income. A tax offset for the amount of the franking credits will be available to reduce the tax payable by the company. Excess franking credits for the year may be converted to a deemed tax loss. A company that is a franking entity may be able to credit its franking account with the franking credits attached to dividends, which may enable the company to pay franked dividends to its own shareholders.

Trustees (excluding trustees of complying superannuation funds): If Australian resident beneficiaries of a trust are presently entitled to a distribution of the net income of the trust for the year in which the dividend is derived by the trust, generally the franked dividend should flow through to, and be taxable in the hands of, the beneficiaries in accordance with their particular tax status and profile (subject to the trust having positive net income and the beneficiaries also satisfying the qualified person rule referred to above).

(2) Sale of shares

Australian South32 Shareholders will need to consider the capital gains tax (CGT) implications of any subsequent disposal of South32 Shares.

A capital gain will arise to the extent the capital proceeds from the disposal of the South32 Shares exceed the cost base of the shares sold.

A capital loss will be incurred to the extent the capital proceeds are less than the reduced cost base of the shares held by an Australian South32 Shareholder. A capital loss may be offset against other capital gains of the Australian South32 Shareholder arising in the same tax year, or otherwise carried forward and offset against capital gains realised in the future (subject to satisfaction of loss recoupment tests for certain taxpayers).

Any capital gain or capital loss on the disposal of South32 Shares deemed to have been acquired before 20 September 1985 will be disregarded.

Australian South32 Shareholders who are individuals or trustees of trusts (other than a trust that is a complying superannuation fund) may be entitled to discount the amount of their capital gain from the disposal of South32 Shares (after taking into account current year or carry forward capital losses) by 50 per cent if the disposal by the Australian South32 Shareholder is of shares they acquired, or are deemed to have acquired, at least 12 months before the disposal.

Although trustees of trusts may be entitled to the above CGT discount, special rules apply in respect of beneficiaries of such trusts. Australian South32 Shareholders that are trustees should consult with their own independent tax advisers regarding the income tax implications of distributions attributable to discount capital gains.

Australian South32 Shareholders that are companies (not acting as trustees) will not be entitled to the CGT discount.

Alternatively, Australian South32 Shareholders who acquired, or are deemed to have acquired, South32 Shares prior to 21 September 1999 may choose to adjust the cost base of their shares to include indexation (by reference to changes in the Consumer Price Index) from the calendar quarter in which the shares were acquired until the quarter ended 30 September 1999 (instead of applying the CGT discount).

Australian South32 Shareholders should seek their own advice to confirm whether there are any stamp duty consequences arising to them from a future disposal of South32 Shares.

(3) Goods and services tax (GST)

The sale or other disposition by Australian South32 Shareholders of South32 Shares will not be subject to GST in Australia.

(c) Australian dividend withholding tax

Dividends paid by South32 to its non-Australian shareholders will not be subject to Australian withholding tax to the extent that such dividends are declared by South32 to be franked dividends or conduit foreign income. South32 will advise shareholders when paying any dividends the extent to which (if any) the dividends are subject to Australian withholding tax.

If Australian dividend withholding tax is payable on dividends from South32, South32 Shareholders who are not tax resident in Australia should seek their own tax advice to determine the Australian and foreign taxation implications.

Table of Contents**13.3 UNITED KINGDOM TAX CONSEQUENCES OF HOLDING SOUTH32 SHARES****(a) Scope**

The following is a general outline of the main United Kingdom taxation implications for South32 Shareholders who (i) are resident in (and only in) and, in the case of individuals, domiciled in, the United Kingdom for United Kingdom tax purposes and to whom split-year treatment does not apply, (ii) will hold their South32 Shares as investments (other than under an individual savings account) and (iii) will be the beneficial owner of their South32 Shares and any dividends paid on them (**United Kingdom South32 Shareholders**).

(b) United Kingdom tax implications of holding South32 Shares: taxation of dividends**(1) Individual United Kingdom South32 Shareholders within the charge to United Kingdom income tax**

An individual United Kingdom South32 Shareholder who receives a dividend from South32 will generally be entitled to a tax credit, which may be set off against their total income tax liability. The tax credit will equal 10 per cent of the aggregate of the dividend declared and the tax credit, which is also equal to one ninth of the amount of the dividend. For such South32 Shareholders eligible for this tax credit, this will have the effect of reducing the effective rate of United Kingdom income tax on the amount of the dividend declared to zero (for individuals taxable at the dividend ordinary rate), 25 per cent (for individuals taxable at the dividend upper rate) or 30.56 per cent (for individuals taxable at the dividend additional rate), subject in the latter two cases to any available credit for Australian dividend withholding tax.

(2) Corporate United Kingdom South32 Shareholders within the charge to United Kingdom corporation tax

United Kingdom South32 Shareholders within the charge to United Kingdom corporation tax which are small companies for the purpose of United Kingdom taxation of dividends will not generally be subject to United Kingdom corporation tax on dividends received from South32. Other United Kingdom South32 Shareholders within the charge to United Kingdom corporation tax will not be subject to United Kingdom corporation tax on dividends received from South32 so long as the dividends fall within an exempt class and certain conditions are met and the shareholder has not elected for the dividends not to be exempt. For example, dividends paid on shares that (i) do not carry any present or future preferential right to dividends or to assets on a winding-up and (ii) are not redeemable, and dividends paid to a person holding less than 10 per cent of the issued share capital of South32 (or any class of that share capital), are generally dividends that fall within an exempt class.

(3) No payment of tax credit

A United Kingdom South32 Shareholder (whether an individual or a company) that is not liable to tax on dividends from South32 will not be entitled to claim payment of the tax credit in respect of those dividends.

(c) United Kingdom tax implications of holding South32 Shares: taxation of chargeable gains

(1) Individual United Kingdom South32 Shareholders

A disposal of South32 Shares by an individual United Kingdom South32 Shareholder may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or allowable loss). Capital gains tax is charged on chargeable gains at a rate of 18 per cent or 28 per cent depending on the individual United Kingdom South32 Shareholder's total taxable gains and income in a given year, including any gains made on the disposal of the South32 Shares.

No indexation allowance will be available to an individual United Kingdom South32 Shareholder in respect of any disposal of South32 Shares.

However, each individual has an annual exemption (£11,000 for the tax year 2015-2016) such that capital gains tax is only chargeable on gains arising from all sources during the tax year in excess of that figure.

(2) Corporate United Kingdom South32 Shareholders

For a corporate United Kingdom South32 Shareholder within the charge to United Kingdom corporation tax, a disposal of South32 Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or allowable loss). An indexation allowance may be available to reduce the amount of the chargeable gain which would otherwise arise on the disposal. Corporation tax is charged on chargeable gains at the rate of corporation tax applicable to that company.

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(3) United Kingdom stamp duty and United Kingdom stamp duty reserve tax

No United Kingdom stamp duty will be payable in respect of the paperless transfer of South32 Shares.

No United Kingdom stamp duty will be payable on a written transfer of South32 Shares if such transfer is executed and retained outside the United Kingdom and provided that such transfer does not relate to any property situated in the United Kingdom or to any other matter or thing done or to be done in the United Kingdom.

No United Kingdom stamp duty reserve tax will arise in respect of any transfer of, or agreement to transfer, the South32 Shares.

13.4 UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF HOLDING SOUTH32 SHARES OR SOUTH32 ADSs

(a) Scope

The following is a general outline of certain United States federal income tax consequences for South32 Shareholders and South32 ADS holders who (i) are a citizen or resident of the United States, a United States domestic corporation, or otherwise subject to United States federal income tax on a net income basis with respect to income from the South32 Shares or South32 ADSs, (ii) hold South32 Shares or South32 ADSs as capital assets for United States federal income tax purposes, (iii) are the beneficial owner of South32 Shares or South32 ADSs, and (iv) have as their functional currency the US dollar (**US South32 Holders**).

(b) Ownership of the South32 Shares or South32 ADSs

(1) General

Section 13.4(b) deals with certain United States federal income tax consequences to US South32 Holders of holding shares (or ADSs) of South32.

For this purpose, holders of ADSs will be treated for United States federal income tax purposes as holding the shares (as applicable) represented by the ADSs. Accordingly, no gain or loss will be recognised upon the exchange of South32 Shares for South32 ADSs (and vice versa).

(2) Dividends

A US South32 Holder must include in its gross income, the gross amount of any distribution South32 pays out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as a dividend. Subject to certain exceptions for short-term and hedged positions, a non-corporate US South32 Holder of South32 Shares or South32 ADSs will generally be subject to tax on any distribution to the extent it is treated as a dividend at the rate applicable to long-term capital gains, provided that (i) South32 is eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service (**IRS**) has approved under the qualified dividend rules and (ii) South32 is not a passive foreign investment company (**PFIC**) in the taxable year of the dividend or in the immediate preceding taxable year. South32 expects that it will be eligible for benefits under

an applicable treaty. As discussed in Section 13.4(b)(4), South32 does not believe that it is a PFIC in its current taxable year or was a PFIC in the most recently ended taxable year, and does not expect to become a PFIC in the foreseeable future. In the case of a corporate US South32 Holder, dividends will not be eligible for the dividends received deduction generally allowed to United States corporations in respect of dividends received from US domestic corporations.

Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the US South32 Holder's tax basis, determined in US dollars, in the South32 Shares or South32 ADSs and thereafter as a capital gain.

The amount of any cash distribution paid in any foreign currency will be equal to the United States dollar value of such currency, calculated by reference to the spot rate in effect on the date such distribution is received, regardless of whether and when the foreign currency is in fact converted into US dollars. If the foreign currency is converted into US dollars on the date received, the US South32 Holder generally should not recognise a foreign currency gain or loss on such conversion. If the foreign currency is not converted into US dollars on the date received, the US South32 Holder will have a tax basis in the foreign currency equal to its US dollar value on the date received, and generally will recognise a foreign currency gain or loss on a subsequent conversion or other disposal of such currency. Such foreign currency gain or loss generally will be treated as US source ordinary income or loss.

(3) Sales or disposition of South32 Shares or ADSs

Provided that South32 is not a PFIC, a US South32 Holder that sells or otherwise disposes of shares or ADSs will recognise a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realised and the US South32 Holder's tax basis, determined in US dollars, in those shares or ADSs.

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The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The capital gain of a non-corporate US South32 Holder is generally taxed at preferential rates where the US South32 Holder has a holding period greater than one year in the shares or ADSs sold. There are limitations on the deductibility of capital losses.

The US dollar value of any foreign currency received upon a sale or other disposition of shares or ADSs will be calculated by reference to the spot rate in effect on the date of sale or other disposal (or, in the case of a cash basis or electing accrual basis taxpayer, on the settlement date). A US South32 Holder will have a tax basis in the foreign currency received equal to that US dollars amount, and generally will recognise a foreign currency gain or loss on a subsequent conversion or other disposal of the foreign currency. This foreign currency gain or loss generally will be treated as United States source ordinary income or loss.

(4) Passive Foreign Investment Company

Based on South32's current expectations regarding the value and nature of its assets and the sources and nature of its income, South32 does not expect that it will be classified as a PFIC for United States federal income tax purposes for its current taxable year or its most recently ended taxable year. South32 is expected to continue to operate its business in such a manner that it is not expected to become a PFIC in the foreseeable future. However, there can be no assurance in this regard because the determination as to whether an entity is a PFIC must be made annually. Accordingly, there can be no assurance that South32 will not be considered a PFIC for any taxable year. US South32 Holders should consult their own tax advisers regarding the application of the PFIC rules to South32 and the implications of these rules for their particular circumstances.

(c) Information reporting and backup withholding

In general, dividends and payments of the proceeds from the sale, exchange or other disposition of shares, paid within the United States or through certain United States-related financial intermediaries to a United States person are subject to information reporting and may be subject to backup withholding unless the holder establishes that it is a corporation or other exempt recipient or, in the case of backup withholding, provides an accurate taxpayer identification number and certifies under penalty of perjury that it is a United States person and that it is not subject to backup withholding. Backup withholding is not an additional tax. A holder generally may obtain a refund of any amounts withheld under the backup withholding rules in excess of such holder's United States federal income tax liability by filing a refund claim with the IRS.

13.5 SOUTH AFRICAN TAX CONSEQUENCES OF HOLDING SOUTH32 SHARES**(a) Scope**

The following is a general outline of the main South African taxation implications for South32 Shareholders that (i) are resident in (and only in) South Africa for South African tax purposes (ii) will hold their South32 Shares on capital account as investments for income tax purposes and (iii) will be the beneficial owners of South32 Shares and any dividends paid on them (**SA South32 Shareholders**).

(b) Outline of South African taxation implications of holding South32 Shares

(1) Dividends

A SA South32 Shareholder will be subject to South African dividends tax on any cash dividends paid in respect of the JSE listed South32 Shares.

(A) Individual SA South32 Shareholders

An individual SA South32 Shareholder will be subject to 15 per cent South African dividends tax on any cash dividends paid in respect of the JSE listed South32 Shares.

(B) Corporate SA South32 Shareholders

A corporate SA South32 Shareholder will be exempt from South African dividends tax on any cash dividends paid in respect of the JSE listed South32 Shares if such corporate has provided the required declaration and written undertaking to the relevant regulated intermediary within the required period.

(2) Disposal of South32 Shares

The subsequent disposal of South32 Shares by SA South32 Shareholders will be subject to CGT.

A capital gain will arise to the extent that the proceeds from the disposal of the shares exceed the cost base of the shares held by a SA South32 Shareholder.

A capital loss will arise to the extent that the proceeds from the disposal of the shares are less than the base cost of the shares held by a SA South32 Shareholder. A capital loss may be offset against any other capital gains of the SA South32 Shareholder. There is no limitation on the roll forward of capital losses.

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(A) Individual SA South32 Shareholders

An individual SA South32 Shareholder will calculate a taxable capital gain (which will be included in their taxable income), or an assessed capital loss (which will be carried forward to the following year of assessment for set-off against future capital gains), as follows:

the sum of all capital gains and losses that arose during the year of assessment less the exclusion of ZAR30,000 per annum less the assessed capital loss brought forward from a previous year of assessment;

a total of 33.3 per cent of the taxable capital gain will be included in the taxable income of the individual SA South32 Shareholder on which they will be taxed at the individual's tax rate. The tax rate of an individual SA South32 Shareholder ranges between 18 to 40 per cent. The effective tax rate of the taxable capital gain of an individual SA South32 Shareholder will range between six per cent and 13.3 per cent.

(B) Corporate SA South32 Shareholders

A corporate SA South32 Shareholder will determine its taxable capital gain (or assessed capital loss) for a specific year of assessment in the same manner as an individual SA South32 Shareholder except that there is no annual exclusion available to a corporate SA South32 Shareholder.

66.6 per cent of the taxable capital gain will be included in the taxable income of the corporate SA South32 Shareholder on which they will be taxed at the corporate tax rate of 28 per cent. The effective tax rate of the taxable capital gain of a corporate SA South32 Shareholder amounts to 18.65 per cent.

13.6 NEW ZEALAND TAX CONSEQUENCES OF HOLDING SOUTH32 SHARES

(a) Scope

The following is a general outline of the main New Zealand taxation implications of holding South32 Shares for South32 Shareholders who are residents of New Zealand for income tax purposes (**New Zealand South32 Shareholders**).

(b) Outline of New Zealand taxation implications of holding South32 Shares

(1) Dividends

Dividends received by New Zealand South32 Shareholders in relation to their South32 Shares will be taxable income for New Zealand tax purposes and will need to be included in a tax return as assessable income for the income year in which the dividend is received. If dividends are paid in a currency other than New Zealand dollars, New Zealand South32 Shareholders will need to convert the dividend amount into New Zealand dollars in accordance with a prescribed method for the purposes of inclusion in their tax returns.

Any Australian franking credits attached to the dividends in relation to their South32 Shares under Australia's franking credit system will not be able to be used by New Zealand South32 Shareholders for the purposes of satisfying their New Zealand income tax liability. New Zealand South32 Shareholders may, however, receive a credit against their New Zealand income tax liabilities in respect of the dividends for any Australian dividend withholding tax deducted from those dividends.

(2) Sale of shares

New Zealand does not have a generic capital gains tax. However, New Zealand South32 Shareholders may be subject to New Zealand income tax on gains made on the sale or other disposal of South32 Shares or allowed a deduction for a loss sustained, in certain circumstances.

Generally, a New Zealand South32 Shareholder will be subject to income tax on a gain (or allowed a deduction for a loss) arising from the sale or disposal of South32 Shares if the New Zealand South32 Shareholder is in the business of dealing in shares, or disposes of the South32 Shares as part of a profit-making undertaking or scheme, or acquires the South32 Shares with the dominant purpose of selling them. New Zealand South32 Shareholders will need to consider their individual circumstances at the relevant time to determine whether any gain on the sale or disposal of South32 Shares will be taxable to them, or loss deductible, for tax purposes.

If any gain on disposal of South32 Shares is taxable (or loss deductible) to a New Zealand South32 Shareholder, the taxable gain (or deductible loss) will be the difference between the cost base for that New Zealand South32 Shareholder in the South32 Shares and the amount received for their disposal.

New Zealand South32 Shareholders will need to convert the amount of the gain (or loss) into New Zealand dollars in accordance with a prescribed method for the purposes of inclusion in their income tax returns.

(c) Goods and services tax (GST)

The sale or other disposal by New Zealand South32 Shareholders of South32 Shares will not be subject to GST in New Zealand.

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14 INFORMATION ON THE DEMERGER

14.1 INTRODUCTION

The BHP Billiton Board announced its intention to separate the BHP Billiton Group into two businesses on 19 August 2014. The separation will be effected by way of a demerger. The Demerger will result in the formation of an independent listed company, South32, with a portfolio of assets producing alumina, aluminium, coal, manganese, nickel, silver, lead and zinc.

If the Demerger proceeds, BHP Billiton Shareholders' investment in BHP Billiton will be divided into separate investments in two listed entities – BHP Billiton and South32. South32 will apply for admission of its ordinary shares to trading on the ASX, JSE and LSE and will establish an over-the-counter ADS program in the United States, and will be headquartered in Perth, Australia.

Details regarding implementation of the Demerger are set out in the Shareholder Circular.

Section 14 focuses on certain aspects of the Demerger that will have ongoing relevance for South32.

14.2 INTERNAL RESTRUCTURE

To establish South32 as the owner of the South32 Businesses, a number of internal share and asset transfers and other commercial arrangements have been, or will be, implemented within the BHP Billiton Group in connection with the Demerger. The objective of the Internal Restructure is to ensure that South32 owns all the companies, assets, rights and operating liabilities relating to the South32 Businesses and BHP Billiton owns all the companies, assets, rights and liabilities relating to the BHP Billiton Businesses.

The key elements of the Internal Restructure are as follows:

entities and assets and liabilities relating to the South32 Businesses have been or will be transferred to the South32 Group and entities and assets and liabilities relating to the BHP Billiton Businesses have been transferred out of the South32 Group;

certain persons previously employed by the BHP Billiton Group who work for the South32 Businesses have been or will be offered continuing employment with the South32 Group. Apart from the identity of the entity that employs the relevant employees, their terms and conditions of employment are or will be substantially similar to their current terms and conditions of employment;

intercompany loans between members of the South32 Group and the BHP Billiton Group have been or will be extinguished.

In order to give effect to the share and asset transfers forming part of the Internal Restructure, a series of share and asset sale agreements were entered into between members of the BHP Billiton Group and members of the South32 Group. These sale agreements are on standard terms for intra-group share and asset sales, including limited title and capacity warranties given by both parties. Although the majority of the transfers contemplated by the sale agreements

have already been completed as at the date of this document, completion under a limited number of the sale agreements remains conditional on BHP Billiton Shareholder approval being obtained for the Demerger. In addition, BHP Billiton Plc and South32 have entered into a Subscription Agreement (**Subscription Agreement**) under which, on the Distribution Date, South32 will issue to BHP Billiton Plc (or a subsidiary it nominates) a number of South32 Shares equal to the number of BHP Billiton Plc Shares on issue on the Plc Record Date. The subscription amount payable for each South32 Share will be the VWAP of South32 Shares traded on the ASX over the five trading days from the ASX Listing Date.

Not all of the transactions underlying the Internal Restructure have been entered into or effected on the same terms as could have been obtained from third parties. In particular, agreements for the transactions underlying the Internal Restructure have not included terms such as warranties that might have been obtained from third parties. This reflects the nature of the Demerger (which is unlike a sale to a third party) and the desire of the BHP Billiton Board to allocate the risks and benefits between the South32 Group and the BHP Billiton Group appropriately.

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14.3 IMPLEMENTATION OF THE DEMERGER

In summary, implementation of the Demerger involves:

an in-specie distribution of South32 Shares by BHP Billiton Limited and BHP Billiton Plc to Eligible Shareholders, which is expected to be implemented on 24 and 25 May 2015 respectively;

the South32 Shares that would have otherwise been distributed to Ineligible Overseas Shareholders will be transferred to the Sale Agent. The Sale Agent will sell these South32 Shares, and the South32 Shares received initially by the Selling Shareholders, on the ASX and the net proceeds are to be paid to the Ineligible Overseas Shareholders and the Selling Shareholders.

South32 will apply for admission of its ordinary shares to trading on the ASX, JSE and LSE. Trading in South32 Shares is expected to commence on 18 May 2015 on the ASX, initially on a deferred settlement basis, and on the LSE, on a when-issued basis. Normal trading is expected to commence on the ASX on 2 June 2015, JSE on 18 May 2015 and LSE on 26 May 2015. Further information is set out in the Shareholder Circular.

14.4 DEMERGER AGREEMENTS

The key transaction documents to give effect to the Demerger are summarised below.

(a) Implementation Deed

The Implementation Deed entered into on or around the date of this document between BHP Billiton Limited, BHP Billiton Plc and South32 sets out:

the conditions to the Demerger, which are described in Section 7.1 of the Shareholder Circular;

certain steps required to be taken by each party to implement the Demerger.

(b) Separation Deed

The Separation Deed entered into on or around the date of this document between BHP Billiton Limited, BHP Billiton Plc and South32 deals with issues arising in connection with the separation of South32 from the BHP Billiton Group.

The key terms of the Separation Deed are summarised below:

Demerger Principle: Subject to certain exceptions (see below), the fundamental underlying principle of the Demerger (**Demerger Principle**) is that:

the South32 Group will have the entire economic benefit and risk of the South32 Businesses (and former South32 Businesses), as if the South32 Group and not the BHP Billiton Group had owned those businesses at all times;

the BHP Billiton Group will have the entire economic benefit and risk of the BHP Billiton Businesses (including the entire risk in former BHP Billiton Businesses), as if the BHP Billiton Group and not the South32 Group had owned those businesses at all times.

This principle is subject to BHP Billiton being entitled to all the cash of the South32 Businesses up to the Economic Separation Date, so long as the South32 Group has net cash (broadly defined as cash and cash equivalents less interest bearing liabilities but excluding financing leases) of US\$54 million (subject to certain other agreed adjustments) at the time of its separation from the BHP Billiton Group.

Rights and obligations in accordance with the Demerger Principle: To give effect to the Demerger Principle, BHP Billiton and South32 agree that once the Demerger is implemented, no member of the BHP Billiton Group will have any rights against, or obligations to, any member of the South32 Group and no member of the South32 Group will have any rights against, or obligations to, any member of the BHP Billiton Group. This is subject to exceptions, including in relation to the rights and obligations of the BHP Billiton Group and the South32 Group under:

the Separation Deed and other transaction documents;

insurance policies issued or underwritten by a member of the BHP Billiton Group;

certain other agreements between the BHP Billiton Group and the South32 Group that the parties have agreed will continue following the Distribution Date.

Assumption of liabilities: Consistent with the Demerger Principle:

BHP Billiton will assume and be responsible for all liabilities relating to the BHP Billiton Businesses and former BHP Billiton Businesses (howsoever arising) and BHP Billiton Limited indemnifies the South32 Group against all claims and liabilities relating to those businesses (separate indemnities also apply under some of the sale agreements relating to the Internal Restructure);

South32 will assume and be responsible for all liabilities relating to the South32 Businesses and former South32 Businesses (howsoever arising) and indemnifies the BHP Billiton Group against all claims and liabilities relating to those businesses (separate indemnities also apply under some of the sale agreements relating to the Internal Restructure);

the Separation Deed also includes specific provisions concerning tax liabilities which are described below.

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Release: To support the points described above, BHP Billiton and South32 have agreed that:

South32 releases BHP Billiton from liabilities relating to the existing and former South32 Businesses and BHP Billiton releases South32 from liabilities relating to existing and former BHP Billiton Businesses;

BHP Billiton and South32 have no right to make any claim against each other and release each other from any liability relating to:

the matters and transactions which are the subject of, or contemplated by, the Separation Deed and other transaction documents;

the Internal Restructure (and the various transfers of ownership and responsibility undertaken pursuant to it);

the Demerger;

any express or implied conduct or representations made by them or certain of their representatives in the course of communications or negotiations about those matters,

except as expressly provided for in, or in relation to a breach of, the Separation Deed, another transaction document, insurance policies issued or underwritten by a member of the BHP Billiton Group, certain other agreements between the BHP Billiton Group and the South32 Group that the parties have agreed will continue following the Distribution Date and any claims and liabilities that cannot be excluded by law.

Limitations and exclusions from indemnities and claims: BHP Billiton and South32 may only make a claim (including in relation to any of the indemnities described in this Section 14.4(b)) under the Separation Deed or another transaction document if the amount of the claim exceeds US\$100,000. In addition, the claim must be net of any amount that the party receives under insurance. A party is not liable for a claim made by the other under the Separation Deed or any other transaction document to the extent the liability giving rise to the claim arises from the fraud, wilful misconduct or bad faith of the claiming party.

Assets: If, following the Distribution Date, any asset which exclusively relates to a South32 Business or any minerals tenement which is held for the primary purpose or benefit of a South32 Business is identified as being owned by the BHP Billiton Group then, subject to certain limitations and qualifications, the Separation Deed imposes obligations on BHP Billiton to transfer, assign or grant rights over that asset or tenement to the South32 Group. Reciprocal obligations apply to South32 for assets which exclusively relate to a BHP Billiton Business or which are used by, or relate to, both the BHP Billiton Businesses and the South32 Businesses and for minerals tenements which are held for the primary purpose or benefit of the BHP Billiton Business. The Separation Deed also contains arrangements in relation to the separation of assets, which are shared by the BHP Billiton Businesses and the South32 Businesses as at the Distribution Date.

Contracts: BHP Billiton must use its reasonable endeavours to transfer each contract to which a BHP Billiton Group member is a party as at the Distribution Date which is exclusively used by, or exclusively relates to, the South32 Businesses to the South32 Group. South32 indemnifies the BHP Billiton Group for all claims and liabilities incurred by the BHP Billiton Group in relation to such contracts, subject to limited exceptions. Reciprocal obligations and indemnities apply to South32 for contracts which are exclusively used by, or exclusively relate to, the BHP Billiton Businesses to which the South32 Group is a party. The Separation Deed also contains arrangements in relation to the separation of contracts which are shared by the BHP Billiton Businesses and the South32 Businesses and identified after the date of the Separation Deed.

Exploration data: South32 will be provided with a copy of certain exploration data held centrally by the BHP Billiton Group relating (i) exclusively to bauxite, manganese or nickel exploration anywhere in the world or (ii) to minerals exploration (other than petroleum) in Africa, certain parts of northeast Australia and certain parts of North America. BHP Billiton will be provided with a copy of certain minerals exploration data held by the South32 Businesses. The rights granted to each party to use the data are subject to applicable laws, third party rights and certain other restrictions.

Liability in relation to the disclosure documents: Except in relation to limited categories of information for which the parties have agreed South32 is responsible, BHP Billiton Limited agrees to indemnify the South32 Group and its directors and officers against any liability arising from a failure of the Shareholder Circular or this document to comply with any applicable legal requirement. South32 agrees to indemnify the BHP Billiton Group and its directors and officers against any liability arising from a failure of the information for which South32 is responsible to comply with any applicable legal requirement.

Financial support: South32 is obliged to use its reasonable endeavours to procure the release of all encumbrances, guarantees and other forms of security and financial support (**Guarantees**) given by, or at the request of the BHP Billiton Group in respect of the South32 Businesses. South32 indemnifies the BHP Billiton Group against all liabilities in relation to such Guarantees until they are released and must pay BHP Billiton a quarterly fee based on the aggregate amount which remains outstanding under such Guarantees after the Distribution Date.

Demerger costs: The Separation Deed sets out the arrangements agreed between BHP Billiton and South32 with respect to the allocation of certain costs associated with the establishment of the South32 Group as an independent and separate company group. Each party indemnifies the other with respect to the costs it has agreed to pay.

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Employees: BHP Billiton Limited indemnifies the South32 Group against all claims and liabilities incurred by the South32 Group in relation to current and former employees and contractors, including claims in respect of any entitlements (which ought to have been paid but were not paid), breach of employment terms or the transfer or termination of that employee to the extent those claims and liabilities relate to the relevant employees or contractors period of service within a BHP Billiton Business or former BHP Billiton Business. South32 reciprocally indemnifies the BHP Billiton Group in relation to current and former employees and contractors, to the extent those claims and liabilities relate to the relevant employees or contractors period of service within a South32 Business or former South32 Business. South32's indemnity is subject to an exception for claims and liabilities which relate to an employee's or contractor's period of service within a South32 Business or former South32 Business where the role of that employee or contractor was part of a BHP Billiton Group-wide function or was established as a result of, or in anticipation of, the Demerger, which are instead the subject of an indemnity from BHP Billiton to the South32 Group. Reciprocal indemnities are also provided in relation to claims and liabilities arising from breaches of workplace laws, including occupational health and safety, equal opportunity and discrimination laws, to the extent relating to service within the BHP Billiton Businesses or former BHP Billiton Businesses and the South32 Businesses or former South32 Businesses, respectively.

For each employee of the BHP Billiton Group on the Distribution Date, BHP Billiton must recognise the period of service of that employee with the BHP Billiton Group prior to the Demerger and is liable for all future service-related entitlements of such an employee (including leave and redundancy). South32 is reciprocally responsible for each employee of the South32 Group on the Distribution Date.

A separate Workers' Compensation Deed, entered into on or around the date of this document by BHP Billiton Limited and South32, relates to the assumption and management of workers' compensation claims and liabilities.

Insurance: All insurance cover provided in relation to the South32 Group or the South32 Businesses under either third party insurance policies which apply to both BHP Billiton and South32 or BHP Billiton captive insurance policies, will cease with effect from the date of the Demerger. However, South32 will retain whatever rights it may hold under those policies in respect of outstanding claims notified before the Demerger and, in respect of occurrence-based liability insurance for which South32 does not obtain replacement retroactive cover, claims which relate to events occurring prior to the Demerger. BHP Billiton will retain the proceeds of any insurance claims relating to the South32 Businesses to the extent those proceeds relate to losses and costs incurred prior to the date of the Demerger.

Branding: The South32 Group must cease to use the BHP Billiton and BHP Billiton Group names and the associated trade marks of the BHP Billiton Group as soon as practicable following the Distribution Date, subject to customary run-off periods, and facilitate orderly separation for signage, stationery, promotional and packaging materials, employee uniforms and the like. The BHP Billiton Group must not use or register any trade marks or any business, company or domain names which are substantially similar to South32 trade marks or which contain references to South32 or South32 Group (except in certain limited circumstances).

Litigation: The Separation Deed sets out arrangements pursuant to which the management responsibility for future third party claims will generally rest with the party who ultimately bears liability for that claim based on the terms of the Separation Deed and other transaction documents. This is subject to exceptions for third party claims which relate to:

both BHP Billiton and South32, their groups, businesses or former businesses; or

regulatory or governmental investigations or prosecutions which may cause reputational harm to the BHP Billiton Group or result in a criminal or civil penalty finding being made or result in a civil claim being brought against the BHP Billiton Group or certain other persons acting for or on its behalf, in respect of which BHP Billiton will have the right to manage the claim.

Both parties agree to assist each other in respect of the conduct of certain third party claims and agree not to take action in respect of such a claim which could cause liability or reputational damage to the other (or its group) without the other's consent.

Ownership of, and access to, records and data: Other than business records which are exclusively used by, or exclusively relate to, the South32 Businesses (which will be owned by South32), all business records will be owned by BHP Billiton. BHP Billiton will provide to South32 a copy of certain centrally held data relating to the South32 Businesses as part of the separation arrangements for the Demerger. Subject to certain restrictions, each party will be obliged to make available relevant business records and data which relate to the other party's business following the Demerger.

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Taxation: The general principle set out in the Separation Deed is that:

the BHP Billiton Group will be responsible for all taxes payable, and will receive all tax benefits, which relate to the BHP Billiton Group's Australian tax consolidated groups and the BHP Billiton Businesses and former BHP Billiton Businesses in respect of periods both prior to and after the Distribution Date; and

the South32 Group will be responsible for all taxes (other than taxes which relate to the BHP Billiton Group's Australian tax consolidated groups) payable, and will receive all tax benefits, which relate to the South32 Businesses and former South32 Businesses in respect of periods both prior to and after the Distribution Date.

However, the economic benefit, risks and liabilities in respect of certain tax matters have been allocated between BHP Billiton and South32 differently to the result that would follow the application of that principle based on a range of factors (including which party is considered to have the most interest in, and is better placed to manage, the matter). BHP Billiton Limited will also indemnify the South32 Group for tax and stamp duty liabilities incurred by the South32 Group in relation to the internal restructuring steps required to implement the Demerger.

Each party will have the right to manage any tax enquiries, demands or disputes relating to a matter for which it is responsible.

(c) Cash Adjustment Agreement

BHP Billiton Limited and South32 entered into a Cash Adjustment Agreement on or around the date of this document under which they agreed to procure that, on the Economic Separation Date, South32 will hold a specified post-Demerger targeted net cash balance (as set out in Section 14.4(b)). The parties have agreed to make certain payments, and to take certain steps, as may be necessary to achieve that position. On the Economic Separation Date, BHP Billiton Limited will subscribe for a South32 Share for cash consideration, and separately South32 may return capital to BHP Billiton Limited, in each case in such amounts as are required for South32 to arrive at its post-Demerger targeted net cash balance.

(d) Transitional Services Agreement

A wholly-owned subsidiary of BHP Billiton Limited and South32 entered into the Transitional Services Agreement on or around the date of this document under which the parties have agreed to continue to provide some support services to each other on a transitional basis for up to 12 months following the Distribution Date (or up to three years following the Distribution Date for certain services related to the administration of employee incentive plans) to facilitate the South32 Group's separation from BHP Billiton.

The primary services which will be provided by BHP Billiton relate to its facilitating the separation of the South32 Group from the BHP Billiton information technology systems. In this regard, BHP Billiton will provide the South32 Group with temporary access to a cloned version of the BHP Billiton core information technology systems, as well as with support in migrating the South32 Group's data from the clone to its own information technology systems.

BHP Billiton will also provide the South32 Group with support in a number of other areas, including payroll, human resources and reporting, to facilitate the South32 Group's separation.

The transitional support services that South32 will provide for BHP Billiton under the Transitional Services Agreement relate primarily to BHP Billiton's reporting functions.

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South32 was incorporated and registered in Australia under the Corporations (New South Wales) Act 1990 (Cth) (the predecessor to the Corporations Act) as a proprietary company on 12 July 2000 with the name Brogib Pty Limited and the ACN 093 732 597 and on 24 August 2000 changed its name to BHP Coal Holdings Pty Limited. On 3 March 2015, South32 was converted into a public company and on 5 March 2015 changed its name to South32 Limited. The principal legislation under which South32 operates, and pursuant to which the South32 Shares have been or will be issued, is the Corporations Act and regulations made thereunder. As at the ASX Listing Date, South32 will hold the Worsley Alumina, South Africa Aluminium, Mozal Aluminium, Brazil Aluminium, South Africa Energy Coal, Illawarra Metallurgical Coal, Australia Manganese, South Africa Manganese, Cerro Matoso and Cannington South32 Businesses (subject, where applicable, to the Demerger Resolution being passed by BHP Billiton Shareholders, the BHP Billiton Board declaring the Demerger Dividend and the other conditions precedent to the Demerger being satisfied or waived).

South32 is domiciled in Australia and its current address is Level 20, Waterfront Place, 1 Eagle Street, Brisbane, Qld, 4000. South32's current principal place of business is Level 32, Brookfield Place, 125 St Georges Terrace, Perth, WA, 6000. It is proposed that following implementation of the Demerger, South32's principal business address will be Level 35, 108 St Georges Terrace, Perth, WA, 6000. The telephone number of South32's office is +61 8 9324 9000.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (**KPMG International**), a Swiss entity, whose address is 10 Shelly Street, Sydney NSW 2000 has been the auditor of South32 since 20 May 2003.

15.2 CORPORATE HISTORY

Prior to the Internal Restructure and other steps described in Section 14, South32 was the holding company for the Illawarra Metallurgical Coal business. South32 has owned that business since 2000 and except as disclosed in this document, in the five years prior to the Internal Restructure, there were no material changes in the nature of the business carried on by South32 and its subsidiaries (being mining). South32 has acquired, or will acquire, the other South32 Businesses pursuant to the restructure described in Section 14.2. Information regarding each of the South32 Businesses is set out in Section 7.

15.3 SHARE CAPITAL OF SOUTH32

The rights attaching to South32 Shares are set out in South32's Constitution, a summary of which is set out in Section 15.4.

(a) Total issued share capital

On incorporation, two South32 Shares of no par value in the capital of South32 were issued and were fully paid up in cash. South32 had 450,000,004 shares on issue as at 14 March 2015, being the latest practicable date prior to the publication of this document.

At General Meetings of BHP Billiton Limited Shareholders and BHP Billiton Plc Shareholders to be held on 6 May 2015, the BHP Billiton Limited Shareholders and BHP Billiton Plc Shareholders will be asked to vote on the Demerger Resolution.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document) and except as disclosed in this document, there has been no issue of share or loan capital by South32 since its incorporation and no share or loan capital of South32 is under option or agreed, conditionally or unconditionally, to be put under option.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), South32 does not hold any South32 Shares in treasury. South32 has no convertible securities, exchangeable securities, redeemable preference shares or securities with warrants on issue.

As part of implementing the Demerger, South32 intends to carry out a share division and issue as described in Section 9.3(a), such that the actual number of South32 Shares at the time of implementation of the Demerger will be equal to the number of BHP Billiton Shares on issue on the relevant Record Date. Other than as aforesaid, there has not been any other splitting or sub-division of the shares or other securities of South32, nor has there been any consolidation of shares or securities during the past three years.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), there were 3,211,691,105 BHP Billiton Limited ordinary shares and 2,112,071,796 BHP Billiton Plc ordinary shares on issue.

Other than the South32 Shares which are to be admitted to trading on the ASX, JSE and LSE, no other securities have been issued by South32. When admitted to trading on the ASX, JSE and LSE, the ISIN of the South32 Shares will be AU000000S320.

South32 will also establish an ADS program, but the South32 ADSs will not be admitted to trading on the New York Stock Exchange or any other securities exchange in the United States and will trade over-the-counter.

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(b) Confirmations

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), except as disclosed in this document:

no share or loan capital of South32 has, since the incorporation of South32, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

no commission, discounts, brokerages or other special terms have been granted by South32 in connection with the issue or sale of any share or loan capital;

no share or loan capital of South32 is under option or agreed, conditionally or unconditionally, to be put under option;

no debentures or debenture stock have been issued by South32;

no loan capital is outstanding, except as disclosed in Section 9.3;

no contract or arrangement is in place or is proposed to be put in place for options or preferential right to be granted to any person to subscribe for securities of South32 or any of its subsidiaries.

No South32 Share has been marketed to, nor are any South32 Shares available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the South32 Shares to the Official List.

As at the date of this document, South32 and its subsidiaries have not made any material loans nor are there any such material loans previously made which remain outstanding, other than as set out in Section 9.3. There have been no instances where the directors of South32 have exceeded their borrowing powers.

(c) Major South32 Shareholders

As at the date of this document, the entire issued share capital of South32 is held by BHP Billiton Limited. Immediately, following the Demerger, the shareholders of South32 shall be the same as the shareholders of BHP Billiton as at the relevant Record Date, except where BHP Billiton Shareholders are Ineligible Overseas Shareholders or elect to sell their South32 Shares pursuant to the Sale Facility.

To the knowledge of South32 and BHP Billiton Limited:

BHP Billiton is not directly or indirectly owned or controlled by another corporation or by any foreign government;

immediately following the implementation of the Demerger, there is no person who, directly or indirectly, jointly or severally, will exercise or could exercise control over South32;

there are no arrangements the operation of which may at a subsequent date result in a change in control of BHP Billiton or (other than as a result of implementation of the Demerger) South32;

no public takeover offers by third parties have been made in respect of BHP Billiton Shares or by BHP Billiton in respect of other companies' shares during the current or preceding financial year.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), to the knowledge of South32 and BHP Billiton Limited, there are no persons that are directly or indirectly interested in five per cent or more of the issued shares in BHP Billiton Limited and the following persons are directly or indirectly interested in three per cent or more of the issued shares in BHP Billiton Plc:

Aberdeen Asset Managers Limited, which holds 157,061,561 shares of which it controls voting rights in respect of 127,971,161 shares, representing 6.06 per cent of the BHP Billiton Plc Shares on issue (as notified on 13 March 2015);

BlackRock Inc, which holds and controls voting rights in respect of 213,014,043 shares, representing 10.08 per cent of the BHP Billiton Plc Shares on issue (as notified on 3 December 2009), and none of the shareholders referred to above has or will have different voting rights from any other holder of South32 Shares in respect of any South32 Shares held by them.

(d) South32 Shares issued during the three years prior to the date of this document

In the three years prior to the date of this document, there have been no shares issued by South32, except to BHP Billiton Limited or BHP Billiton Plc or one of its subsidiaries.

(e) Form and currency of the South32 Shares

The South32 Shares will be in registered form and will be capable of being held in certificated form in South Africa (with a register of dematerialised beneficial interests in South32 Shares maintained by the Strate Nominee) and uncertificated form in Australia. South32 Shares held in CREST in the UK will be represented by uncertificated South32 Depositary Interests.

South32's registries are:

Principal share registry – Australia
Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnston Street

Abbotsford VIC 3067

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Branch share registry South Africa
Computershare Investor Services (Pty) Ltd

70 Marshall Street

Johannesburg 2001

Depository Interests registry United Kingdom
Computershare Investor Services PLC

The Pavilions, Bridgwater Road

Bristol BS99 6ZZ

The South32 Shares will be denominated in Australian dollars and quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE.

South32 ADSs will be denominated in US dollars.

(f) Rights attached to the South32 Shares

All South32 Shares will rank pari passu in all respects, there being no preferential conversion or exchange rights attaching thereto, and all of the South32 Shares will have equal rights to participate in capital, dividend and profit distributions by South32 and to vote at general meetings in accordance with the Constitution (as summarised in Section 15.4(g)). The provisions of the Constitution governing the variation of class rights are summarised in Section 15.4(l).

(g) Free transferability of the South32 Shares

There are no restrictions on the transferability of the South32 Shares imposed by the South32 Constitution.

(h) Authorities relating to the South32 Shares

The issue of South32 Shares to BHP Billiton Limited and BHP Billiton Plc in connection with the Demerger (see Section 9.3) will occur in accordance with agreements, the entry into which has been approved by the boards of each company.

At General Meetings of BHP Billiton Limited Shareholders and BHP Billiton Plc Shareholders to be held on 6 May 2015, the BHP Billiton Limited Shareholders and BHP Billiton Plc Shareholders will vote on the Demerger Resolution.

The distribution of the South32 Shares to BHP Billiton Shareholders pursuant to the Demerger Dividend will be undertaken in accordance with the BHP Billiton Limited constitution and the BHP Billiton Plc articles

of association.

15.4 SUMMARY OF SOUTH32 S CONSTITUTION

(a) South32 s Constitution and rights attaching to South32 Shares

On its conversion to a public company, South32 adopted the South32 Constitution, which is designed for a public listed company. The South32 Constitution is designed for an ASX-listed company and has regard to usual market practice for ASX-listed companies.

Some important features of the South32 Constitution are summarised in paragraphs 15.4(b) to 15.4(p) below:

(b) Powers of the South32 Board

The South32 Board is to manage or direct the business and affairs of South32, and may exercise all powers and do all things within the power of South32 that are not required to be done in a general meeting. In doing so, the South32 Board may exercise all of the powers of South32 to borrow or raise money, to charge any property or business of South32 or all or any of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of South32 or any other person.

(c) Rights and duties of South32 Directors

The South32 Constitution deals with the rights and obligations of South32 Directors and officers of South32, including:

the appointment, retirement and removal of directors, including the managing director and chairperson;

the appointment of a company secretary;

the remuneration of directors;

the powers of directors;

meetings and written resolutions of directors;

the rights of directors and officers to be indemnified (subject to law) against all liabilities incurred as an officer of South32.

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(d) Composition of South32 Board

The South32 Board will comprise of at least three and no more than 11 directors. Details of the known members of the proposed South32 Board as at the ASX Listing Date are set out in Section 8.1.

A person is able to be elected as a director at a general meeting of South32 if they have been nominated by the South32 Board or they are already a director of South32. An external candidate is eligible for election as a director if they have been nominated by at least the same number of members required to requisition a resolution at a general meeting of South32, and they have given notice to South32 in accordance with the South32 Constitution.

The quorum for a meeting of directors is two directors of South32. Resolutions at a meeting of directors are to be decided by a majority vote. In the case of an equality of votes, the Chairman of a meeting has a casting vote, unless only two directors of South32 are present.

There is no mandatory age of retirement for directors of South32 and the South32 Constitution provides that directors are not required to hold shares in South32. While directors of South32 are not required by the South32 Constitution to hold shares in South32, the South32 Board proposes to implement a policy in relation to Non-executive Director share ownership, as described in Section 8.1(b).

(e) Conflicts of interest

Under the South32 Constitution, the directors of South32 may make regulations requiring the disclosure of interests that a director may have. A director who has an interest in a matter that is being considered at a meeting of the South32 Board may, despite that interest, be present and be counted in a quorum at the meeting and vote, unless that is prohibited by the Corporations Act. The Corporations Act requires a director who has a material personal interest in a matter to give the other directors notice of the interest, and is not permitted to be present and vote on the matter (unless the other directors resolve otherwise).

(f) General meetings

General meetings of South32 are to be held in accordance with the Corporations Act, and each South32 Shareholder will be entitled to receive notice of a general meeting in accordance with the Corporations Act and, except in certain circumstances, attend and vote at general meetings of South32.

(g) Voting at a general meeting

Subject to the South32 Constitution, the Corporations Act and any special rights or restrictions for the time being attached to any class of South32 Shares, at a general meeting each South32 Shareholder present in person, or by attorney, corporate representative or proxy, has one vote on a show of hands, and one vote for each fully paid South32 Share on a poll.

Voting at any meeting of South32 Shareholders is by a show of hands (unless a poll is demanded). Direct votes are counted only on a poll. The quorum required for a meeting of South32 Shareholders is five members present and entitled to vote on a resolution at the meeting (whether in person, or by attorney, corporate representative or proxy). Direct votes are not counted as part of the quorum.

(h) Dividends

Under the South32 Constitution, the South32 Directors may determine that a dividend is payable on a class of shares, fix the amount and the date for payment, and determine the method of payment of the dividend to each South32 Shareholder entitled to that dividend. If a dividend is paid, it will be paid equally on all South32 Shares, except in the case of partly paid South32 Shares where the dividend will be in proportion to the percentage of the issue price that has been paid (excluding amounts credited and amounts paid in advance of a call).

The South32 Directors may:

pay dividends wholly or partly by the distribution of specific assets, including securities of South32 or of another body corporate (to the extent making such a distribution to some South32 Shareholders is contrary to law or considered impracticable, South32 may make a cash payment to those South32 Shareholders or allocate the assets or securities to a trustee to be sold on behalf of those South32 Shareholders);

require South32 Shareholders to receive dividends by electronic transfer to a nominated bank account and credit dividends to a company account where a shareholder has not provided bank account details. If a South32 Shareholder has not claimed a dividend payment for more than 11 calendar months after payment to a company account, the South32 Directors may reinvest that amount, after deducting reasonable expenses, into shares in South32 on behalf of, and in the name of, the South32 Shareholder.

Interest is not payable in respect of any dividend.

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(i) Issue of further South32 Shares

Subject to the Corporations Act and the ASX Listing Rules:

the issue of shares (including partly paid shares and redeemable preference shares) in South32 is under the control of the South32 Board;

the South32 Board has the power to issue shares, options and other securities convertible into shares to any person at any time and on such terms as it determines.

(j) Proportional takeover provisions

The Constitution requires South32 Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by South32 Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

(k) Small holdings

While South32 is listed, it may (unless the South32 Shareholder notifies South32 otherwise during the relevant notification period) sell the South32 Shares of a South32 Shareholder who holds less than a marketable parcel of South32 Shares.

(l) Variation of class rights

The rights attached to any class of share may be altered with the sanction of a special resolution passed at a separate meeting of the holders of shares of the affected class, or with the written consent of the holders of at least 75 per cent of the shares of the affected class.

(m) Calls, forfeiture and liens

South32 has a first lien on every South32 Share for, among other things, all due and unpaid calls, and all money which South32 is required by law to pay, and has paid, in respect of a South32 Share.

If a South32 Shareholder fails to pay a call in respect of any amount unpaid on any South32 Shares on the payment date specified, South32 may give notice to that South32 Shareholder requiring payment of that call, together with any costs and interest that has accrued. If, after receiving notice, the call remains unpaid, the directors of South32 may by resolution forfeit the relevant South32 Shares.

The directors of South32 may sell, otherwise dispose of or re-issue South32 Shares forfeited in this way, subject to compliance with the Corporations Act and the ASX Listing Rules.

(n) Indemnification

South32 may, to the maximum extent permitted by law, indemnify any current or former director, secretary or officer of South32 or of its related bodies corporate against all losses, liabilities, costs and expenses incurred by the person in that capacity.

(o) Winding up

If South32 is wound up, the liquidator may, with the sanction of a special resolution of South32 Shareholders, distribute among South32 Shareholders the whole or any part of the property of South32 and may determine how to distribute the property as between South32 Shareholders or different classes of South32 Shareholders.

(p) Arrangements in respect of shares received as distributions from BHP Billiton Plc

Each South32 Share which is transferred to BHP Billiton Plc Certificated Shareholders who are Eligible BHP Billiton Plc Shareholders and Eligible BHP Billiton Plc Shareholders who hold their shares in CREST will automatically be transferred to Computershare Australia against the issue of a DI representing that South32 Share (see Section 15.6(d) for further details). DIs will be issued directly to BHP Billiton Plc Shareholders who hold their shares in CREST. DIs issued in respect of shares transferred to BHP Billiton Plc Certificated Shareholders who are Eligible BHP Billiton Plc Shareholders will be issued to a subsidiary of Computershare Investor Services PLC which will hold them as nominee for the entitled shareholder under the CSN Facility unless, in each case, they elect otherwise (see Section 15.6(e) for further details).

(q) Dividend reinvestment plan

South32 may establish a dividend reinvestment plan on any terms as the South32 Board resolves under which South32 Shareholders may elect to apply the whole or part of a dividend from South32 to subscribing for or purchasing South32 Shares.

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(r) South32 subsidiary constitutional director remuneration provisions

Each of the subsidiaries of South32 is subject to the requirements set out by its constitution or, if the subsidiary has not adopted a constitution, the rules that apply by default under applicable law. The constitutions of South32 subsidiaries generally provide that the remuneration payable to directors is to be fixed by South32 in a general meeting, either on an individual basis or as a total amount from within which the subsidiary board may determine individual directors' remuneration. In some jurisdictions, directors' remuneration is determined by the subsidiary board, which is subject to applicable directors' duties under law. Directors may also, in some circumstances, be entitled to receive additional remuneration for undertaking special exertions.

15.5 LISTING

Application will be made to the ASX for quotation of the South32 Shares. It is expected that the ASX admission will become effective and that dealings (on a deferred settlement basis) on the ASX of the South32 Shares will commence at 12:00pm (AEST) on 18 May 2015.

Application has been made to the JSE for the South32 Shares to be admitted to listing and trading on the main board of the JSE. It is expected that the JSE admission will become effective and that dealings on the JSE will commence at 9:00am (SAST) on 18 May 2015.

Application will be made to the UKLA for all of the issued South32 Shares to be admitted to the standard listing segment of the Official List and to the LSE for the South32 Shares to be admitted to trading on its main market for listed securities. It is expected that when-issued dealing in the South32 Shares will commence at 8:00am (BST) on 18 May 2015 and that the South32 Shares will be admitted to listing and trading at 8:00am (BST) on 26 May 2015.

Upon admission of South32 Shares to trading on the ASX, JSE and LSE, South32 will be subject to the ASX Listing Rules, the JSE Listing Rules applicable to secondary listed issuers and the standard listing requirements pursuant to Chapter 14 of the UKLA Listing Rules.

South32 will also establish an ADS program, but the South32 ADSs will not be listed on the New York Stock Exchange or any other securities exchange in the United States and will trade over-the-counter, with regular way trading of ADSs to commence on 1 June 2015.

15.6 SOUTH32 SHAREHOLDINGS

(a) South32 Shareholdings

Unless Eligible Shareholders elect otherwise (where they are entitled to do so), the way in which they will receive their South32 Shares will depend on how they hold their BHP Billiton Limited or BHP Billiton Plc Shares, as described below in Tables 15.1 and 15.2:

Table 15.1: BHP Billiton Limited Shareholders

Manner in which BHP Billiton Limited Shares are held

On BHP Billiton Limited's CHESS subregister

Manner in which South32 Shares will be held

On South32's CHESS subregister

Default form of confirmation

CHESS confirmation advice will be despatched on 1 June 2015

CHESS statement will be despatched at the end of June 2015

On BHP Billiton Limited's issuer sponsored subregister

On South32's Australian issuer sponsored subregister

Issuer sponsored holding statement will be despatched on 1 June 2015

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| Manner in which BHP Billiton Plc Shares are held | Manner in which South32 Shares will be held | Default form of confirmation |
|---|---|--|
| On the United Kingdom register in CREST | In DI form credited to the same CREST account on the South32 register as the shareholder's BHP Billiton Plc Shares are held (see Section 15.6(d)) | A credit to the CREST account of the applicable South32 DIs |
| On the United Kingdom register in certificated form (for BHP Billiton Shareholders who do not have a registered address in a CSN Restricted Jurisdiction) (see Section 15.6(e)) | In a CSN account maintained by Computershare Investor Services PLC (see Section 15.6(e)) | CSN holding statements will be despatched on 1 June 2015 by first class mail |
| On the United Kingdom register in certificated form (for BHP Billiton Shareholders with a registered address in a CSN Restricted Jurisdiction) (see Section 15.6(e)) | On South32's Australian issuer sponsored subregister | Issuer sponsored holding statement will be despatched on 1 June 2015 |
| On the register of dematerialised beneficial interests maintained by Strate in an account with a CSDP or broker | In dematerialised form in the same CSDP or broker account as the shareholder's BHP Billiton Plc Shares are held | South32 Shareholder's CSDP or broker accounts will be credited on 25 May 2015 |
| On the South African branch register in certificated form | On the South32 South African branch register | South32 Share certificates will be despatched, at the South32 Shareholder's risk, on or about 25 May 2015 by registered post |

(b) Small holdings (post Demerger)

In order to reduce the costs and administration associated with servicing large numbers of shareholders with small holdings, South32 may, after implementation of the Demerger, consider implementing an arrangement under which the South32 Shares held by a South32 Shareholder with less than a marketable parcel as set by the ASX Listing Rules (currently being a parcel of securities with a market value of less than A\$500) could be aggregated and sold on their behalf, unless these shareholders elect to retain their South32 Shares. This is not part of the Demerger and, if South32 decides to implement this arrangement, full details will be released at the time.

(c) Registration of South32 shareholdings on another register

If BHP Billiton Shareholders (other than South African Shareholders) wish to opt-out of the arrangements set out in Section 15.6(a) and elect to have their South32 Shares registered on another register, they should contact Computershare by calling the Shareholder Information Line. Computershare will explain the register election process that must be followed by BHP Billiton Shareholders (other than South African Shareholders) who wish to have their

South32 Shares held on another register (**Register Election**). The Register Election process must be completed on or prior to the applicable Record Date for the register on which the BHP Billiton Shareholder holds their BHP Billiton Shares. The South32 register election process will not result in the BHP Billiton Shares held by that Shareholder being transferred to the elected register.

The Register Election option is not available to South African Shareholders because South African Exchange Control Regulations do not permit South African Shareholders to hold their shares on a register outside South Africa without obtaining the prior approval of the FinSurv Department (see Section 15.10(d)).

After the distribution of South32 Shares, South32 Shareholders on all registers (including South African Shareholders) will be able to request to have their South32 Shares moved to another register by contacting Computershare's Global Transaction team in the respective region. Movements between registers are usually completed within 24 hours, depending on the time of lodgement and allowing for time differences in the respective jurisdictions and, in the case of South African Shareholders, are subject to the requirement that the prior approval of the FinSurv Department must first be obtained.

Table of Contents**(d) Explanation of South32 DI arrangements****(1) What is a South32 DI?**

A depositary interest (**Depositary Interest** or **DI**) enables the holder to hold and settle transfers of South32 Shares in CREST. CREST is a paperless settlement system which allows securities to be transferred from one person's CREST account to another electronically. Securities of issuers domiciled outside the United Kingdom and Ireland, such as South32, cannot be held or settled directly in CREST. South32 has therefore entered into arrangements to enable investors to hold, and settle transfers of, South32 Shares in CREST in the form of South32 DIs. Each South32 DI represents an entitlement to one underlying South32 Share. Underlying South32 Shares will be listed on the UKLA Official List and traded on the LSE. South32 DIs will be transferred in CREST to settle those trades in exactly the same way as an ordinary share.

The UK Depositary was appointed under the DI Depositary Agreement to issue the South32 DIs on the terms of the Deed Poll and to provide certain other services in connection with the South32 DIs, in exchange for certain fees and expenses.

These services include acting as custodian, complying with the provisions of the Deed Poll, maintaining a depositary interest register, processing distributions and dealing with routine correspondence with holders of South32 DIs.

South32 has agreed to indemnify the UK Depositary for all losses resulting from, or in connection with, the depositary, custodian and dividend services. The UK Depositary's liability to South32 is subject to exclusions and limitations.

(2) How will the South32 DIs work?

South32 Shares distributed to registered holders of BHP Billiton Plc Shares (other than the Strate Nominee and BHP Billiton Plc Shareholders on the South African branch register) who are Eligible Shareholders will initially be registered in their names on South32's Australian issuer sponsored subregister. Under Rule 15.3 of the South32 Constitution, these shares will then be automatically transferred to Computershare Australia, which will hold those shares on behalf of the UK Depositary in its nominee account within the Australian settlement system, CHESS. The UK Depositary will credit South32 DIs to participants' CREST accounts against the receipt of underlying South32 Shares by Computershare Australia. A South32 DI register of CREST participants will be held in the United Kingdom showing full details of the registered South32 DI holders in a similar fashion to the register of legal ownership of South32 Shares. The South32 DI register will be wholly uncertificated and South32 DIs can only be held and transferred between CREST participants.

The South32 DIs will be created and issued under the Deed Poll, which will govern the relationship between the UK Depositary and the holders of the South32 DIs.

Summary of the principal terms of the Deed Poll

Under the Deed Poll, Computershare Australia (on behalf of the UK Depositary) will hold the underlying South32 Shares on trust for all holders of South32 DIs as tenants in common and will hold on trust and pass on to holders of South32 DIs any stock or cash benefits received by it as holder of the underlying South32 Shares.

Holders of South32 DIs will be able to exercise the rights attached to the South32 Shares represented thereby and will be treated in the same way as registered South32 Shareholders in respect of all other rights attaching to South32 Shares, in each case, so far as possible in accordance with applicable CREST Regulations, CREST requirements and applicable law. Holders of South32 DIs will not, however, be able to vote on a show of hands and must give prompt instructions to the UK Depositary or its nominated custodian, in accordance with any voting arrangements made available to them, to vote the underlying South32 Shares on their behalf or to take advantage of any arrangements enabling holders of South32 DIs to vote such shares as a proxy of the UK Depositary or its custodian.

Following the issue of the South32 DIs, holders will be able to cancel their South32 DIs in CREST in order to hold their underlying South32 Shares directly on the Australian or South African register (upon sending an instruction to CREST to that effect).

Holders of South32 DIs will be required to warrant, among other things, that South32 Shares issued or transferred to the UK Depositary (or a custodian on its behalf) after the Demerger will be free and clear of all third party security interests and that such transfers are not in contravention of any contractual obligation, law or regulation.

Subject to certain exceptions, the UK Depositary, Computershare Australia and any custodian or agent appointed by them (and their respective officers, employees and agents) are entitled to be indemnified against all liabilities incurred in the performance of their obligations under the Deed Poll and may make deductions from income or capital receipts which would otherwise be due to the South32 DI holder and/ or sell the underlying South32 Shares and make such deductions from the proceeds of sale as may be required for this purpose or to meet any tax liability of such South32 DI holder in respect of which the UK Depositary is required to make any deduction or withholding. Save for liabilities which arise from the acts or instructions of a South32 DI holder and any tax liability of a South32 DI holder, each South32 DI holder's liability is limited to the cash and other property which the UK Depositary holds on trust for that South32 DI holder from time to time (**Trust Property**).

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The Deed Poll permits the UK Depositary to charge South32 DI holders fees and expenses out of Trust Property and contains provisions excluding and limiting the UK Depositary's liability. The UK Depositary will not be liable for any acts or omissions of South32, the CREST operator or any third party reasonably appointed by the UK Depositary outside its group to provide services in connection with the South32 DIs.

The liability of the UK Depositary is limited to the lesser of the value of (a) the deposited property attributable to the holder of South32 DIs and (b) the proportion of £5,000,000 which corresponds to the portion of the UK Depositary's liability to the South32 DI holder relative to the UK Depositary's liability to all holders in respect of the same act, omission or event. The UK Depositary may terminate the Deed Poll by giving at least 30 days' notice to South32 DI holders.

The Trust Property will be held in pooled accounts. In the event of any shortfall in those accounts, South32 DI holders will be entitled to their pro rata share of the available South32 Shares or cash.

The UK Depositary may amend the Deed Poll by giving 30 days' notice to South32 DI holders.

The UK Depositary or Computershare Australia (or any other duly appointed nominee or custodian) may require any holder of South32 DIs to provide information in relation to their holdings of South32 DIs on the same basis as such information may be required from a holder of South32 Shares.

The Deed Poll is governed by English law. A copy of the Deed Poll is available on the BHP Billiton website at www.bhpbilliton.com/demerger and will be available on the South32 website in due course.

(e) Explanation of Corporate Sponsored Nominee (CSN) arrangements

(1) What is a CSN and how does the CSN Facility work?

In order to be admitted to trading on the LSE, transfers of South32 Shares must be eligible for settlement in CREST. As shares in Australian companies, such as South32, are not eligible for settlement in CREST, South32 has made the arrangements described in Section 15.6(d)(2) for South32 Shares to be represented by South32 DIs. South32 DIs can be held and settled in CREST.

As BHP Billiton Plc Certificated Shareholders are not holding their BHP Billiton Plc Shares in CREST accounts, in order to enable BHP Billiton Plc Certificated Shareholders to hold the South32 Shares they will receive in a form which can be traded on the LSE, South32 has arranged for the UK Nominee to act as a nominee to hold South32 DIs representing South32 Shares for BHP Billiton Plc Certificated Shareholders (**CSN Facility**). Under the CSN Agreement, the UK Depositary has agreed to provide registrar services including maintaining records of participants in the CSN Facility, issuing statements of ownership, providing online access to enable participants to view their holdings, processing electronic instructions on their behalf, providing proxy services, processing distributions and providing a dealing facility.

The CSN Agreement includes limitations and exclusions of the UK Depositary's liability, mutual indemnities and provision for the payment of fees and expenses to the UK Depositary.

Summary of the principal CSN Terms and Conditions

The UK Nominee will hold South32 DIs for CSN Participants on the CSN Terms and Conditions. Under the CSN Terms and Conditions, CSN Participants are the beneficial owners of the South32 DIs to which they relate and may give instructions to transfer the South32 DIs or underlying South32 Shares. By participating in the CSN Facility, CSN Participants warrant and undertake that they will not grant any liens, charges or encumbrances over their South32 DIs.

The UK Nominee agrees to pass on company communications and act on CSN Participants' instructions to exercise voting and other rights in relation to their underlying South32 Shares (provided that it is put in funds if it is required to make any payment) and to take all reasonable steps to treat CSN Participants, so far as possible, in the same way as a registered holder of South32 Shares.

The UK Nominee is appointed as agent for the CSN Participants to give CREST instructions. The UK Nominee is not responsible for losses incurred from acts or omissions of the CREST member through whom messages are delivered into CREST on its behalf or arising from CREST. CSN Participants are required to indemnify the UK Nominee for costs and liabilities which may arise if they require the UK Nominee to give CREST instructions which cannot be completed for any reasons connected with the CSN Participant.

Client money held on behalf of CSN Participants will be held in pooled accounts. The UK Nominee will be entitled to set off amounts it owes to a CSN Participant against any amounts owed to it by that CSN Participant. The UK Nominee may make deductions in respect of any applicable withholding tax from payments due to a CSN Participant.

The UK Nominee may terminate a CSN Participant's participation in the CSN Facility if the CSN Participant breaches the CSN Terms and Conditions, in which case, the UK Nominee will transfer the underlying South32 DIs or South32 Shares to an account nominated by the CSN Participant.

No charges are payable by a CSN Participant other than for services requested by that CSN Participant.

CSN Participants may be required to provide information in relation to their underlying holdings of South32 DIs on the same basis as such information may be required from a holder of South32 Shares.

The CSN Terms and Conditions do not restrict a participant's rights under the rules of the Financial Conduct Authority or the UK Financial Services Act 2012 and can be amended with South32's consent.

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The CSN Terms and Conditions are governed by English law.

The CSN Terms and Conditions are available on the BHP Billiton website at www.bhpbilliton.com/demerger and will be available on the South32 website in due course.

(2) Termination and your right to cancel your participation in the CSN Facility

A CSN Participant may cancel their participation in the CSN Facility by giving the UK Nominee written notice within 30 days after normal trading in South32 Shares commences on the LSE (which is expected to be on 26 May 2015). If a CSN Participant cancels their participation in the CSN Facility, the UK Nominee will transfer the underlying South32 DIs or South32 Shares to such person as the CSN Participant may nominate and no fees will be charged for such transfer.

Thereafter, a CSN Participant may terminate their participation in the CSN Facility and a transfer fee (currently £17.50) will apply.

(3) Participation in the CSN Facility is limited to South32 Shareholders in certain jurisdictions

The ability to participate in the CSN Facility may be restricted or made onerous by law in certain jurisdictions. Any BHP Billiton Plc Certificated Shareholder who has a registered address in the United States or any other CSN Restricted Jurisdiction will not be entitled to participate in the CSN Facility. Instead, those BHP Billiton Plc Certificated Shareholders will be issued their South32 Shares on the Australian issuer sponsored subregister, with an issuer sponsored holding statement issued reflecting their South32 shareholding.

The UK Nominee will provide a dealing service for CSN Participants. Details of this service are available on the BHP Billiton website at www.bhpbilliton.com/demerger and will be available on the South32 website in due course.

15.7 TRADING YOUR SOUTH32 SHARES

(a) Trading on the ASX

South32 will apply to participate in CHESS, in accordance with the ASX Listing Rules and ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are affected in electronic form. South32 Shareholders who hold their South32 Shares on the CHESS or Australian issuer sponsored subregister will be able to sell or buy South32 Shares through their existing ASX participant broker. South32 is expected to trade under the ASX code of S32.

(b) Trading on the JSE

Application will be made to the JSE for a secondary listing by way of introduction of all the issued South32 Shares in the general mining sector of the Main Board of the JSE under the abbreviated name South32 and share code S32, with effect from the commencement of trading on the JSE on 18 May 2015.

Strate is the authorised Central Securities Depository (**CSDP**) for the electronic settlement of all financial instruments in South Africa. Shares that are not represented by documents of title and that have been replaced with electronic records of ownership are referred to as dematerialised or uncertificated shares. Shares that are evidenced by share certificates or other documents of title are referred to as certificated shares. The CSDPs are the only market participants who can liaise directly with Strate. Under the Strate system, there are essentially two types of clients: controlled and non-controlled. Controlled broker clients elect to keep their shares and cash in the custody of their broker and, therefore, indirectly the broker's chosen CSDP. Controlled clients deal directly and exclusively with their broker. Non-controlled broker clients appoint their own CSDP. A non-controlled client receives share statements directly from their CSDP.

South32 Shares will be traded and settled on the JSE through Strate only in electronic form as dematerialised or uncertificated South32 Shares. Accordingly, any person who acquires South32 Shares and who elects to receive such South32 Shares in certificated form will be required to dematerialise their interest in such certificated South32 Shares in order to be able to trade such South32 Shares on the JSE. It is noted that there are risks associated with holding shares in certificated form, including the risk of loss or tainted scrip, which are no longer covered by the JSE Guarantee Fund. To facilitate trading on the JSE through Strate, the dematerialised South32 Shares on the Strate Nominee Register will be immobilised and registered in certificated form in the name of the Strate Nominee. This will not, however, affect the operation of the Strate system. The beneficial holders of such South32 Shares will have their beneficial interests in such South32 Shares recorded in accounts maintained by each CSDP, and transfer and settlement of such beneficial title will be effected through Strate and in accordance with the Strate rules. Each beneficial holder will be required to maintain an account with a CSDP or broker and will instruct their CSDP or broker regarding voting and other matters in accordance with the mandate entered into between such beneficial holder and their CSDP or broker. If a beneficial holder wishes to attend a meeting of South32 in person, they will need to request a proxy form from their CSDP or broker, who will then obtain such proxy form from the Strate Nominee via Strate. The dividends due to the beneficial holders will be paid into their accounts by their CSDP or broker. South32 intends to procure the distribution of all notices and other documentation to all beneficial holders who have indicated their desire to receive such notices and other relevant documentation.

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(c) Trading on the LSE

As settlement of South32 Shares cannot occur through CREST, settlement of trades in South32 Shares on the LSE will only occur in the form of South32 DIs. South32 DIs will be credited to CREST accounts of Eligible BHP Billiton Plc Shareholders whose BHP Billiton Plc Shares are held in CREST. Trading on the LSE and settlement of such trades through CREST as South32 DIs will take place in exactly the same way as with an ordinary share. The South32 Shares and South32 DIs will have the same ISIN. South32 is expected to trade under the LSE code of S32.

Any BHP Billiton Plc Certificated Shareholder whose registered address is not in a CSN Restricted Jurisdiction will be able to trade their South32 Shares through the CSN dealing service, full details of which are available on the BHP Billiton website at www.bhpbilliton.com/demerger and will be available on the South32 website in due course. It is expected that any trades on behalf of a CSN Participant will be carried out on the LSE and settled by the transfer of South32 DIs.

(d) Trading of South32 ADSs

The South32 ADSs will not be listed on any exchange in the United States. Instead, the South32 ADSs will be eligible for trading on the United States over-the-counter market. Settlement of South32 ADSs traded on the over-the-counter market will take place through the facilities of the Depositary Trust Company. If a person wishes to trade the South32 ADSs, they should consult their broker or other securities intermediary to determine how the South32 ADSs may be traded and how such trades may be settled in the United States.

15.8 FOREIGN OWNERSHIP AND OTHER SHAREHOLDING RESTRICTIONS GENERAL

(a) Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of a relevant interest in shares in listed companies, and unlisted companies with more than 50 members, if the acquirer s (or another party s) voting power would increase to above 20 per cent, or would increase from a starting point that is above 20 per cent and below 90 per cent, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of five per cent or more in South32.

(b) Restriction on foreign ownership

There are no limitations, either under the laws of Australia or under the South32 Constitution, to the right of non-residents to acquire, hold and vote South32 Shares other than the Foreign Acquisitions and Takeovers Act 1975 (Cth) (FATA).

The FATA may affect the rights of certain persons to acquire South32 Shares. Specifically, under the FATA any acquisition by:

a foreign person or associated foreign persons which would result in a holding of 15 per cent or more of the issued shares, voting power or potential voting power in South32 requires notification, review and approval by the Treasurer of the Commonwealth of Australia;

non-associated foreign persons which would result in a holding by those persons (together with an associate or associates of any of them) of 40 per cent or more of the issued shares, voting power or potential voting power in South32 can be the subject of certain orders (including prohibition) by the Treasurer of the Commonwealth of Australia if the Treasurer considers the result would be contrary to the national interest.

Any acquisition of South32 Shares by a foreign government or one of its related entities may also require notification, review and approval under the Foreign Investment Review Board's policy (**Policy**).

The Treasurer has confirmed that he does not object to the actions to be taken as part of implementation of the Demerger (as described in Section 14).

Persons who consider that they may be affected by the FATA or the Policy should seek independent professional advice.

15.9 SOUTH AFRICAN EXCHANGE CONTROL LIMITATIONS AFFECTING SHARES

The following is a general summary of the current position, and is intended as a guide only and is therefore not comprehensive. Persons who consider that they may be affected by South Africa's exchange control limitations in relation to their South32 Shares should seek independent professional advice. South32 is not responsible for obtaining any exchange control consents that any investor may need to obtain, in order to buy or sell South32 Shares.

(a) General SARB requirements

South32 Shareholders' attention is drawn to the SARB's requirements that all share transactions pertaining to South32 Shares registered on the South African overseas branch register will be subject to South African tax legislation that is already in force or which may come into force.

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(b) Inward listing on the JSE

South32 has obtained SARB approval for the secondary (inward) listing of South32 Shares on the JSE subject to certain conditions and undertakings set out in Section 15.10(d). The SARB approval specifically provides for the following:

the approval of the inward listing of the South32 Shares on the JSE;

South32's Shareholders that are residents of South Africa will be treated according to the provisions of section H.(A) of the Exchange Control Rulings following the secondary (inward) listing of the South32 Shares on the JSE.

Upon the listing of the South32 Shares on the JSE, the Exchange Control Regulations provided for in section H of the Exchange Control Rulings will apply to the acquisition of South32 Shares by South African residents.

South32 Shareholders who are required to dispose of their South32 Shares within a stipulated period should consult their broker or other professional adviser immediately. South32 Shareholders that are uncertain of whether the SARB will allow them to retain their South32 Shares should consult their broker or other professional adviser immediately.

The following is a summary of exchange controls insofar as they have application to South African resident South32 Shareholders in relation to the holding of South32 Shares. This summary description is intended as a guide only and is therefore not comprehensive. If you are in any doubt, you should consult an appropriate professional adviser immediately.

(c) South African individuals

South African individuals will be able to acquire South32 Shares on the South32 South African branch register or via the JSE through Strate, without restriction. Consequently, the purchase of South32 Shares by a South African individual will not affect such person's offshore investment allowance. A South African individual need not take any additional administrative actions and can instruct their broker to accept, buy and sell South32 Shares on their behalf as they would with any other listed security on the JSE.

(d) South African institutional investors

Institutional investors are allowed to invest in inward listed shares without affecting their permissible foreign portfolio investment allowance.

(e) Member brokers of the JSE

A special dispensation has, in terms of section H.(E) of the SARB's Exchange Control Rulings, been provided to local brokers to facilitate the trading of inward listed shares on the JSE. South African brokers are now allowed, as a book building exercise, to purchase shares offshore and to transfer them to the South African overseas branch register. This special dispensation is confined to shares of inward listed companies, and brokers may warehouse such shares for a maximum period of 30 days.

(f) South African corporate entities and trusts

South African corporate entities or trusts will be able to acquire South32 Shares on the South African overseas branch register, via the JSE, without restriction. A South African corporate entity or trust need not take any additional administrative actions and can instruct their broker to accept, buy and sell South32 Shares on its behalf as they would with any other listed security on the JSE.

(g) Rights issue

South African institutional investors, corporates, banks, trusts, partnerships and private individuals will be allowed to exercise their rights in terms of rights offers by South32.

(h) Non-residents of the CMA

Non-residents of the CMA may acquire South32 Shares on the JSE provided that payment is received in ZAR from a non-resident account. Proceeds from the sale of South32 Shares by non-residents are freely transferable. Former residents of the CMA who have emigrated may use emigrant blocked funds to acquire South32 Shares, provided that these are endorsed accordingly and brought under the physical control of an authorised dealer appointed by the Minister of Finance of South Africa in terms of the Exchange Control Regulations who controls the said emigrants remaining blocked assets.

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15.10 ASX, ASIC, JSE AND SARB WAIVERS, CONFIRMATIONS AND RELIEF

(a) ASIC waivers

ASIC has granted relief from:

the requirement to prepare a prospectus in relation to the invitation to BHP Billiton Shareholders to vote on the Demerger, and in relation to any secondary trading in South32 Shares;

various provisions in the Corporations Act (including the provisions relating to managed investment schemes and financial services licensing) that may otherwise apply to the Sale Facility;

the takeover provisions under the Corporations Act in respect of the proposed issue of South32 Shares to BHP Billiton Plc (or a subsidiary) immediately prior to the distribution of those South32 Shares to BHP Billiton Plc Shareholders (including the requirement for BHP Billiton Plc to file a substantial holding notice, if applicable).

(b) ASX confirmations and waivers

The ASX has:

confirmed for the purpose of ASX Listing Rule 1.1, condition 3 that:

South32 may use an information memorandum substantially in the form of this document rather than a prospectus for the purpose of its admission to the ASX and that information memorandum does not need to be sent to South32 Shareholders;

the South32 pro forma historical financial information contained in this document may be used for the purpose of the assets test;

provided waivers in respect of ASX Listing Rule 6.23 in relation to certain adjustments to BHP Billiton's employee share plans to adjust for the effect of the Demerger;

provided a waiver in respect of ASX Listing Rule 10.14 to allow South32 to issue options or grant rights to executive directors of South32 pursuant to the terms of the South32 Equity Incentive Plan for the purpose of adjusting for the effect of the Demerger on the executive directors' BHP Billiton options or rights;

confirmed that ASX Listing Rule 10.1 does not apply to the transfer of South32 Shares to any of BHP Billiton's substantial shareholders or BHP Billiton directors;

confirmed that ASX Listing Rules 7.1 and 10.11 do not apply to the issue of 40 per cent of the South32 Shares to BHP Billiton Plc immediately prior to the distribution of South32 Shares to BHP Billiton Plc Shareholders;

confirmed that ASX Listing Rules 7.1 and 10.11 do not apply to the issue of any South32 Shares to BHP Billiton Limited for the purpose of adjusting the number of South32 Shares on issue immediately prior to implementation of the Demerger;

confirmed that Chapter 11 of the ASX Listing Rules does not apply to the Demerger and the approval of BHP Billiton Limited Shareholders is not required for the Demerger;

approved the timetable for the Demerger.

(c) JSE confirmations and waivers

The JSE has provided certain confirmations and waivers in connection with the Demerger and this document.

(d) SARB confirmations and waivers

The SARB has approved the inward listing of South32 on the JSE for the purposes of allowing South32 Shareholders that are residents of South Africa to be treated according to the provisions of section H of the South African Exchange Control Rulings, subject to the conditions set out below. South32 has agreed to these conditions, which it does not believe will have a material impact on its business. The conditions are set out below:

The board of directors of South32 must have a minimum of two South African representatives.

The shares owned by South African shareholders in South32 must be held on the JSE register, subject to the current requirements relating to inward listings.

After the demerger:

only South32 shareholders not being South African residents will be permitted to transfer ASX or LSE listed shares to the JSE and vice versa;

any South African person (including any institutional South African investor) who wishes to acquire South32 Shares on either the ASX or LSE register will be entitled to do so only in accordance with the usual exchange control principles applicable to the acquisition of foreign shares – any shares so acquired will be regarded as foreign shares and be subject to the limits applicable to the allowance of foreign assets in respect

of such person.

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South32 will not be required to obtain the prior written consent of the FinSurv Department for capital raising exercises in South Africa in cases where:

the capital raising in question is undertaken by way of a vanilla pro rata rights offer to all shareholders; and

there are no special agreements between South32 and one or more non-South African resident shareholders that they will not take up their rights in the rights offer.

South32 will be required to obtain the prior written consent of the FinSurv Department in respect of any proposed issue of shares in South32 pursuant to a capital raising under which a greater than pro rata share of that capital raising is to be targeted towards South African resident shareholders (whether new or pre-existing).

South32 will have the right to pay dividends from its South African subsidiaries and to remit any such dividends abroad without having to obtain the prior written consent of the FinSurv Department, provided that the payout ratio of dividends from the distributable reserves of the South African subsidiaries shall be no greater than the average payout ratio of dividends from the distributable reserves of non-South African subsidiaries.

South32 must furnish the FinSurv Department with a performance report showing compliance with the aforesaid conditions, together with its financial statements, on an annual basis.

All trade marks developed in South Africa must remain in South Africa.

In addition, South32 has given the following undertakings to the FinSurv Department:

The board and management team of South32 will include strong South African representation.

South32 board meetings will be regularly convened in South Africa.

South32's African operations will be managed from a regional head office in South Africa.

To the extent possible, a South African citizen will be appointed to lead the African businesses and will be based in South Africa.

A global shared services centre which provides support to South32 operations will be established and managed from the regional office.

South32 will declare dividends in proportion to its earnings and will not excessively leverage its South African operations.

Save as set out above, the normal exchange control principles and rules relating to inward listed companies will be applicable to South32.

15.11 GOVERNMENT PROTECTIONS AND INVESTMENT ENCOURAGEMENT LAWS

In the context of the South32 Group taken as a whole, the South32 Group is not the beneficiary of any material governmental protections, investment encouragement laws or incentives, which are not of general application, except as described in Section 7.1.

15.12 ORGANISATIONAL STRUCTURE

After implementation of the Demerger, it is intended that the South32 Group will comprise South32 and its subsidiaries. South32 is expected to hold the following significant subsidiaries (not including dormant and non-trading entities) and material joint venture interests and investments at the ASX Listing Date:

Table 15.3: List of South32's significant subsidiaries, incorporated joint venture interests and investments

| Subsidiary name | Place of incorporation | South32 shareholding ^(a) | Proportion of voting rights ^(b) |
|---|------------------------|-------------------------------------|--|
| BHP Billiton Aluminium (RAA) Pty Ltd ^(c) | Australia | 100 | 100 |
| BHP Billiton Aluminium (Worsley) Pty Ltd ^(c) | Australia | 100 | 100 |
| BHP Billiton Cannington Pty Ltd | Australia | 100 | 100 |
| BHP Billiton Corporate Overheads Pty Ltd | Australia | 100 | 100 |
| BHP Billiton Energy Coal South Africa Proprietary Limited | South Africa | 90 | 90 |
| BHP Billiton Finance South Africa Limited | British Virgin Islands | 100 | 100 |
| BHP Billiton Freight Australia Pty Ltd | Australia | 100 | 100 |
| BHP Billiton International Investment Holdings Pty Ltd | Australia | 100 | 100 |
| BHP Billiton Jersey Limited | Jersey | 100 | 100 |
| BHP Billiton Metais SA | Brazil | 100 | 100 |
| BHP Billiton RBM Holdings Proprietary Limited | South Africa | 100 | 100 |

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| Subsidiary name | Place of incorporation | South32 shareholding^(a) | Proportion of voting rights^(b) |
|--|-------------------------------|---|--|
| BHP Billiton Royalty Investments Pty Ltd | Australia | 100 | 100 |
| BHP Billiton SA Finance (Pty) Limited | South Africa | 100 | 100 |
| BHP Billiton SA Holdings Limited | South Africa | 100 | 100 |
| BHP Billiton SA Investments Limited | United Kingdom | 100 | 100 |
| BHP Billiton SA Limited | South Africa | 100 | 100 |
| BHP Billiton Singapore Pte Ltd | Singapore | 100 | 100 |
| BHP Billiton Treasury Limited | Australia | 100 | 100 |
| BHP Billiton Treasury (USA) Limited | Australia | 100 | 100 |
| BHP Billiton Worsley Alumina Pty Ltd ^(c) | Australia | 86 | 86 |
| Billiton Aluminium SA (Pty) Limited | South Africa | 100 | 100 |
| Billiton Coal SA Proprietary Limited | South Africa | 100 | 100 |
| Billiton Investment 12 B.V. | Netherlands | 100 | 100 |
| Cerro Matoso SA | Colombia | 99.9 | 99.9 |
| Dendrobium Coal Pty Ltd | Australia | 100 | 100 |
| Endeavour Coal Pty Ltd | Australia | 100 | 100 |
| Gengro Limited | South Africa | 100 | 100 |
| Groote Eylandt Mining Company Pty Ltd ^(c) | Australia | 60 | 60 |
| Hillside Aluminium (Pty) Limited | South Africa | 100 | 100 |
| Hotazel Manganese Mines (Proprietary) Limited | South Africa | 74 | 44.4 |
| Illawarra Coal Holdings Pty Ltd | Australia | 100 | 100 |
| Illawarra Services Pty Ltd | Australia | 100 | 100 |
| Mozal SARL ^(c) | Mozambique | 47.1 | 47.1 |
| Phola Coal Processing Plant Proprietary Limited | South Africa | 50 | 45 |
| Samancor AG | Switzerland | 60 | 60 |
| Samancor Manganese (Proprietary) Limited | South Africa | 100 | 60 |
| Tasmanian Electro Metallurgical Company Pty Ltd ^(c) | Australia | 100 | 60 |

- (a) South32's percentage shareholding represents the percentage of shares held by a member of the South32 Group.
- (b) South32's proportion of voting rights in a company is determined by multiplying the percentage voting rights in each company between South32 and the relevant company.
- (c) As at the date of publication of this document, the interests specified in respect of these companies are not owned by South32. South32 expects to own the interest specified in these companies following implementation of the Demerger.

15.13 DETAILS ON SOUTH32 DIRECTORS AND SENIOR MANAGEMENT

The Directors and their functions within South32 and brief biographies are set out in Section 8.1.

The companies and partnerships of which the South32 Directors are, or have, within the past five years, been members of the administrative, management or supervisory bodies or partners (excluding South32 and its subsidiaries):

Table 15.4: Current and former directorships for South32 Directors and senior management

David Crawford Chairman and Independent Non-executive Director

| | | |
|--|---|--|
| Current directorship/ partnership | Australia Pacific Airports Corporation Limited (Chairman) | Melpeat Pty Ltd |
| | Lend Lease Corporation Limited (Chairman) | |
| Former directorship/ partnership | Beringer Blass Wines Pty Ltd | Gardiner Hill Pty Ltd |
| | BHP Billiton Limited | Kaprad Holdings Pty Ltd |
| | BHP Billiton Plc | LLIT Pty Ltd |
| | Foster s Group Limited | Melbourne Cricket Club Foundation Scotch College |

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| | | |
|---|---|--|
| Other relevant roles | Allens (formerly Allens Arthur Robinson (current member of the Advisory Board)) | Foster s Group Limited (former Chairman of the Succession Committee, former member of the Audit Committee, former member of the Human Resources Committee) |
| | Australia Pacific Airports Corporation Limited (current member of the Remuneration Committee) | |
| | Bank of America Merrill Lynch Australia (current member of Advisory Board) | Lend Lease Corporation Limited (current member of the Nomination Committee) |
| | BHP Billiton Group (former Chairman of the Finance Committee) | Melbourne Cricket Club Foundation (former Vice President) |
| | Chelmaness Pty Ltd (former Receiver/ Manager) | |
| Graham Kerr Chief Executive Officer and Executive Director | | |
| Former directorship/ partnership | Richards Bay Mining (Proprietary) Limited | Richards Bay Titanium Holdings (Proprietary) Limited |
| | Richards Bay Mining Holdings (Proprietary) Limited | Tisand (Pty) Limited |
| | Richards Bay Titanium (Proprietary) Limited | |
| Other relevant roles | BHP Billiton Group (former Chief Financial Officer and former member of management committee) | Iluka Resources Ltd (former General Manager Commercial) |
| Keith Rumble Independent Non-executive Director | | |
| Current directorship/ partnership | Acetologix Pty Limited BHP Billiton Limited | Elite Wealth (Pty) Limited Enzyme Technologies (Pty) Limited |
| | BHP Billiton Plc | |
| Former directorship/ partnership | Aveng Group Limited | |
| Other relevant roles | BHP Billiton Group (current member of the Sustainability Committee) | Rhodes University (current member of the Board) |

| | | |
|-----------------------------------|---|--|
| | | of Governors) |
| | Parkview Golf Club (former Committee member) | World Wildlife Fund, South Africa (current trustee) |
| Xolani Mkhwanazi | Non-executive Director | |
| Current directorship/ partnership | 3G Investment Holdings | Laastewater Plase |
| | Bombardier Transportation South Africa Pty Ltd | Logisticor |
| | Clyromanzi Pty Ltd | Mkhwanazi Malherbe (M2) Investments |
| | Comverge South Africa (Pty) Limited | Next Corporate and Travel Solutions |
| | EB Steam Holdings (Pty) Limited | Phathela Investments |
| | Entabeni Bayside Development Company | Private Label Promotion |
| | Entabeni Bayside Management Company | PSC the Grove |
| | Friedshelf 1555 | Sancrodox Seaworld Investment Holdings |
| | Idada Trading 354 | The Bridal Entourage |
| | Imphandze Investment Holdings | Umthombo Exhibitions Events and Promotions |
| | Jan Harmsgat | Vexosol Pty Ltd |

K2014190525

Zini River Estate Homeowners
Association

K2104187034

**Dr Mkhwanazi has notified his intent and is in the process of resigning
from the following entities:**

Alvipart

Guild Sibanye Investments

Cyber Knowledge Systems Holdings

Gypsum Fertilizer Company

Cyber Knowledge Systems
Investments

Interactive Trading 779

Eco Electrica (Pty) Limited

Rift Valley Investment

Eco Emfuleni (Pty) Limited

Sofitone

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| | | |
|---|---|--|
| Former directorship/ partnership | Bubesi Investments 188 | Richards Bay Titanium (Proprietary) Limited |
| | Bytes Universal Systems | Richards Bay Titanium Holdings (Proprietary) Limited |
| | Joshua Nxumalo Investments | Serengeti Jewellers |
| | Kabi Energy | Summit Diamond Cutting |
| | NBI National Business Initiative for Growth Development and Democracy | Summit Jewellers |
| | Pebble Bed Modular Reactor Company | Tisand (Pty) Limited |
| | Richards Bay Mining (Proprietary) Limited | Umfede Investments |
| | Richards Bay Mining Holdings (Proprietary) Limited | Unisys Africa Pty Ltd |
| Other relevant roles | At Snowy s Guest House (former member) | Naledi Trackers (former member) |
| | Human Resource Development Council of South Africa (current member) | Nelson Mandela Municipality University Trust (current trustee) |
| | Jan Harmsgat Farm (current member) | Projects Sibanye Tendering (former member) |

Jan Harmsgat Live Stock Division Shamase Guesthouse (former member)
(former member)

Largovert (current member) South Africa Chamber of Mines (current
member of council and former President)

With the exception of Nicole Duncan, who was a former director or company secretary of certain subsidiaries of the BHP Billiton Group, none of the senior managers listed in Section 8.2 are, or have, within the past five years, been members of the administrative, management or supervisory bodies, or partners of, a company or partnership (except as set out in Section 8.2).

15.14 PENSIONS

(a) Defined contribution pension plans and multi-employer pension plans

The South32 Group contributes to defined contribution plans and multi-employer defined contribution plans in Australia, Brazil, Mozambique, Singapore, South Africa, Switzerland and the United Kingdom. Contributions to these plans are expensed as incurred.

The plans are described in more detail in note 25 Related party balances and transactions of Annexure 1.

(b) Defined benefit pension plans

All defined benefit plans are closed to new entrants. Defined benefit pension plans remain operating in Australia, Brazil and South Africa for existing members.

The defined benefit pension plans are final salary plans that provide final salary benefits only, or mixed benefit plans that consist of a final salary defined benefit portion and a defined contribution portion.

Full actuarial valuations are prepared and updated annually to 30 June by local actuaries for all plans, using the projected unit credit valuation method.

The South32 Group does not usually participate in multi-employer defined benefit plans, in which the risks are shared with other companies that participate in those plans.

(c) Defined benefit post-retirement medical plans

The South32 Group operates a number of post-retirement medical plans in South Africa. Full actuarial valuations are prepared by local actuaries for all plans. All of the post-retirement medical plans in the South32 Group are unfunded.

15.15 LITIGATION

Members of the South32 Group are involved from time to time in governmental, legal or arbitration proceedings of a character normally incidental to their business, including claims and pending actions against South32 Group members

seeking damages or clarification of legal rights and regulatory inquiries regarding business practices.

There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which South32 is aware) which may have, or have had in the recent past, being the 12 months preceding the date of this document, a significant effect on South32 and/or the South32 Group's financial position or profitability, except for certain actions brought:

in respect of Cerro Matoso, which are referred to in Section 2.1(f);

by administrative bodies, which are referred to in Section 2.1(d).

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These matters are being vigorously contested by South32. There are other litigation and arbitration proceedings to which members of the South32 Group are a party that are not considered to be material to South32. However, it is possible that South32's assessment of its exposure in respect of these proceedings may change in the future, including as a result of developments in the proceedings or additional information becoming available.

15.16 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) are contracts which have been entered into by the South32 Group in the two years immediately prior to the date of this document, and which are or may be material or are contracts entered into by the South32 Group which contain provisions under which any member of the South32 Group has an obligation or entitlement which is or may be material to the South32 Group at the date of this document:

the Implementation Deed, the terms of which are summarised in Section 14.4(a);

the Separation Deed, the terms of which are summarised in Section 14.4(b);

the Cash Adjustment Agreement, the terms of which are summarised in Section 14.4(c);

the Transitional Services Agreement, the terms of which are summarised in Section 14.4(d);

the Subscription Agreement, the terms of which are summarised in Section 14.2;

the Facility, the terms of which are summarised in Section 10.6;

the agreements entered into by South32 described in Section 7.3(d) in respect of the Manganese Business Entities;

the Cerro Matoso IPA, the terms of which are summarised in Section 7.1(i)(1);

the ADS Depositary Agreement;

the Deed Poll;

the DI Depositary Agreement;

the CSN Agreement.

No other material contracts, other than in the ordinary course of business, were entered into within the two years preceding the last practicable date prior to the publication of this document or before that date and which remain outstanding in any respect.

15.17 MATERIAL ROYALTIES

Royalties and resource rent taxes are treated as income tax when they have the characteristics of a tax on profits. Obligations arising from royalty arrangements that are based on turnover do not satisfy these criteria and are treated as expenses. Except as disclosed in this document (including Annexure 6), no individual royalties which are material to South32 (as defined by the listing requirements of the JSE) have been paid by the South32 Group in the three years preceding the date of this document.

15.18 PROPERTY, PLANT AND EQUIPMENT

South32's material assets comprise its mining titles, leases and options, and its preparation plants and processing refineries, smelting, and infrastructure which are discussed in Section 7.1 and Annexure 6. Material environmental issues which affect the use of these assets are discussed in Sections 2.5 and 7.1.

In addition, South32 owns, leases or licences certain properties for its business operations around the world.

15.19 SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the South32 Group since 31 December 2014, being the date the historical combined financial information referred to in Section 9 of this document was prepared, except as disclosed in note 10 Subsequent events in Annexure 2 of this document.

15.20 WORKING CAPITAL STATEMENT

South32 and its directors are of the opinion that the South32 Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of the publication of this document.

15.21 ANNOUNCEMENT OF COMPLETION OF THE DEMERGER AND THE ADMISSION OF SOUTH32 SHARES

An announcement will be made on the ASX and JSE upon South32's admission to the ASX and JSE respectively, and to a Regulatory Information Service on admission of South32 to trading on the LSE.

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Each of the parties named in Section 15.22 as consenting parties:

has given and has not, before the date of this document, withdrawn its written consent to be named in this document in the form and context in which it is named;

has given and has not, before the date of this document, withdrawn its written consent to the inclusion of its respective statements and reports (where applicable) noted next to its names in Section 15.22, and the references to those statements and reports in the form and context in which they are included in this document;

does not make, or purport to make, any statement in this document other than those statements referred to in Section 15.22 in respect of that person's name (and as consented to by that person);

to the maximum extent permitted by law (but without prejudice to its obligations under the UKLA Prospectus Rules), expressly disclaims and takes no responsibility for any statements in or omissions from this document.

Table 15.5: Parties that have consented to be named

| Role | Consenting party |
|---------------------------------------|--|
| Auditor | KPMG and KPMG Inc. |
| Registry | Computershare Investor Services Pty Limited. Computershare Investor Services (Pty) Limited. Computershare Investor Services PLC. |
| Legal advisers | Herbert Smith Freehills (Australia), ENSafrica (South Africa), Slaughter and May (United Kingdom) and Cleary Gottlieb Steen & Hamilton LLP (United States). |
| Independent legal advisers to South32 | King & Wood Mallesons (Australia), Weksmans Attorneys (South Africa) and King & Wood Mallesons LLP (United Kingdom). |
| Financial advisers | Lead financial adviser: Goldman Sachs Australia Pty Ltd. Joint financial adviser and sponsor for the JSE listing: UBS AG. |
| Taxation advisers | Greenwoods & Herbert Smith Freehills Pty Ltd (Australia), Slaughter and May (United Kingdom), Cleary Gottlieb Steen & Hamilton LLP (United States), Ernst & Young Advisory Services (Pty) Ltd (South Africa) and Bell Gully (New Zealand). |
| Independent Accountant | |

KPMG Financial Advisory Services (Australia) Pty Ltd, in relation to the Independent Accountant's Assurance Report, any statements based on that report and for the purpose of PR 5.5.3R(2)(f) of the UKLA Prospectus Rules.

Independent Competent Persons

Each Independent Competent Person named as such in the relevant report set out in Annexure 6 in relation to their report.^(a)

Competent Persons

Each Competent Person, in relation to the relevant Mineral Resources and Ore Reserves information they have provided, as set out in Section 7.2(b).

Other

Wood Mackenzie in relation to certain statistical information attributed to it in this document relating to the bauxite, alumina and aluminium, energy coal and metallurgical coal industries.

CRU in relation to certain statistical information attributed to it in this document relating to the manganese and alumina industries.

International Lead Zinc Study Group in relation to certain statistical information attributed to it in this document relating to the silver, lead and zinc industry.

AME Group in relation to certain statistical information attributed to it in this document relating to the silver, lead and zinc industry.

In each case the information from the Other parties has been accurately reproduced from the relevant source and, as far as South32 is aware and is able to ascertain from information published by the Other parties, no relevant facts have been omitted which would render the reproduced information being inaccurate or misleading.

- (a) An Independent Competent Person's Report has not been prepared for MRN's reserves on the basis that the contribution to South32 (from its 14.8 per cent interest in MRN's reserves on a standalone basis) is not material in the context of South32's overall business. An Independent Competent Person's Report prepared for MRN would not include the value of South32's interest in Alumar and thus would not be representative of the contribution of

the Brazil Aluminium business.

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None of the Independent Competent Persons or Competent Persons:

holds or has, within the two years prior to the date of this document, held any direct or indirect beneficial interests in any South32 assets or South32 Shares other than interests that are, or may have been, held in BHP Billiton Shares; or

has acquired, disposed of or leased any South32 asset.

Each Independent Competent Person's and Competent Person's interest in BHP Billiton Shares as at 14 March 2015 (being the latest practicable date prior to the publication of this document) is set out in Tables 15.6 and 15.7 below:

Table 15.6: Independent Competent Persons' interests in BHP Billiton Shares (and therefore indirect interest in South32) as at 14 March 2015

| Mine | Consulting firm | Independent Competent Person | Direct interest in BHP Billiton Shares | Indirect interest in BHP Billiton Shares |
|------------------------------|------------------------|-------------------------------------|---|---|
| Worsley Alumina | SRK | Rod Brown | 1,100 | Nil |
| | | Sjoerd Duim | Nil | Nil |
| | | Anthony Stepcich | Nil | Nil |
| South Africa Energy Coal | Xstract | Kevin Irving | Nil | 114 |
| | | Ian de Klerk | Nil | Nil |
| | | Jeames McKibben | Nil | Nil |
| | | Richard Marshall | Nil | Nil |
| | | Graham Trusler | Nil | Nil |
| | | David McMillan | Nil | Nil |
| Illawarra Metallurgical Coal | RungePincock | Greg Eisenmonger | Nil | Nil |
| | | Minarco | Nil | Nil |
| GEMCO | CSA Global | Bill Shaw | Nil | 1,200 |
| | | Paddy Reidy | Nil | Nil |
| Hotazel Mines | CSA Global | Bill Shaw | Nil | 1,200 |
| | | Paddy Reidy | Nil | Nil |
| | | Danny Kentwell | 700 | 701 |
| Cerro Matoso | SRK | Carl Murray | Nil | Nil |
| | | Anthony Stepcich | Nil | Nil |
| Cannington | Xstract | Tim Horsley | Nil | Nil |
| | | Matthew Readford | Nil | Nil |
| | | Jeames McKibben | Nil | Nil |
| | | Roland Nice | Nil | 983 |
| | | Craig Miller | Nil | Nil |
| | | | | |

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| Mine | Competent Person | Direct interest in | Indirect interest in |
|------------------------------|--------------------|---------------------|----------------------|
| | | BHP Billiton Shares | BHP Billiton Shares |
| Worsley Alumina | J Binoir | 99 | Nil |
| | G Burnham | 450 | Nil |
| | J Engelbrecht | Nil | Nil |
| MRN Mine | R Aglinskas | Nil | Nil |
| | J P de Melo Franco | Nil | Nil |
| South Africa Energy Coal | G Gemmell | Nil | Nil |
| | N Haniff | 526 | Nil |
| | J H Marais | 260 | Nil |
| | P Maseko | 296 | Nil |
| | I Thomson | 684 | Nil |
| Illawarra Metallurgical Coal | L Visser | 306 | Nil |
| | H Kaag | 361 | Nil |
| | M Rose | 354 | Nil |
| GEMCO | M Bryant | Nil | 2,500 |
| | D Hope | 1,038 | Nil |
| Hotazel Mines | E P Ferreira | 851 | Nil |
| | D Mathebula | 2,562 | Nil |
| | C Nengovhela | Nil | Nil |
| Cerro Matoso | I Espitia | Nil | Nil |
| | F Fuentes | 411 | Nil |
| Cannington | B Coutts | 3,034 | Nil |
| | M Dowdell | 2,208 | Nil |

15.24 RELATED PARTY TRANSACTIONS

All transactions with related parties are conducted on an arm's-length basis and in accordance with normal business terms. Transactions between related parties that are South32 subsidiaries are eliminated on consolidation. Details of contractual arrangements with BHP Billiton and its subsidiaries to give effect to the Demerger are described in Section 14.4. Related party matters, including joint ventures, associates, joint operations and transactions with key management personnel of South32, can be found in note 24 Related party balances and transactions to the historical combined financial information in Annexure 1.

Save as disclosed in the historical combined financial information or in Section 14.4, there are no related party transactions between South32 and members of the BHP Billiton Group that were entered into during: (i) the financial years ended 30 June 2012, 2013 and 2014; (ii) the six months ended 31 December 2014; and (iii) the period from 1 January 2015 to 14 March 2015 (being the latest practicable date prior to the publication of this document).

15.25 NO INCORPORATION OF WEBSITE INFORMATION

The contents of the South32 website or any member of the South32 Group's website do not form part of this document.

15.26 COSTS AND EXPENSES

South32 will not receive any proceeds as a result of the Demerger. The total costs and expenses relating to the preparation and issue of this document, legal and professional fees associated with implementing the Demerger and admission to each of the ASX, JSE and LSE will be borne by BHP Billiton.

No amount has been paid or is proposed to be paid by South32 to any promoter, nor has any such amount accrued as payable by South32 within the three years preceding the date of this document.

No commission has been paid or is payable by South32 for underwriting.

No commission, discount, brokerage or special terms have been granted for the issue or sale of any securities, stock or debentures in the capital of South32 in the three years preceding the date of this document.

No South32 Director or promoter has any material direct or indirect beneficial interest in the promotion of South32 or any property acquired or proposed to be acquired by South32 during the three years preceding the date of this document.

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15.27 SOURCES AND BASES OF SELECTED FINANCIAL AND OTHER INFORMATION

In this document, unless otherwise stated, financial information relating to South32 has been extracted (without material adjustment) from the historical combined financial information contained in Annexures 1 and 2 or the pro forma financial information contained in Section 10 and Annexure 3.

Where information contained in this document has been sourced from a third party, it has been accurately reproduced and, so far as South32 is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The number of South32 Shares for which application has been made to trading on the ASX, JSE and LSE has been calculated on the basis of 5,323,762,901 BHP Billiton Shares on issue on 14 March 2015 (being the latest practicable date prior to the publication of this document).

Statements relating to percentage interests in the issued share capital of South32 are calculated on the basis of 5,323,762,901 BHP Billiton Shares on issue on 14 March 2015 (being the latest practicable date prior to the publication of this document) and on the assumption that no new BHP Billiton Shares will be issued between that date and the date the Demerger becomes effective.

15.28 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY and ENSAfrica, 150 West Street, Sandton, Johannesburg 2196, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and until South32's United Kingdom Admission:

- (a) the South32 Constitution;
- (b) the historical combined financial information relating to South32 Limited and the Independent Audit Report and the Independent Review Report to the Directors of South32 Limited thereon by KPMG and KPMG Inc, as set out in Annexures 1 and 2 of this document, respectively;
- (c) the pro forma historical financial information and the Independent Accountants Assurance Report for the directors of South32 thereon by KPMG Financial Advisory Services (Australia) Pty Ltd, as set out in Sections 10 and 12 of this document, respectively;
- (d) the Independent Competent Persons' Reports;
- (e) the Tax Experts' Reports;
- (f) the written consent letters of KPMG, KPMG Inc and KPMG Financial Advisory Services (Australia) Pty Ltd, the Independent Competent Persons referred to Section 15.23, the Competent Persons and the Tax Experts;

(g) the following material contracts, the:

ADS Depositary Agreement;

Deed Poll;

CSN Agreement;

DI Depositary Agreement;

(h) a copy of this document.

This document will be published in electronic form and available on the BHP Billiton website at www.bhpbilliton.com/demerger, subject to certain access restrictions applicable to persons resident outside Australia, South Africa and the United Kingdom. Copies of this document will be available to BHP Billiton Shareholders in printed form free of charge upon request from the Shareholder Information Line.

Dated 16 March 2015

204 **South32** Listing Document

Table of Contents**16 DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS****16.1 DEFINITIONS**

For the purpose of this document, capitalised terms used in this document have the meaning given below, unless the context requires otherwise (words in the singular include the plural and vice versa):

| Term | Meaning |
|---------------------------------------|---|
| A\$ | Australian dollars. |
| AASB | the Australian Accounting Standards Board. |
| ADS | American Depositary Share being a share issued under a deposit agreement that has been created to permit United States-resident investors to hold shares in non-US companies and trade them on the stock exchanges or over-the-counter in the United States. ADSs are evidenced by American Depositary Receipts, or ADRs. |
| ADS Depositary Agreement | the agreement between South32 and Citibank, N.A., as depositary, and the holders and beneficial owners of the ADSs issued thereunder, under which South32 appoints Citibank, N.A. as depositary to provide certain services in respect of the ADS securities issued by South32. |
| ADS Holder | a holder of an ADS. |
| AEDT | Australian Eastern Daylight Time. |
| AEST | Australian Eastern Standard Time. |
| ASIC | Australian Securities and Investments Commission. |
| ASX | ASX Limited or the market conducted by it, as the context requires. |
| ASX Listing Date | the date South32 Shares first commence trading on the ASX, on a deferred settlement basis. |
| ASX Listing Rules | the rules, as amended from time to time, that govern the admission, quotation, suspension and removal of entities from the ASX Official List. |
| ASX Official List | the official list of listed entities on the ASX. |
| ASX Settlement Operating Rules | the operating rules for settlement on the ASX Official List. |
| Auditor | KPMG and KPMG Inc. |
| AWST | Australian Western Standard Time. |
| BBBEE | has the meaning given in Section 5.1. |
| BBSW | Bank Bill Swap Rate. |
| BHP Billiton | BHP Billiton Limited and/or BHP Billiton Plc as the context requires. |
| BHP Billiton ADSs | BHP Billiton Limited ADSs and BHP Billiton Plc ADSs, as applicable. |

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| BHP Billiton ADS Holder | a holder of BHP Billiton ADSs. |
| BHP Billiton Board | the board of directors of BHP Billiton. |
| BHP Billiton Businesses | all of the businesses conducted by BHP Billiton, other than the South32 Businesses. |
| BHP Billiton Group | BHP Billiton Limited and BHP Billiton Plc, and each of their respective subsidiaries. |
| BHP Billiton Limited | BHP Billiton Limited (ACN 004 028 077). |
| BHP Billiton Limited ADSs | ADSs representing BHP Billiton Limited Shares. |
| BHP Billiton Limited Distribution Date | has the meaning given in Section 4. |
| BHP Billiton Limited Share | a fully paid ordinary share in the capital of BHP Billiton Limited. |
| BHP Billiton Limited Share Register | the register of BHP Billiton Limited Shareholders maintained under section 169 of the Corporations Act. |
| BHP Billiton Limited Shareholder | a registered holder of a BHP Billiton Limited Share. |
| BHP Billiton Plc | BHP Billiton Plc (registered in England and Wales, with registered number 03196209). |
| BHP Billiton Plc ADSs | ADSs representing BHP Billiton Plc Shares. |
| BHP Billiton Plc Certificated Shareholder | a holder of a BHP Billiton Plc Share who holds that share in certificated form and whose shareholding is not recorded in the South African branch register. |

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| Term | Meaning |
|---|--|
| BHP Billiton Plc Dematerialised Shareholders | holder of a Dematerialised BHP Billiton Plc Share. |
| BHP Billiton Plc Distribution Date | has the meaning given in Section 4. |
| BHP Billiton Plc Share | a fully paid ordinary share in the capital of BHP Billiton Plc. |
| BHP Billiton Plc Share Register | the register of BHP Billiton Plc Shareholders maintained pursuant to section 113 of the Companies Act 2006. |
| BHP Billiton Plc Shareholder | a registered holder of a BHP Billiton Plc Share, excluding a BHP Billiton Plc Dematerialised Shareholder. |
| BHP Billiton Share | a BHP Billiton Limited Share and/or BHP Billiton Plc Share. |
| BHP Billiton Shareholder | BHP Billiton Limited Shareholder and/or a BHP Billiton Plc Shareholder. |
| BMSA | has the meaning given in Section 2.1(d). |
| BST | British Summer Time. |
| Cash Adjustment Agreement | the Cash Adjustment Agreement entered into on or around the date of this document between BHP Billiton Limited and South32 as summarised in Section 14.4(c) |
| CHESS | the Clearing House Electronic Subregister System, managed by ASX Settlement Pty Limited. |
| CIF | cost insurance and freight. |
| CMA | the common monetary area of Lesotho, Namibia, South Africa and Swaziland. |
| CMSA | has the meaning given in Section 2.1(d). |
| Coal Reserves | has same meaning as Ore Reserves, but specifically concerning coal. |
| Companies Act 2006 | the Companies Act 2006 of England and Wales. |
| Competent Persons | the persons listed in Section 7.2(b) that have prepared the estimate of Mineral Resources and Ore Reserves set out in Section 7.2, each of whom is 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, as included in a list available on the Joint Ore Reserves Committee and ASX websites. |
| Computershare | Computershare Investor Services Pty Limited, Computershare Investor Services (Pty) Limited or Computershare Investor Services PLC, as applicable. |
| Computershare Australia | Computershare Clearing Pty Limited. |
| Corporate Sponsored Nominee or CSN | the UK Nominee as nominee holding South32 DIs on behalf of certain Eligible BHP Billiton Plc Shareholders, as further set out in Section 15.6(e). |
| Corporations Act | the Corporations Act 2001 (Cth) of Australia. |
| CREST | the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK and Ireland Limited is the Operator (as defined in the CREST |

Regulations).

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|-------------------------------------|--|
| CREST member | a person who has been admitted to Euroclear UK as a system member (as defined in the CREST Regulations). |
| CREST participant | a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations). |
| CREST Regulations | the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended. |
| CRU | CRU Group: Global Commodity Industry Pricing & Marketing Analysis. |
| CSDP | a Central Securities Depository Participant, a participant as defined in section 1 of the Financial Markets Act 19, of 2012 (South Africa). |
| CSN Agreement | the agreement in relation to nominee service between the UK Depository and South32, summarised in Section 15.6(e)(1) pursuant to which the UK Depository will provide the CSN Facility to CSN Participants. |
| CSN Facility | the facility arranged by South32 with the UK Depository to enable BHP Billiton Plc Certificated Shareholders to receive their interests in South32 Shares in a form which will enable them to trade those shares and admit the shares to trading on the LSE, as described in Section 15.6(e)(1). |
| CSN Participant | a participant in the CSN Facility. |
| CSN Restricted Jurisdictions | the jurisdictions detailed in the CSN Terms and Conditions in which participation in the CSN Facility is not permitted. |

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| Term | Meaning |
|--|--|
| CSN Terms and Conditions | the terms and conditions under which Computershare Investor Services PLC provides the CSN Facility, as amended from time to time, which are summarised in Section 15.6(e), a copy of which is made available on the BHP Billiton website at www.bhpbilliton.com/demerger and which will be available on the South32 website in due course. |
| CY | calendar year ending 31 December. |
| Deed Poll | the Deed Poll made by the UK Depository constituting the South32 DIs, described in Section 15.6(d), a copy of which is available on the BHP Billiton website at www.bhpbilliton.com/demerger and will be available on the South32 website in due course. |
| Dematerialised | the process by which certificated shares are deposited with a CSDP and documents of title evidencing such certificated shares are replaced by an electronic record of such shares in the Strate Nominee Register. |
| Dematerialised BHP Billiton Plc Share | a BHP Billiton Plc Share that has been Dematerialised or has been issued in Dematerialised form, and is held on the Strate Nominee Register. |
| Demerger | the proposed demerger of South32 from BHP Billiton, to be implemented through the Demerger Dividend. |
| Demerger Dividend | the BHP Billiton Limited Dividend and the BHP Billiton Plc Dividend referred to in section 7 of the Shareholder Circular. |
| Demerger Principle | the fundamental underlying principle of the Demerger, as set out in Section 14.4(b). |
| Demerger Resolution | the ordinary resolution to be voted on by BHP Billiton Shareholders to approve the Demerger, as set out in the Notice of Meeting which accompanies the Shareholder Circular. |
| Depository Interest or DI | has the meaning given in Section 15.6(d)(1). |
| DI Depository Agreement | the agreement summarised in Section 15.6(d)(1) pursuant to which South32 has appointed Computershare Investor Services PLC to constitute and issue South32 DIs under the terms of the Deed Poll. |
| Distribution Date | the BHP Billiton Limited Distribution Date or BHP Billiton Plc Distribution Date (as applicable) and, for the purpose of Section 14, the later of these dates will apply. |
| EBIT | earnings before interest and tax. |
| EBITDA | earnings before interest, tax, depreciation and amortisation. |
| Economic Separation Date | 23 May 2015, being the date on which BHP Billiton and South32 will separate for economic purposes. |
| EDT | Eastern Daylight Time. |
| Eligible BHP Billiton Limited Shareholder | a BHP Billiton Limited Shareholder as at the applicable Record Date whose registered address on the BHP Billiton Limited Share Register is in Australia, the United Kingdom, South Africa, the United States, Alderney, Canada, Chile, France, Guernsey, Hong Kong, Ireland, Isle of Man, Jersey, Lesotho, Malaysia, Namibia, New Zealand, Singapore or Swaziland or any other jurisdiction in which |

BHP Billiton reasonably believes that it is not prohibited or unduly onerous or impractical to transfer or distribute South32 Shares to the BHP Billiton Limited Shareholder.

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| Eligible BHP Billiton Plc Shareholder | a BHP Billiton Plc Shareholder as at the applicable Record Date whose registered address on the BHP Billiton Plc Share Register is in Australia, the United Kingdom, South Africa, the United States, Alderney, Canada, Chile, France, Guernsey, Hong Kong, Ireland, Isle of Man, Jersey, Lesotho, Malaysia, Namibia, New Zealand, Singapore or Swaziland or any other jurisdiction in which BHP Billiton reasonably believes that it is not prohibited or unduly onerous or impractical to transfer or distribute South32 Shares to the BHP Billiton Plc Shareholder. |
| Eligible Shareholder | an Eligible BHP Billiton Limited Shareholder and/or Eligible BHP Billiton Plc Shareholder. |
| EST | Eastern Standard Time. |
| Exchange Act | United States Securities Exchange Act of 1934. |
| Exchange Control Regulations | the Exchange Control Regulations, 1961, as amended, promulgated in terms of section 9 of the South African Currency and Exchanges Act, No. 9 of 1933, as amended or replaced from time to time. |
| Exchange Control Rulings | the rulings issued by the FinSurv Department from time to time in terms of the Exchange Control Regulations. |
| Facility | has the meaning given in Section 10.6. |

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| Term | Meaning |
|---|--|
| FCA or Financial Conduct Authority | the Financial Conduct Authority of the United Kingdom. |
| FinSurv Department | Financial Surveillance department of SARB. |
| former BHP Billiton Businesses | businesses carried on by any member of the BHP Billiton Group prior to the Demerger, other than the South32 Businesses and the former South32 Businesses. |
| former South32 Businesses | former businesses previously carried on by the South32 Businesses prior to the Demerger. |
| FOB | free on board. |
| FSMA | the Financial Services and Markets Act 2000 of the United Kingdom. |
| FTE | full-time equivalent. |
| FTSE | Financial Times Stock Exchange. |
| FY | refers to the financial year ending 30 June. |
| GEMCO | has the meaning given in Section 1, B.3. |
| General Meetings | the general meetings of BHP Billiton Shareholders to consider the Demerger Resolution set out in the notices of general meetings despatched with the Shareholder Circular and to be held on 6 May 2015 for BHP Billiton Limited at 4:30pm (AWST) and 6 May 2015 for BHP Billiton Plc at 9:30am (GMT) and any adjournment thereof. |
| GMT | Greenwich Mean Time. |
| H1 | first half year, ending 31 December of the relevant financial year. |
| Hotazel Mines | has the meaning given in Section 1, B.3. |
| HSEC | health, safety, environment and community. |
| IASB | International Accounting Standards Board. |
| IFRS | <p>Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the Australian Accounting Standards Board;</p> <p>International Financial Reporting Standards and interpretations as adopted by the European Union; and</p> <p>International Financial Reporting Standards and interpretations as issued by the IASB, collectively referred to as IFRS.</p> |
| Implementation Deed | the Implementation Deed entered into on or around the date of this document between BHP Billiton Limited, BHP Billiton Plc and South32 referred to in Section 14.4(a). |
| Independent Accountant | KPMG Financial Advisory Services (Australia) Pty Ltd. |

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| Independent Accountant's Assurance Report | the report prepared by the Independent Accountant and included in Section 12. |
| Independent Audit Report | the audit report prepared by KPMG in respect of the historical combined financial information contained in Annexure 1. |
| Independent Competent Persons | each Independent Competent Person named as such in the relevant report set out in Annexure 6. |
| Independent Competent Person's Report | each of the reports prepared by an Independent Competent Person, which are set out in Annexure 6. |
| Indicated 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 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. |
| Ineligible Overseas Shareholder | a BHP Billiton Shareholder who is not an Eligible Shareholder. |
| Internal Restructure | the restructuring of the BHP Billiton Group prior to, and in order to effect, the Demerger, as described in Section 14.2. |
| ISIN | an International Securities Identification Number. |

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| Term | Meaning |
|------------------------------------|---|
| 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. |
| JSE | JSE Limited or the market conducted by it, as the context requires. |
| JSE Guarantee Fund | JSE Guarantee Fund Trust, with Master's reference number IT 9150/2003, a trust established and administered in accordance with guarantee fund rules of the JSE. |
| JSE Listing Rules | the listing rules of the JSE. |
| JSE Record Date | the date for determining entitlement of BHP Billiton Plc Dematerialised Shareholders to South32 Shares distributed to the Strate Nominee under the Demerger. |
| LBMA | London Bullion Market Association. |
| Limited Record Date | the date for determining entitlement to South32 Shares of BHP Billiton Limited Shareholders. |
| LME | The London Metal Exchange. |
| LSE | London Stock Exchange plc or the market conducted by it, as the context requires. |
| Manganese Business | South32's interests in South Africa Manganese and Australia Manganese, which are co-owned with Anglo American Plc. |
| Manganese Business Entities | Samancor Holdings (Pty) Limited, Groote Eylandt Mining Company Pty Limited and Samancor AG, and their respective subsidiaries. |
| 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. The basis of the predicted yield to achieve Marketable Coal Reserves must be stated (JORC Code, 2012). |
| Measured 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. |
| Metalloids | has the meaning given in Section 1, B.3. |
| 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). |
| Modifying Factors | considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, |

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| | marketing, legal, environmental, social and governmental factors. |
| MRN Mine | has the meaning given in Section 1, B.3. |
| MRRT | has the meaning given in Section 3.5. |
| Official List | the official list of securities listed in the United Kingdom maintained by the UKLA. |
| Operating unit cost | calculated as revenue less Underlying EBITDA divided by production. |
| Ore Reserve | 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. |
| Plc Record Date | the date for determining entitlement to South32 Shares of BHP Billiton Plc Shareholders under the Demerger. |
| Probable Ore Reserves | the economically mineable part of an Indicated and, in some circumstances, a Measured 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). |

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| Term | Meaning |
|-------------------------------------|--|
| Proved Ore Reserve | 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. |
| RBCT | has the meaning given in Section 5.1. |
| Record Date | the Plc Record Date, Limited Record Date or JSE Record Date (as applicable) or, in the case of BHP Billiton ADS Holders, the record date of the relevant underlying BHP Billiton Shares. |
| Register Election | the right described in Section 15.6(c) for BHP Billiton Shareholders (other than South African Shareholders) to elect to receive their South32 Shares in a manner other than that described in Section 15.6(a). |
| ROM | has the meaning given in Section 7.1(e)(1) |
| S&P | means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. (operating in Australia through Standard & Poor's (Australia) Pty Ltd (ABN 62 007 324 852)) or any successor to its rating business. |
| SA South32 Shareholder | a South32 Shareholder resident in South Africa. |
| Sale Agent | the nominee appointed by BHP Billiton to sell or facilitate the sale of the South32 Shares under the Sale Facility and South32 Shares to which Ineligible Overseas Shareholders would otherwise have been entitled. |
| Sale Facility | the facility available to certain BHP Billiton Shareholders, as described in Section 7.12 of the Shareholder Circular. |
| SARB | South African Reserve Bank. |
| SAST | South Africa Standard Time. |
| Section | a section of this document. |
| Selling Shareholders | BHP Billiton Shareholders who validly elect to have their South32 Shares sold pursuant to the Sale Facility. |
| Separation Deed | the Separation Deed entered into on or around the date of this document between BHP Billiton Limited, BHP Billiton Plc and South32 as summarised in Section 14.4(b). |
| Shareholder Circular | the Shareholder Circular relating to the Demerger dated 16 March 2015. |
| Shareholder Information Line | the information line set up for the purpose of answering enquiries from BHP Billiton Shareholders in relation to the Demerger, the details of which are set out in Section 3.9. |
| South32 or Company | South32 Limited and, where the context requires, its subsidiaries from time to time. |
| South32 ADSs | ADSs represented by South32 Shares. |

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|---|---|
| South32 Board | the board of directors of South32. |
| South32 Businesses or Businesses | the businesses to be conducted by the South32 Group, as described in this document and, where applicable, any future operations in which South32 will have an interest. |
| South32 Constitution or South32 s Constitution | the constitution of South32 which is summarised in Section 15.4. |
| South32 Director | a director of South32 listed in Section 8.1 (including the proposed directors listed in that Section), or from time to time following the ASX Listing Date, as the context requires. |
| South32 DIs or South32 Depository Interests | South32 Depository Interests constituted by the Deed Poll, each representing one South32 Share as described in Section 15.6(d)(2). |
| South32 Group | South32 and its subsidiaries from time to time, and, as at the date of this document, refers to South32 and all entities that will be subsidiaries of South32 immediately following implementation of the Demerger and for purposes of Section 2, 5 and 7 includes the entities that hold the South32 Businesses. |
| South32 Marketing | South32 s marketing function. |
| South32 Share | a South32 ordinary share, which, in the case of South32 ordinary shares to be held in CREST will be represented by a South32 DI (and for the purposes of Section 15.4 includes shares of any class which may be issued by South32 in the future). |
| South32 Share Register | the register of South32 Shares. |

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| Term | Meaning |
|---|---|
| South32 South African branch register | the register of South African South32 Shareholders who hold their shares in certificated form maintained by South32. |
| South32 Shareholder | a registered holder of a South32 Share or South32 DI, as the context requires. |
| South African branch register | the register of South African Shareholders who hold their shares in certificated form maintained by BHP Billiton Plc pursuant to section 129 of the Companies Act 2006. |
| South African Shareholder | a holder of BHP Billiton Plc Shares in certificated form whose shareholding is registered on the South African branch register or a holder of Dematerialised BHP Billiton Plc Shares. |
| Strate | Strate Proprietary Limited (Registration Number 1998/022242/06), an electronic settlement environment for transactions to be settled and transfer of ownership to be recorded electronically in South Africa. |
| Strate Nominee | PLC Nominees Proprietary Limited, a company indirectly wholly owned by Strate, acting as nominee for the holders of Dematerialised BHP Billiton Plc Shares. |
| Strate Nominee Register | the register of BHP Billiton Plc Dematerialised Shareholders maintained by the Strate Nominee. |
| Subscription Agreement | has the meaning given in Section 14.2. |
| Tax Experts | Greenwoods & Herbert Smith Freehills Pty Ltd, Slaughter and May, Cleary Gottlieb Steen & Hamilton LLP, Ernst & Young Advisory Services (Pty) Ltd and Bell Gully. |
| Tax Experts Report | each of the reports prepared by a Tax Expert in respect of the descriptions of the tax implications of holding South32 Shares, set out in Section 13. |
| TEMCO | has the meaning given in Section 1, B.3. |
| 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. |
| Transitional Services Agreement | the Transitional Services Agreement entered into on or around the date of this document between a wholly-owned subsidiary of BHP Billiton Limited and South32 as summarised in Section 14.4(d). |
| Transnet | Transnet Freight Rail, the South African Government-owned rail freight and port provider. |
| United Kingdom Admission | the admission of the South32 Shares to the standard listing segment of the Official List and to trading for normal settlement on the LSE's main market for listed securities. |
| UK Depository | Computershare Investor Services PLC in its capacity as depository for holders of South32 DIs. |
| UKLA | the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA. |
| UKLA Listing Rules | the listing rules made by the FCA pursuant to FSMA. |
| UKLA Disclosure and Transparency Rules | the disclosure and transparency rules made by the FCA pursuant to FSMA. |

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|------------------------------|---|
| UKLA Prospectus Rules | the prospectus rules made by the FCA pursuant to FSMA. |
| UK Nominee | Computershare Company Nominees Limited in its capacity as nominee for CSN Participants. |
| Underlying Earnings | has the meaning given in Section 3.5. |
| Underlying EBIT | has the meaning given in Section 3.5. |
| Underlying EBITDA | has the meaning given in Section 3.5. |
| US | United States of America. |
| US\$ | US dollar. |
| VWAP | volume weighted average price. |
| ZAR | South African rand. |

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| | |
|----------------|---------------------------|
| Bt | billion tonne |
| Boz | billion ounce |
| dmt | dry metric tonne |
| dmtu | dry metric tonne unit |
| g/t | grams per tonne |
| GWh | gigawatt hour |
| ha | hectare |
| kcal/kg | kilocalories per kilogram |
| kdmt | thousand dry metric tonne |
| km | kilometre |
| kwmt | thousand wet metric tonne |
| kt | thousand tonne |
| ktpa | thousand tonne per annum |
| Mdmt | million dry metric tonne |
| ML | megalitre |
| Moz | million ounces |
| Mt | million tonne |
| Mtpa | million tonne per annum |
| mtu | metric tonne unit |
| MW | megawatt |
| MWh | megawatt hour |
| MVA | megavolt ampere |
| ppm | parts per million |

16.3 TERMS USED IN RELATION TO RESERVES AND RESOURCES

| | |
|---------------------------------------|-------------------|
| Ag | silver |
| Al₂ O₃ | alumina |
| A.Al₂ O₃ | available alumina |
| Fe | iron |
| FeMn | ferromanganese |

| | |
|------------------------|------------------------------|
| HCFeMn | high-carbon ferromanganese |
| MCFeMn | medium-carbon ferromanganese |
| Met | metallurgical coal |
| Mn | manganese |
| Ni | nickel |
| Pb | lead |
| SiMn | silicomanganese |
| SiO₂ | silica |
| VM | volatile matter |
| Zn | zinc |

16.4 ROUNDING

Figures, amounts, percentages, prices, estimates, calculations of values and fractions in this document are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this document.

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Table of Contents**ANNEXURE 1****HISTORICAL COMBINED FINANCIAL INFORMATION FOR THE YEARS ENDED 30 JUNE 2014, 30 JUNE 2013 AND 30 JUNE 2012 FOR SOUTH32**

The historical combined financial information has been prepared with the objective of presenting, in line with the basis of preparation set out in Section 1.6, the results, net assets and cash flows of the South32 Group (South32) in the form that will arise immediately following implementation of the Demerger, as if it had been operating on a combined basis throughout the financial periods covered.

1.1 COMBINED INCOME STATEMENT

| | Notes | 2014 US\$M | 2013 US\$M | 2012 US\$M |
|---|-------|---------------|---------------|---------------|
| Revenue | | | | |
| Group production | 2 | 9,182 | 10,430 | 11,476 |
| Third party products | 2 | 1,262 | 1,663 | 2,359 |
| Revenue | 2 | 10,444 | 12,093 | 13,835 |
| Other income | 4 | 310 | 155 | 60 |
| Expenses excluding net finance costs | 5 | (9,990) | (13,211) | (11,835) |
| Share of operating profit of equity accounted investments | | 10 | | |
| Profit/(loss) from operations | | 774 | (963) | 2,060 |
| Comprising: | | | | |
| Group production | | 745 | (1,026) | 1,966 |
| Third party products | | 29 | 63 | 94 |
| Financial income | 6 | 41 | 130 | 155 |
| Financial expenses | 6 | (393) | (263) | (197) |
| Net finance costs | 6 | (352) | (133) | (42) |
| Profit/(loss) before taxation | | 422 | (1,096) | 2,018 |
| Income tax expense | | (245) | (66) | (781) |
| Royalty-related taxation (net of income tax benefit) | | 40 | (142) | 196 |
| Total taxation expense | 7 | (205) | (208) | (585) |
| Profit/(loss) after taxation | | 217 | (1,304) | 1,433 |
| Attributable to non-controlling interests | | 85 | 163 | 32 |
| Attributable to members of South32 | | 132 | (1,467) | 1,401 |
| Basic earnings/(loss) per ordinary share (US cents) | 8 | 2.48 | (27.55) | 26.31 |

| | | | | |
|---|---|------|---------|-------|
| Diluted earnings/(loss) per ordinary share (US cents) | 8 | 2.47 | (27.46) | 26.20 |
|---|---|------|---------|-------|

The accompanying notes form part of the historical combined financial information.

Certain administrative costs, net finance costs, tax and pension amounts of South32 reflect the management and capital structure of South32 prior to the Demerger. Accordingly these amounts, together with respective earnings per share figures, may not be comparable with actual amounts that would have occurred had the Demerger been in effect during the periods presented. Refer to Section 1.6 (Basis of preparation of historical combined financial information) for details of assumptions made in preparing the historical combined financial information.

Table of Contents**1.2 COMBINED STATEMENT OF COMPREHENSIVE INCOME**

| | Notes | 2014 US\$M | 2013 US\$M | 2012 US\$M |
|--|-------|---------------|---------------|---------------|
| Profit/(loss) after taxation | | 217 | (1,304) | 1,433 |
| Other comprehensive income | | | | |
| Items that may be reclassified subsequently to the income statement: | | | | |
| Available for sale investments: | | | | |
| Net valuation losses taken to equity | | (17) | (114) | (45) |
| Net valuation (gains)/losses transferred to the income statement | | (4) | 2 | |
| Tax recognised within other comprehensive income | 7 | 3 | 17 | (15) |
| Total items that may be reclassified subsequently to the income statement | | (18) | (95) | (60) |
| Items that will not be reclassified to the income statement: | | | | |
| Actuarial (losses)/gains on pension and medical schemes | | (2) | 2 | (12) |
| Tax recognised within other comprehensive income | 7 | | | 6 |
| Total items that will not be reclassified to the income statement | | (2) | 2 | (6) |
| Total other comprehensive loss | | (20) | (93) | (66) |
| Total comprehensive income/(loss) | | 197 | (1,397) | 1,367 |
| Attributable to non-controlling interests | | 85 | 164 | 34 |
| Attributable to members of South32 | | 112 | (1,561) | 1,333 |

The accompanying notes form part of the historical combined financial information.

Table of Contents**1.3 COMBINED BALANCE SHEET**

| | Notes | 2014 US\$M | 2013 US\$M | 2012 US\$M |
|--|-------|---------------|---------------|---------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 20 | 353 | 345 | 346 |
| Trade and other receivables | 9 | 911 | 1,249 | 1,709 |
| Receivables from BHP Billiton | 9 | 1,943 | 1,809 | 3,553 |
| Other financial assets | 10 | 13 | 65 | 73 |
| Inventories | 11 | 1,427 | 1,550 | 1,723 |
| Current tax assets | | 320 | 192 | 110 |
| Other | | 35 | 26 | 30 |
| Total current assets | | 5,002 | 5,236 | 7,544 |
| Non-current assets | | | | |
| Trade and other receivables | 9 | 178 | 182 | 218 |
| Other financial assets | 10 | 502 | 539 | 732 |
| Investments accounted for using the equity method | | 10 | | |
| Inventories | 11 | 58 | 77 | 87 |
| Property, plant and equipment | 12 | 12,616 | 12,101 | 14,462 |
| Intangible assets | 13 | 291 | 343 | 326 |
| Deferred tax assets | 7 | 1,013 | 1,041 | 613 |
| Other | | 20 | 24 | 30 |
| Total non-current assets | | 14,688 | 14,307 | 16,468 |
| Total assets | | 19,690 | 19,543 | 24,012 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 14 | 1,311 | 1,586 | 2,011 |
| Payables to BHP Billiton | 14 | 28 | 10 | 13 |
| Interest bearing liabilities | 15 | 47 | 93 | 204 |
| Interest bearing liabilities payable to BHP Billiton | 15 | | 341 | |
| Other financial liabilities | 16 | 4 | | 43 |
| Current tax payable | | 199 | 128 | 254 |
| Provisions | 17 | 537 | 593 | 616 |
| Deferred income | | 7 | 13 | 53 |
| Total current liabilities | | 2,133 | 2,764 | 3,194 |
| Non-current liabilities | | | | |
| Trade and other payables | 14 | 56 | 8 | 19 |
| Interest bearing liabilities | 15 | 1,253 | 281 | 314 |

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| | | | | |
|--|----|--------------|---------------|---------------|
| Interest bearing liabilities payable to BHP Billiton | 15 | 3,728 | 4,000 | 4,071 |
| Other financial liabilities | 16 | 6 | 7 | 20 |
| Deferred tax liabilities | 7 | 523 | 580 | 547 |
| Provisions | 17 | 2,170 | 1,779 | 2,032 |
| Deferred income | | 1 | 4 | 3 |
| Total non-current liabilities | | 7,737 | 6,659 | 7,006 |
| Total liabilities | | 9,870 | 9,423 | 10,200 |
| Net assets | | 9,820 | 10,120 | 13,812 |
| INVESTED CAPITAL | | | | |
| Invested capital attributable to members of South32 | | 8,953 | 9,213 | 13,010 |
| Invested capital attributable to non-controlling interests | | 867 | 907 | 802 |
| Total invested capital | | 9,820 | 10,120 | 13,812 |

The accompanying notes form part of the historical combined financial information.

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Table of Contents**1.4 COMBINED CASH FLOW STATEMENT**

| | Notes | 2014 US\$M | 2013 US\$M | 2012 US\$M |
|--|-------|---------------|----------------|----------------|
| Operating activities | | | | |
| Profit/(loss) before taxation | | 422 | (1,096) | 2,018 |
| Adjustments for: | | | | |
| Depreciation and amortisation expense | | 985 | 964 | 905 |
| Net (gain)/loss on sale of non-current assets | | (22) | (29) | 4 |
| Impairments/(reversals) of property, plant and equipment, financial assets and intangibles | | 319 | 2,210 | 108 |
| Net finance costs | | 352 | 133 | 42 |
| Share of operating profit of equity accounted investments | | (10) | | |
| Other | | (15) | (38) | 9 |
| Changes in assets and liabilities: | | | | |
| Trade and other receivables | | 111 | 265 | 492 |
| Inventories | | 112 | 183 | 160 |
| Trade and other payables | | (142) | (266) | (523) |
| Net other financial assets and liabilities | | 41 | 30 | (117) |
| Provisions and other liabilities | | (45) | (218) | (199) |
| Cash generated from operations | | 2,108 | 2,138 | 2,899 |
| Dividends received | | 31 | 17 | 23 |
| Interest received | | 24 | 42 | 48 |
| Interest paid | | (175) | (74) | (35) |
| Income tax refunded | | 4 | | |
| Income tax paid | | (322) | (697) | (542) |
| Net operating cash flows | | 1,670 | 1,426 | 2,393 |
| Investing activities | | | | |
| Purchases of property, plant and equipment | | (769) | (1,139) | (2,013) |
| Exploration expenditure | | (24) | (29) | (51) |
| Exploration expenditure expensed and included in operating cash flows | | 17 | 21 | 41 |
| Purchase of intangibles | | | (20) | |
| Investment in financial assets | | (24) | (21) | (8) |
| Cash outflows from investing activities | | (800) | (1,188) | (2,031) |
| Proceeds from sale of property, plant and equipment | | 48 | 64 | |
| Proceeds from financial assets | | 52 | 19 | 8 |
| Net investing cash flows | | (700) | (1,105) | (2,023) |
| Financing activities | | | | |
| Proceeds from interest bearing liabilities | | 251 | 2,274 | 74 |
| Repayment of interest bearing liabilities | | (456) | (112) | (366) |
| Proceeds from issue of shares | | | 9 | |

| | | | |
|---|--------------|--------------|--------------|
| Other movements in invested capital | (116) | (107) | 13 |
| Dividends paid | (505) | (2,296) | (79) |
| Dividends paid to non-controlling interests | (133) | (59) | (56) |
| Net financing cash flows | (959) | (291) | (414) |
| Net increase/(decrease) in cash and cash equivalents | 11 | 30 | (44) |
| Cash and cash equivalents, net of overdrafts, at the beginning of the financial year | 345 | 327 | 394 |
| Foreign currency exchange rate changes on cash and cash equivalents | (3) | (12) | (23) |
| Cash and cash equivalents, net of overdrafts, at the end of the financial year | 20 | 353 | 345 |
| | | | 327 |

The accompanying notes form part of the historical combined financial information.

Table of Contents**1.5 COMBINED STATEMENT OF CHANGES IN INVESTED CAPITAL**

| | 2014 | 2013 | 2012 |
|---|--------------|--------------|---------------|
| | US\$M | US\$M | US\$M |
| Invested capital attributable to members of South32 | | | |
| Balance as at 1 July | 9,213 | 13,010 | 11,621 |
| Profit/(loss) for the year | 132 | (1,467) | 1,401 |
| Other comprehensive income | (20) | (94) | (68) |
| Dividends paid | (505) | (2,296) | (79) |
| Equity transactions with BHP Billiton | 133 | 60 | 135 |
| Balance as at 30 June | 8,953 | 9,213 | 13,010 |
| Invested capital attributable to non-controlling interests | | | |
| Balance as at 1 July | 907 | 802 | 824 |
| Profit for the year attributable to non-controlling interests | 85 | 163 | 32 |
| Other comprehensive income | | 1 | 2 |
| Distributions paid to non-controlling interests | (133) | (59) | (56) |
| Distribution to option holders | (2) | | |
| Equity contributed | 10 | | |
| Balance as at 30 June | 867 | 907 | 802 |

The accompanying notes form part of the historical combined financial information.

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1.6 NOTES TO THE HISTORICAL COMBINED FINANCIAL INFORMATION

1 Accounting policies

General information

South32 Limited, formerly BHP Coal Holdings Proprietary Limited, is a public limited liability company registered in Australia and is proposed to be listed with a primary listing on the ASX, a secondary listing on the JSE and all the South32 Shares will be admitted to the standard segment of the Official List and to trading on the LSE's main market for listed securities. The nature of the operations and principal activities of South32 and its subsidiaries and interests in joint operations (South32) are set out in Section 7.

The Basis of preparation of historical combined financial information section describes how the historical combined financial information has been prepared in accordance with:

Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the Australian Accounting Standards Board (collectively, AASBs);

International Financial Reporting Standards and interpretations as adopted by the European Union (EU); and

International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board.

The above accounting standards and interpretations are collectively referred to as IFRS.

Instances where a departure has occurred from these financial reporting standards have been described in the Basis of preparation of historical combined financial information section below. The directors are responsible for the preparation of the historical combined financial information and believe that the basis of preparation fairly presents South32's historical financial information in the circumstances set out below.

The historical combined financial information is prepared in accordance with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

Basis of preparation of historical combined financial information

The historical combined financial information has been prepared in accordance with the requirements of Sections 8.1 to 8.13 of the JSE Listing Requirements and the applicable UKLA Listing Rules and Prospectus Directive and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with IFRS, except as described below.

IFRS do not provide for the preparation of historical combined financial information, and accordingly in preparing the historical combined financial information certain accounting conventions commonly used for the preparation of historical combined financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information)

issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRS. In all other respects IFRS has been applied.

Historical combined financial information

South32 has not in the past constituted a separate legal group. The historical combined financial information for the years ended 30 June 2014, 2013 and 2012 and the half years ended 31 December 2014 and 2013 (the Reporting Period) have been prepared by aggregating historical financial information relating to the businesses that will be held by South32 at the date of Demerger including assets, liabilities and transactions directly attributable to South32. This historical combined financial information has previously been reported as part of the annual consolidated financial statements of BHP Billiton for the Reporting Period, and BHP Billiton's financial statements were prepared in accordance with IFRS and AASBs. All references to subsidiaries or joint operations include entities that will transfer to South32 at the date of Demerger.

The historical combined financial information has been prepared with the objective of presenting the results, net assets and cash flows of South32 for the periods identified. The entities which comprise South32 have been under common management and control of BHP Billiton throughout the periods presented in the historical combined financial information. Consequently, this historical combined financial information may not necessarily be indicative of the financial performance that would have been achieved if South32 had operated as an independent entity for the Reporting Period, nor may it be indicative of the results of operations of South32 for any future period.

The historical combined financial information combines only the financial information for those businesses that will be part of South32 at the date of the Demerger. The principal subsidiaries and interests in joint operations included within the historical combined financial information are shown in note 21 Subsidiaries and note 22 Interests in joint operations.

All trading balances between South32 Businesses and BHP Billiton which have historically been eliminated in the consolidated financial statements of BHP Billiton have now been presented as either receivable, payables or interest bearing liabilities as though they were with an external related party. These transactions and balances are presented in note 24 Related party balances and transactions.

Transactions and balances between South32 Businesses included within the historical combined financial information have been eliminated, consistent with the principles of IFRS 10 Consolidated Financial Statements .

Table of Contents**Share capital and reserves**

As South32 has not in the past formed a separate legal group, and there will be a significant change in the composition of total equity (i.e. share capital and reserves) on Demerger, it is not meaningful to disclose historical share capital balances or an analysis of historical reserve balances. The total equity attributable to members of South32 as disclosed in the historical combined financial information represents the cumulative investment of BHP Billiton in the South32 Group Businesses (shown as invested capital). South32's investments in BHP Billiton entities, which do not form part of South32 after the Demerger, have been deducted from invested capital. Where South32's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in non-controlling interests.

Earnings per share, diluted earnings per share and headline earnings per share

Information on earnings per share as required to be presented under IAS 33 Earnings per Share has been calculated for South32 and its subsidiary group based on an assumed capital structure (number of shares) at the date of admission and applied historically. Consequently, the calculation is not in accordance with IAS 33, which requires the use of the weighted average number of ordinary shares of the South32 parent entity outstanding during the period.

The number of ordinary shares outstanding used to calculate earnings per share and headline earnings per share is based on the number of outstanding shares of BHP Billiton at the date of Demerger applied historically. Given the expected capital structure of South32 subsequent to the Demerger, and the fact that shares in South32 will be issued to BHP Billiton shareholders on a one for one basis, this is considered to be the most appropriate denominator on which to compute earnings per share for South32.

Information on Headline Earnings per Share as required by the JSE has been calculated for South32 in accordance with Circular 2/2013 as issued by The South African Institute of Chartered Accountants based on an assumed capital structure at the date of admission and applied historically (as described above). A reconciliation between basic and headline earnings is contained within note 8 Earnings, dividends and asset information per share.

Key management personnel (KMP)

Throughout the Reporting Period, those persons having the authority and responsibility for planning, directing and controlling the activities of South32 were represented by BHP Billiton's KMP as South32's operations and activities were managed as part of BHP Billiton. For this reason it is not relevant to disclose historical financial information relating to those individuals who will be the KMP of South32 post Demerger. With the exception of KMP disclosures, the disclosures made in note 24 Related party balances and transactions are consistent with the disclosures required by IAS 24 Related Party Disclosures and are also consistent with the treatment adopted in the historical financial information of BHP Billiton.

Employee share ownership plan (ESOP)

South32 has not historically existed as a standalone group of legal entities and as such, no share ownership plans existed over South32's securities. Amounts have been included in note 5 Expenses in this historical combined financial information reflective of amounts previously charged by BHP Billiton to South32 companies for employees which formed part of the BHP Billiton ESOP. The disclosures relating to BHP Billiton's share ownership plans is set out in the BHP Billiton financial statements.

Australian specific disclosures

AASB 1054 Australian Additional Disclosures includes additional disclosure requirements which are not needed for IFRS compliance. For the purpose of this historical combined financial information, these additional disclosures have been omitted.

Other principles applied

In addition, the following principles have been applied in preparing the historical combined financial information:

Throughout the Reporting Period, BHP Billiton has incurred costs within its central functions in Melbourne, London and Singapore. A portion of these costs has been deducted from the underlying trading results of the South32 Businesses in arriving at the results for South32 as a whole. These centrally incurred costs, and their treatment in the historical combined financial information, can be analysed as follows:

Unallocated central costs : headquarter costs (for example company secretarial costs) relating to BHP Billiton's operations as a public company. These costs have not been allocated to the South32 Group Businesses as any allocation would have been arbitrary in nature.

Allocated central costs : headquarter costs (for example information technology, tax and treasury functions) which relate to the management and oversight of the South32 Businesses. These costs have been allocated to the businesses on the basis of:

Project based allocation (such as time spent/project spend); or

Non project based allocation (such as head count/transaction volumes).

In preparing the historical combined financial information, unallocated central costs relating to BHP Billiton's central headquarters have been excluded from the historical combined financial information for South32. This is because any allocation would be arbitrary in nature and may not reflect properly the headquarter costs as would have been incurred by South32 had it been a standalone business throughout the Reporting Period. The historical combined financial information for South32 reflects the allocated central costs relating to BHP Billiton's central headquarters as these costs were historically allocated against and charged to the South32 Businesses and therefore form part of the historical combined financial information for South32.

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As a result of the above treatment, financial information for the Reporting Period relating to the remuneration of the South32 Directors excludes the remuneration of those South32 Directors who were also directors of BHP Billiton and whose remuneration cost is included in the unallocated central corporate costs of BHP Billiton.

BHP Billiton operates a centrally managed treasury function responsible for the provision of funding to operating businesses in conjunction with monitoring and maintaining BHP Billiton's cash balances. Cash is collected through cash accounts held by BHP Billiton or on their behalf through cash accounts managed by BHP Billiton. Net interest arising on the total cash balances held by BHP Billiton, including cash accounts held by South32 entities, is paid to or payable on a net basis from a BHP Billiton cash account. Therefore the net finance cost included in the historical combined financial statements may not necessarily represent what the net financing costs would have been, if South32 had historically obtained financing and managed its cash on a standalone basis.

All intra-group funding is provided under executed agreements between counterparties at arms-length interest rates with the corresponding interest income and expense reflected within the historical combined financial information of South32. Although the net finance costs (as historically incurred by the South32 Businesses) have been included in the historical combined financial information, these net financing costs may not be comparable with actual amounts which may have occurred had the Demerger been in effect during the Reporting Period and had South32 sourced its own funding under its own credit rating.

Dividends paid or payable from South32 to BHP Billiton are reported in the historical combined financial information for the Reporting Period as belonging entirely to BHP Billiton, with no dividends reported as paid or payable to the future owners of the South32 parent entity. Accordingly, the historical record of dividend payments may not be comparable with amounts which may have occurred had the Demerger been in effect during the Reporting Period. The Demerger also gives rise to dividend payments and receipts between South32 Businesses and BHP Billiton (related party dividends) which were previously eliminated upon the consolidation of BHP Billiton and which will not occur after the date of the Demerger.

Awards were made to BHP Billiton employees (who will become employees of South32 post Demerger) under BHP Billiton's Long Term Incentive Plan (LTIP), Group Incentive Scheme (GIS), Management Award Plan (MAP) and/or Group Short Term Incentive Plan (GSTIP). Awards were also made to employees under Shareplus, an all employee share purchase plan. These employee awards were offered in the underlying shares of BHP Billiton and as such there are no employee share ownership plans in South32. For the purpose of this combined financial information, transfers of BHP Billiton's equity instruments to employees of South32 have been reflected as equity settled share-based payment transactions in the income statement.

The policies for managing the financial risks to which South32's activities were exposed, including the market risk resulting from fluctuations in commodity prices, exchange rates and interest rates; and liquidity risk, being the risk that South32 had insufficient debt facilities to finance its operational cash flow requirements and any maturing financial liabilities, were historically managed by BHP Billiton. In managing these risks, where appropriate, BHP Billiton used derivative financial instruments, including forward foreign exchange contracts, interest rate swaps and swaptions to manage the financial risks of South32. These derivative financial instruments were generally

transacted by BHP Billiton's central treasury and risk management departments and were not allocated to or did not form part of the historical financial information of the South32 Businesses. Accordingly, the only derivative activity reported in the historical combined financial information relates to forward commodity and other derivative contract exposures entered into directly by South32 Businesses. Details of the risk mitigation policies as implemented by BHP Billiton are further highlighted in note 23 Financial risk management.

Provisions included in the historical combined financial information for employee benefits (including on costs, superannuation, pensions and other post-retirement obligations) and closure and rehabilitation obligations relate to the South32 Businesses and excludes any amounts which represent unallocated central costs. The pension and post-retirement schemes included defined contribution pension schemes, multi-employer pension schemes, defined benefit pension schemes and the defined benefit post-retirement medical schemes. These schemes provide benefits to current and past employees and therefore represent obligations of both South32 and BHP Billiton.

At or prior to Demerger, the assets, liabilities and period costs of the schemes relating to the South32 Group Businesses will be transferred to South32 and are consequently included within the historical combined financial information. This does not include an apportionment of schemes for employees included within central costs. Detailed disclosures relating to these schemes are provided in note 25 Pensions and other post retirement obligations.

Tax charges in the historical combined financial information have been determined based on the tax charges recorded by South32 Businesses in their underlying ledgers. The tax charges recorded in the income statement included in the historical combined financial information have been affected by the tax arrangements within BHP Billiton and are not necessarily representative of the tax charges that would have been reported had South32 been an independent group throughout the Reporting Period.

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Deferred tax assets recognised within the historical combined financial information have been recognised based on assessments of their recoverability whilst operating as part of the BHP Billiton Group. These deferred tax assets may not be fully reflective of balances that would have been recognised had South32 been operating independently during the Reporting Period.

Items identified as Significant and requiring individual disclosure are those items where their nature and amount is considered material to the financial information of South32. Additional details of significant items impacting South32's results for the Reporting Period can be found in note 3 Significant items.

Goodwill in South32 arose where the fair value of consideration paid for a business combination exceeded the fair value of South32's share of the identifiable net assets acquired. The goodwill balances have been attributed to the cash-generating units of the South32 Businesses consistent with the historical treatment of these balances within BHP Billiton.

In preparing the historical combined financial information for the Reporting Period, the following accounting standards or interpretations have been adopted for each period such that the financial impact of adopting each individual standard or interpretation has not been separately disclosed. Each of these standards and interpretations has been adopted by BHP Billiton in the preparation of its financial statements:

IFRS 10/AASB 10 Consolidated Financial Statements which is a replacement of IAS 27 Consolidated and Separate Financial Statements ;

IFRS 11 Joint Arrangements which is a replacement of IAS 31 Joint Ventures ;

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ;

IFRS 13 Fair Value Measurement (as issued at 1 January 2013); and

Amendments to IAS 19 Employee Benefits .

In addition, South32 has early-adopted amendments to IAS 36 Impairment of Assets . South32 has also changed its Exploration and Evaluation Expenditure policy from 1 July 2013 such that all acquisitions of exploration leases are classified as intangible exploration assets or tangible exploration assets based on the nature of the assets acquired.

Basis of measurement

The financial information is drawn up on the basis of historical cost principles, except for certain financial assets, which are carried at fair value.

Rounding of amounts

Amounts in the historical combined financial information have, unless otherwise indicated, been rounded to the nearest million dollars.

Currency of presentation

All amounts are expressed in millions of US dollars, unless otherwise stated, consistent with the functional currency of South32's operations.

Consistent application of accounting policies

The accounting policies applied are, except noted above in the Basis of preparation of historical combined financial information section, consistent with those applied in the BHP Billiton financial statements and have been consistently applied by all entities included in the South32 historical combined financial information for all periods presented.

Comparatives

Where applicable, comparatives have been adjusted to measure or present them on the same basis as current period figures.

Principles of consolidation

Except as noted above in the Basis of preparation of historical combined financial information section, the financial information of South32 includes the consolidation of the respective subsidiaries of South32. Subsidiaries are included in the historical combined financial information from the date control commences until the date control ceases. Where South32's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in non-controlling interests. The effects of all transactions between entities within South32 have been eliminated.

Joint arrangements

South32 undertakes a number of business activities through joint arrangements. 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. South32's joint arrangements are of two types:

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Joint operations

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 financial information of South32 include its share of the assets in joint operations, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to South32's interest in the joint operation.

Joint ventures

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. A separate vehicle, not the parties, will have the rights to the assets and obligations to the liabilities, relating to the arrangement. More than an insignificant share of output from a joint venture is sold to third parties which indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement.

Joint ventures are accounted for using the equity method. Under the equity method the joint venture is recorded initially at cost to South32, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the joint venture is adjusted to reflect South32's share of its post-acquisition profit or loss and other comprehensive income. After application of the equity method, including recognising South32'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 South32's investment in a joint venture is nil after having applied equity accounting principles (and South32 has no legal or constructive obligation to make further payments, nor has made payments on behalf of the joint venture), dividends received from the joint venture will be recognised in South32's results as a Share of operating profit of equity accounted investments.

Associates

Associates are entities in which South32 holds significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control. If South32 holds 20 per cent or more of the voting power of an entity, it is presumed that South32 has significant influence, unless it can be clearly demonstrated that this is not the case. Significant influence can also arise when South32 has less than 20 per cent of voting power but it can be demonstrated that South32 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 as described above. South32 uses the term equity accounted investments to refer to associates and joint ventures collectively.

Business combinations

Business combinations, other than restructures within the BHP Billiton Group that occurred between 1 July 2004 and 30 June 2009, were accounted for by applying the purchase method of accounting, whereby the purchase consideration of the combination is allocated to the identifiable net assets acquired. Business combinations prior to 1 July 2004 have been accounted for in accordance with South32's previous policies operating as part of BHP Billiton under Australian generally accepted accounting principles (GAAP) and UK GAAP and have not been restated.

Business combinations undertaken from 1 July 2010 are accounted for by applying the acquisition method of accounting, whereby the identifiable assets, liabilities and contingent liabilities (identifiable net assets) are measured on the basis of fair value at the date of acquisition.

Goodwill

Where the fair value of consideration paid for a business combination exceeds the fair value of South32's share of the identifiable net assets acquired, the difference is treated as purchased goodwill. Where the fair value of South32's share of the identifiable net assets acquired exceeds the cost of acquisition, the difference is immediately recognised in the income statement. The recognition and measurement of goodwill attributable to a non-controlling interest in a business combination is determined on a transaction by transaction basis. Goodwill is not amortised, however its carrying amount is assessed annually against its recoverable amount as explained below under Impairment of non-current assets . On the subsequent disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the profit or loss on disposal or termination.

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, which is typically no greater than eight years. South32 has no identifiable intangible assets for which the expected useful life is indefinite.

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Foreign currencies

South32's reporting currency and the functional currency of its operations is the US dollar as this is assessed to be the principal currency of the economic environments in which it operates.

Transactions denominated in foreign currencies (currencies other than the functional currency of an operation) are recorded 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 prevailing at year-end and the 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 site closure and rehabilitation, which are capitalised in property, plant and equipment for operating sites.

Share-based payments

South32 has historically been charged by BHP Billiton for share awards granted to employees in the South32 Group. The fair value at grant date of equity-settled share awards is charged to the income statement over the period for which the benefits of employee services are expected to be derived. The fair value of awards is calculated using an option pricing model which considers the following factors:

exercise price;

expected life of the award;

current market price of the underlying shares;

expected volatility;

expected dividends;

risk-free interest rate;

market-based performance hurdles;

non-vesting conditions.

Sales revenue

Revenue from the sale of goods and 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 South32;

the quantity and quality of the goods has been determined with reasonable accuracy;

the price is fixed or determinable;

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 and diamond sales), 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 South32's production.

South32 separately discloses sales of Group production from sales of third party products because of the significant difference in profit margin earned on these sales.

Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

researching and analysing historical exploration data;

gathering exploration data through topographical, geochemical and geophysical studies;

exploratory drilling, trenching and sampling;

determining and examining the volume and grade of the resource;

surveying transportation and infrastructure requirements;

conducting market and finance studies.

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Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Initial payments for the acquisition of intangible lease assets are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure (including amortisation of capitalised licence and lease costs) is charged to the income statement as incurred except in the following circumstances, in which case the expenditure may be capitalised:

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 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. All capitalised exploration and evaluation expenditure is monitored for indications of impairment. When a potential impairment is indicated, assessment is performed for each area of interest in conjunction with South32 of operating assets (representing a cash-generating unit) to which the exploration is attributed. To the extent that capitalised expenditure is no longer expected to be recovered, it is charged to the income statement.

Development expenditure

When proved resources are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified as assets under construction, and is disclosed as a component of property, plant and equipment. All subsequent development expenditure is capitalised and classified as assets under construction, provided commercial viability conditions continue to be satisfied. Development expenditure is net of proceeds from the sale of ore extracted during the development phase. On completion of development, all assets included in assets under construction are reclassified as either plant and equipment or other mineral assets.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment charges. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and the estimated future cost of closure and rehabilitation of the facility.

Other mineral assets

Other mineral assets comprise:

capitalised exploration, evaluation and development expenditure (including development stripping) for properties now in production;

mineral rights acquired;

capitalised production stripping (as described below in Overburden removal costs).

Depreciation of property, plant and equipment

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, field 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, field 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, field 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 | based on reserves on a unit of production basis |

and development expenditure

Leased assets

Assets held under lease, which result in South32 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.

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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.

Operating lease assets are not capitalised and rental payments are included in the income statement on a straight-line basis over the lease term. Provision is made for the present value of future operating lease payments in relation to surplus lease space, when it is first determined that the space will be of no probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Impairment and reversal of impairment of non-current assets

Formal impairment tests are carried out annually for goodwill. In addition, formal impairment tests for all assets are performed when there is an indication of impairment. South32 conducts an internal review of asset values annually, which is used as a source of information to assess for any indications of impairment or reversal of previously recognised impairment losses. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment or reversal of previously recognised impairment losses. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs of disposal and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A reversal of a previously recognised impairment loss is limited to the lesser of the amount that would not cause the carrying amount to exceed (a) its recoverable amount; or (b) the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset or cash-generating unit.

Fair value is determined as the amount that would be obtained from the sale of the asset in an orderly transaction between market participants. Fair value for mineral assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted at an appropriate rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to South32's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash-generating units. Cash-generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The impairment assessments are based on a range of estimates and assumptions, including:

Estimates/assumptions:**Basis:**

| | |
|---------------------------------|--|
| Future production | proved and probable reserves, resource estimates and, in certain cases, expansion projects |
| Commodity prices | forward market and contract prices, and longer-term price protocol estimates |
| Exchange rates | current (forward) market exchange rates |
| Discount rates | cost of capital risk-adjusted appropriate to the resource |
| Overburden removal costs | |

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan and will often comprise a separate pushback or phase identified in the plan.

There are two types of stripping activity:

Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced.

Production stripping is the interburden removal during the normal course of production activity. Production stripping commences after the first saleable minerals have been extracted from the component. Development stripping costs are capitalised as a development stripping asset when:

It is probable that future economic benefits associated with the asset will flow to the entity; and

The costs can be measured reliably.

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Production stripping can give rise to two benefits, being the extraction of ore in the current period and improved access to the ore body component in future periods. To the extent that the benefit is the extraction of ore the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to future ore, the stripping costs are recognised as a production stripping asset if the following criteria are met:

It is probable that the future economic benefit (improved access to ore) will flow to the entity;

The component of the ore body for which access has been improved can be identified; and

The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the production stripping asset using a life-of-component waste to ore (or mineral contained) strip ratio. When the current strip ratio is greater than the life-of-component ratio a portion of the stripping costs is capitalised to the production stripping asset.

The development and production stripping assets are depreciated on a units of production basis based on the proven and probable reserves of the relevant components. Stripping assets are classified as other mineral assets in property, plant and equipment.

Inventories

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. For processed inventories, cost is derived on an absorption costing basis. Cost comprises cost of purchasing raw materials and cost of production, including attributable mining and manufacturing overheads. In respect of minerals inventory, quantities are assessed primarily through surveys and assays.

Finance costs

Finance costs are expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use, in which case finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance costs capitalised (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period, to the average amount of capitalised expenditure for the qualifying assets during the period.

Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at period end, and includes any adjustment to tax payable in respect of previous years.

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. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences. The tax effect of certain temporary differences is not recognised, principally with respect to: goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit); and temporary differences relating to investments in subsidiaries, joint ventures and associates to the extent that South32 is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner and timing of realisation or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. 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 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 South32 has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

Royalties and resource rent taxes are treated as taxation arrangements when they have the characteristics of a 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 above 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.

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Provision for employee benefits

Provision is made in the financial information for all employee benefits, including on costs. In relation to industry-based long service leave funds, South32's liability, including obligations for funding shortfalls, is determined after deducting the fair value of dedicated assets of such funds.

Liabilities for unpaid wages and salaries are recognised in sundry creditors. Current entitlements to annual leave and accumulating sick leave accrued for services up to the reporting date are recognised in provision for employee benefits and are measured at the amounts expected to be paid. Entitlements to non-accumulating sick leave are recognised when the leave is taken.

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 market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation, pensions and other post-retirement benefits

South32 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 South32 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 South32's employees, the pension charge is calculated on the basis of contributions payable.

For defined benefit schemes, the cost of providing pensions is charged to the income statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of expected returns on plan assets. Actuarial gains and losses are recognised directly in equity. An asset or liability is consequently recognised in the balance sheet based on the present value of defined benefit obligations, less any unrecognised past service costs and the fair value of plan assets, except that any such asset cannot exceed the present value of expected refunds from and reductions in future contributions to the plan. Defined benefit obligations are estimated by discounting expected future payments using market yields at the reporting date on high-quality corporate bonds in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to national government bonds. In both instances, the bonds are selected with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Certain South32 companies provide post-retirement medical benefits to qualifying retirees. In some cases the benefits are provided through medical care schemes to which South32, the employees, the retirees and covered family members contribute. In some schemes there is no funding of the benefits before retirement. These schemes are recognised on the same basis as described above for defined benefit pension schemes.

Closure and rehabilitation

The mining, extraction and processing activities of South32 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. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and South32's environmental policies.

Provisions for the cost of each closure and rehabilitation program 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, the principles of the BHP Billiton Charter 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. The majority of the expenditure is expected to be paid over periods of up to 50 years with some payments into perpetuity.

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 specific to the country in which the operation is located. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements or, if more stringent, South32 environmental policies which give rise to a constructive obligation.

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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 as the effect of discounting unwinds, creating an expense recognised in financial expenses.

Closure and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the income statement. In the case of closed sites, changes to estimated costs are recognised immediately in the income statement. Changes to the capitalised cost result in an adjustment to future depreciation. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include:

revisions to estimated resources and lives of operations;

developments in technology;

regulatory requirements and environmental management strategies;

changes in the estimated extent and costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates;

movements in interest rates affecting the discount rate applied.

Financial instruments

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 remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the income statement. Financial assets are designated as being held at fair value through profit or loss where this is necessary to reduce measurement inconsistencies for related assets and liabilities. 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.

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 remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices. Where no price

information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on South32's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling, credit and other risks implicit in such estimates.

Derivatives embedded within other contractual arrangements and the majority of commodity-based transactions executed through derivative contracts do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Available for sale and trading investments

Available for sale and trading investments are measured at fair value. Gains and losses on the remeasurement of trading investments are recognised directly in the income statement. Gains and losses on the remeasurement of available for sale investments are recognised directly in equity and subsequently recognised in the income statement when realised by sale or redemption, or when a reduction in fair value is judged to represent an impairment.

Application of critical accounting policies and estimates

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

South32 has 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.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial information.

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Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from South32's properties. In order to estimate reserves, estimates are required about 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 or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements to interpret the data.

South32 determines and reports Ore Reserves in Australia under the ASX Listing Rules 2012 for minerals.

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 South32's financial results and financial position in a number of ways, including the following:

Asset recoverable amounts may be affected due to changes in estimated future cash flows;

Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change;

Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation;

Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities;

The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Exploration and evaluation expenditure

South32's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

Development expenditure

Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project is economically viable. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the income statement.

Property, plant and equipment and Intangible assets recoverable amount

In accordance with South32's accounting policy, each asset or cash-generating unit is evaluated every reporting period to determine whether there are any indications of impairment or reversal of previously recognised impairment losses. If any such indication exists, a formal estimate of recoverable amount is performed. Where carrying amount exceeds recoverable amount an impairment loss is recognised. A reversal of previously recognised impairment loss is limited to the lesser of the amount that would not cause the increased carrying amount to exceed (a) its recoverable amount; or (b) the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset or cash-generating unit. The recoverable amount of an asset or cash-generating group of assets is measured at the higher of fair value less costs of disposal and value in use.

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 (see Reserve estimates above), 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 reduced with the impact recorded in the income statement.

Defined benefit pension schemes

South32'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. Refer to note 25 Pension and other post-retirement obligations for details of the key assumptions.

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Provision for closure and rehabilitation

South32's accounting policy for the recognition of closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting both the closure and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the income statement.

In addition to the uncertainties noted above, certain closure and rehabilitation activities are subject to legal disputes and depending on the ultimate resolution of these issues, the final liability for these matters could vary.

Taxation

South32's accounting policy for taxation, including royalty-related taxation, requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses, foreign tax credits and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings