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	**BHP BILLITON PLC**
(ABN 49 004 028 077)	**(REG. NO. 3196209)**
(Exact name of Registrant as specified in its charter)	**(Exact name of Registrant as specified in its charter)**
VICTORIA, AUSTRALIA	**ENGLAND AND WALES**

(Jurisdiction of incorporation or organisation)	(Jurisdiction of incorporation or organisation)
171 COLLINS STREET, MELBOURNE,	**NEATHOUSE PLACE, VICTORIA, LONDON,**
VICTORIA 3000 AUSTRALIA	**UNITED KINGDOM**
(Address of principal executive offices)	**(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 x 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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This document (the **South32 Listing Document**), which comprises a prospectus relating to South32 Limited (**South32** or the **Company**), prepared in accordance with the UKLA Prospectus Rules made under section 73A of FSMA, has been approved by the Financial Conduct Authority in accordance with section 87A of FSMA and has been made available to the public in accordance with Rule 3.2 of the UKLA Prospectus Rules. This document has been prepared in connection with the admission of the South32 Shares to the Official List and to trading on the London Stock Exchange. It is proposed that United Kingdom Admission will take place shortly after the demerger of South32 becomes effective.

South32 and the South32 Directors, whose names appear in Section 8.1(a) of this document, 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 South32 as described in section 14.4 of this document).

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 these sections).

To the best of 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.

Application will be made to the FCA for all of the issued and to be issued shares of South32 to be admitted to the standard listing segment of the Official List and to the London Stock Exchange for the South32 Shares to be admitted to trading on the London Stock Exchange s main market for listed securities, which together will constitute official listing on a stock exchange under the UKLA Listing Rules (together, the **United Kingdom Admission**). It is expected that, subject to completion of the Demerger, the United Kingdom Admission will become effective and that dealings on the London Stock Exchange in the South32 Shares will commence at 8.00 a.m. (London time) on 26 May 2015 (ISIN: AU000000S320). Conditional dealings in the South32 Shares are expected to commence on the London Stock Exchange on 18 May 2015. Dealings on the London Stock Exchange before United Kingdom Admission will only be settled if United Kingdom Admission takes place. All dealings before the commencement of unconditional dealings will be on a when issued basis and will be of no effect if United Kingdom Admission does not take place and such dealings will be at the sole risk of the parties concerned.

Application will also be made to the ASX for quotation of the South32 Shares (the **ASX Admission**). It is expected, subject to completion of the Demerger, that the ASX Admission will become effective and that deferred settlement trading on the ASX of the South32 Shares will commence at midday (AEST) on 18 May 2015. Application will also be made to the JSE for the South32 Shares to be admitted to listing and trading on the Main Board of the JSE (the **South African Admission**). It is expected, subject to completion of the Demerger, that the South African Admission will become effective and that dealings on the JSE in the Letters of Allocation will commence at 9.00 a.m. (SAST) on 18 May 2015.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, any security.

Prospective investors should read the whole of this document and, in particular, the discussion of certain risks and other factors that should be considered in connection with an investment in the South32 Shares as set out in the Risk Factors section.

South32 Limited

(incorporated in Australia under the

Australian Corporations Act with

Australian Company Number 093 732 597)

Prospectus

Admission to the standard segment of the Official List

and to trading on the London Stock Exchange of the

entire issued share capital of South32 Limited

The South32 Shares have not been marketed to and are not available for purchase, in whole or in part, by the public in the United Kingdom or elsewhere in connection with the Demerger. This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any securities.

The distribution of this document and the issue of the South32 Shares in certain jurisdictions may be restricted by law. No action has been taken or will be taken to permit the possession or distribution of this document in any jurisdiction where action for that purpose may be required. Accordingly, this document may not be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document should come in overseas territories are required to inform themselves about and observe any restrictions on the issue of the South32 Shares and the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

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.

Notice to prospective South32 Shareholders in the United States

The South32 Shares have not been and will not be registered under the US Securities Act. Please refer to Section 3.8 of this document.

The South32 Shares have not been approved or disapproved by the US Securities and Exchange Commission (**SEC**), any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the South32 Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Certain terms used in this document are defined in the Definitions section of this document.

References to the singular in this document shall include the plural and vice versa, where the context so requires. References to sections or Parts are to sections or Parts of this document.

All references to time in this document are to London times unless otherwise stated.

The date of this document is 16 March 2015.

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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.

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B.7 Selected historical combined financial information

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

	6 months ended December		12 months ended June		
US$M	**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.

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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.10 A 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 Financeia pela Exploracao 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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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 sir 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.

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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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5 SOUTH32 OVERVIEW

5.1 INTRODUCTION

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.

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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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Table 5.5: South Africa Energy Coal

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 production[6] 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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Table 5.8: South Africa Manganese

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.

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(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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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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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. The Worsley Alumina refinery is located 55 km northeast of Bunbury, Western Australia.
Ownership	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 or options	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.
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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(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	6 months ended December		12 months ended June		
US$M	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 Hulamin 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.

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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

	6 months ended December		12 months ended June		
South32 s share	**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

South32 s share	6 months ended December		12 months ended June		
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 implemention 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 Hidroeléctric 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, conveyor 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

	6 months ended December		12 months ended June		
South32 s share	**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.

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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.

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(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 Aluminio 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. On-site power is provided by two thermoelectric power plants, with installed power rating of 60.6 MW.
Logistics and marketing	Bauxite is transported to Porto Trombetas, a river port, via a 28 km rail line that connects the mine area to the port. All bauxite is transported from the port via ship to customers, including the Alumar members share.
Overview of significant contracts	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. 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.
Projects and developments	The MRN Mine s current reserve base supports mining until 2021. MRN is currently considering extending the mine s life to approximately 2043. This extension will require MRN s shareholders to agree on the optimal expansion configuration and to potentially contribute to the substantial capital expenditure.

(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. The Alumar aluminium smelter is an unincorporated joint venture with South32 holding 40 per cent and Alcoa holding 60 per cent.
Operatorship	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): in 1986, smelter capacity was increased from 110 to 250 ktpa as Line II of the smelter commenced operations; in 2006, smelting capacity was increased to 440 ktpa as Line III of the smelter commenced operations; in 2009, the refinery was substantially expanded, increasing capacity to 3.5 Mtpa.
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. 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.
Mining and processing	**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.

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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 Navegacão 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		
South32 s share	**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
Alumina sales (kt)	694	598	1,248	1,275	1,201

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 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
Alumina	*224*	*175*	*374*	*378*	*389*
Aluminium	*59*	*122*	*208*	*338*	*367*
Intra-segment elimination	*(15)*	*(31)*	*(53)*	*(79)*	*(96)*
Other income[(a)]	117	36	121	31	3
Underlying EBITDA	140	35	127	44	3
Alumina	*86*	*25*	*54*	*47*	*70*
Aluminium	*54*	*10*	*73*	*(3)*	*(67)*
Underlying EBIT	101	(7)	44	(40)	(80)
Alumina	*56*	*(8)*	*(10)*	*(17)*	*7*
Aluminium	*45*	*1*	*54*	*(23)*	*(87)*
Net operating assets	938	1,010	968	1,031	1,144
Alumina	*750*	*848*	*752*	*869*	*949*
Aluminium	*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	South Africa Energy Coal s mines are all located within the Witbank coalfield in the Mpumalanga province. Khutala mine is located approximately 40 km southwest of the town of Witbank and 100 km east of Johannesburg. Klipspruit mine is located approximately 30 km southwest of the town of Witbank and 120 km east of Johannesburg. The Wolvekrans Middelburg complex is located approximately 20 km southeast of the town of Witbank and 170 km east of Johannesburg.
Ownership	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.
Operatorship	Operated by South32.
Workforce	South Africa Energy Coal had on average approximately 10,000 FTE employees and contractors in FY2014.
History	The history of the currently operating mines is summarised below:

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.

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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

	6 months ended December		12 months ended June		
100 per cent terms	**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

100 per cent terms	6 months ended December		12 months ended June		
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.

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(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.

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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.

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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

	6 months ended December		12 months ended June		
South32 s share	**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

	6 months ended December		12 months ended June		
South32 s share	**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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(g) Australia Manganese

(1) Overview

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	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. 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.
Resources and reserves	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)]
Mining and processing	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). Power to the site is provided by on-site diesel generation.
Logistics and marketing	Ore is transported 16 km from the concentrator by road train to GEMCO s port at Milner Bay where it is exported. Approximately 90 per cent of ore product from GEMCO is sold directly to export markets, with the remaining ore sold to the TEMCO smelter.
Projects and developments	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. 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.

(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	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. 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). 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.
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	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. 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. The majority of TEMCO s power needs are met by hydroelectric power. The remainder of TEMCO s power needs are generated on-site.
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.

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(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		
100 per cent terms	**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
Manganese ore sales (kt)[a]	2,432	2,523	5,063	4,578	4,428
External customers	*2,159*	*2,332*	*4,591*	*4,100*	*4,046*
TEMCO	*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		
100 per cent terms					
US$M	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Sales revenue[a]	566	677	1,308	1,257	1,204
Manganese Ore	*451*	*584*	*1,107*	*1,040*	*936*
Manganese Alloy	*147*	*115*	*283*	*291*	*317*
Intra-segment elimination	*(32)*	*(22)*	*(82)*	*(74)*	*(49)*
Underlying EBITDA	215	252	505	499	335
Manganese Ore	*194*	*256*	*484*	*442*	*335*
Manganese Alloy	*21*	*(4)*	*21*	*57*	
Underlying EBIT	162	216	414	436	282
Manganese Ore	*147*	*225*	*404*	*392*	*293*
Manganese Alloy	*15*	*(9)*	*10*	*44*	*(11)*
Net operating assets	890	887	825	846	621
Manganese Ore	*750*	*731*	*697*	*702*	*451*
Manganese Alloy	*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

Hotazel is the holder of two mining licences (Mamatwan and Wessels) and one prospecting right (Hotazel York), namely the:

Mamatwan mining right (Right No. 04/2006) covers an area of 1,103 ha and is valid until 5 October 2035;

Wessels mining right (Right No. 03/2006) covers an area of 1,069 ha and is valid until 5 October 2035;

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.

Resources and reserves

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.

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)]

Mining and processing

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.

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.

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.

Power to Mamatwan and Wessels is provided by the South Africa national power supplier, Eskom.

Logistics and marketing

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:

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;

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;

Saldanha Multi-Purpose Terminal, which is a Transnet operated port and is located approximately 900 km from the Hotazel Mines.

Rail and port capacity is constrained and given current rail constraints, a portion of ore is currently transported via road to Durban.

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	The central block development project at Wessels is being progressed in two phases. 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. 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).

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

(3) Metalloys description

An overview of Metalloys is set out below:

Table 7.25: Metalloys overview

Location	The Metalloys plant is located in the Gauteng province of South Africa, near the town of Meyerton. It is approximately 50 km south of Johannesburg.
Ownership	South32 holds a 60 per cent interest in Samancor and Anglo American Plc holds the remaining 40 per cent. Samancor owns 100 per cent of Metalloys. South32 therefore has an effective interest of 60 per cent in Metalloys.
Operatorship	Operated by South32.
Workforce	Metalloys 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 Metalloys.
History	Samancor s corporate history is set out in Section 7.1(h)(2). The Metalloys 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.
Title, leases or options	Samancor is the owner of the land on which the Metalloys smelter operates, which is situated on the farm Kookfontein 545, IQ registration division, Gauteng Province.
Mining and Processing	Metalloys 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.

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(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		
100 per cent terms	**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
Manganese ore sales (kt)[(a)]	1,982	1,634	3,480	3,491	3,451
External customers	*1,478*	*1,240*	*2,668*	*2,771*	*2,717*
Metalloys	*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		
100 per cent terms					
US$M	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Sales revenue[(a)]	386	350	788	856	932
Manganese Ore	*232*	*227*	*456*	*536*	*478*
Manganese Alloy	*204*	*165*	*396*	*402*	*546*
Intra-segment elimination	*(50)*	*(42)*	*(64)*	*(82)*	*(92)*
Underlying EBITDA	63	21	120	111	(18)
Manganese Ore	*69*	*77*	*167*	*114*	*(25)*
Manganese Alloy	*(6)*	*(56)*	*(47)*	*(3)*	*7*
Underlying EBIT	26	(9)	48	58	(51)
Manganese Ore	*43*	*58*	*118*	*78*	*(61)*
Manganese Alloy	*(17)*	*(67)*	*(70)*	*(20)*	*10*
Net operating assets	802	813	790	845	786
Manganese Ore	*454*	*551*	*557*	*526*	*518*
Manganese Alloy	*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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(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 Mdmt 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 Mdmt 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.

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(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 H1 FY2015	H1 FY2014	12 months ended June FY2014	FY2013	FY2012
Ore mined (kwmt)	3,339	4,386	8,490	9,015	9,065
Ore processed (kdmt)	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 US$M	6 months ended December H1 FY2015	H1 FY2014	12 months ended June FY2014	FY2013	FY2012
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.

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.

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(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

	6 months ended December		12 months ended June		
South32 s share	**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

	6 months ended December		12 months ended June		
South32 s share					
US$M	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
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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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 Aglinskas 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 Aglinskas, 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 though 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.

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ALUMINIUM

Table 7.34: Aluminium Mineral Resources

As at 30 June 2014 (reported in 100 per cent terms)

		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			
Commodity Deposit[a]	**Ore Type**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**South32 interest %**
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)

		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves				
Commodity Deposit[a],[c],[d],[e]	**Ore Type**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**Mt**	**% A.Al_2O_3**	**% R.SiO_2**	**Reserve life (years)**	**South32 interest %**
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.Al_2O_3, £ 3 per cent R.SiO_2 and ³ 1m thickness; MRN Washed ³ 50 per cent TAl_2O_3, £ 10 per cent TSiO_2, 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 $A.Al_2O_3$**
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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COAL

Table 7.36: Coal Resources

4 (reported in 100 per cent terms)

ing hod	Coal Type	Measured Coal Resources Mt	% Ash	% VM	% S	Indicated Coal Resources Mt	% Ash	% VM	% S	Inferred Coal Resources Mt	% Ash	% VM	% S	Total Coal Reso Mt	% Ash	% V
G	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
G	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
G	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
G	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

(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 Coal Reserves Mt	Probable Coal Reserves Mt	Total Coal Reserves Mt	Proved Marketable Coal Reserves Mt	% Ash	% VM	% S	Probable Marketable Coal Reserves Mt	% Ash	% VM	% S	Total Marketable Coa Reserves 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	
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	
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	
UG	Th				5.2	23.0			6.3	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
	% Ash	% VM	% S	kcal/kg CV	Mt	% Ash	% VM	% S	kcal/kg CV	Mt	% Ash	% VM	% S	kcal/kg CV	Mt	
43	31.5	22.3	1.16	4,790											1,143	
38	33.7	20.5	0.88	4,480											188	
58	27.6	22.4	1.23	5,220						1.1	29.8	21.5	1.28	4,950	139	
96	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	
03	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	
02	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

Leandra North	³ 1.8m seam thickness	
Deposit	**Coal Resources**	**Coal Reserves**
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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COAL

Table 7.39: Coal Reserves

d in 100 per cent terms)

	Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves				Probable Marketable Coal Reserves					Total Marketable Co		
oal pe	**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%

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MANGANESE

Table 7.40: Manganese Mineral Resources

As at 30 June 2014 (reported in 100 per cent terms)

Commodity		Measured Resources			Indicated Resources			Inferred Resources			Total Resources			South32 s
Deposit[a]	**Ore Type**	**Mt**	**% Mn**	**% Yield**	**Mt**	**% Mn**	**% Yield**	**Mt**	**% Mn**	**% Yield**	**Mt**	**% Mn**	**% Yield**	**Interest %**
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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MANGANESE

Table 7.41: Manganese Ore Reserves

As at 30 June 2014 (reported in 100 per cent terms)

Commodity		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	BHP Billiton Interest %
Deposit[a],[d],[e],[f]	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	(years)	
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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NICKEL

Table 7.42: Nickel Mineral Resources

As at 30 June 2014 (reported in 100 per cent terms)

		Measured Resources		Indicated Resources		Inferred Resources		Total Resources		South32 Interest
Commodity Deposit[a]	**Ore Type**	**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)

		Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves		Reserve Life	South32 Interest
Commodity Deposit[a],[b],[c],[d]	**Ore Type**	**Mt**	**% Ni**	**Mt**	**% Ni**	**Mt**	**% Ni**	**(years)**	**%**
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	**Ore Type**	**Mineral Resources**	**Ore Reserves**
Cerro Matoso	Laterite, SP	³ 0.6% Ni	³ 0.7% Ni
	MNR Ore	³ 0.12% Ni	

(b) Approximate drill hole spacings used to classify the reserves were:

Deposit	**Proved Ore Reserves**	**Probable Ore Reserves**
Cerro Matoso	35m or less with three drill holes	35m to 100m with three drill holes

(c) Metallurgical recoveries for the operations were:

Deposit	Metallurgical Recovery
Cerro Matoso	82% (reserves to metal)

(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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SILVER, LEAD AND ZINC

Table 7.44: Mineral Resources

ne 2014 (reported in 100 per cent terms)

	Measured Resources				Indicated Resources				Inferred Resources				Total Resources			
Ore Type	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**%**
OC Sulphide	15	70	3.04	2.12	1.2	67	2.64	1.32					16	70	3.01	2
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

Table 7.45: Ore Reserves

at 30 June 2014 (reported in 100 per cent terms)

mmodity		Proved Ore Reserves				Probable Ore Reserves				Total Ore Reserves				Reserve Life	South
posit[a),(b),(c),(d)]	**Ore Type**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**Mt**	**g/t Ag**	**% Pb**	**% Zn**	**(years)**	**Intere**
nnington	UG Sulphide	18	239	6.38	3.92	2.7	240	6.15	4.01	21	239	6.35	3.93	9.0	10

(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	Metallurgical Recovery
Cannington	Ag 87%, Pb 86%, Zn 79%

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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.

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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.

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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:

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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]:

(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	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. 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.
Short-term incentive	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. 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.

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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.

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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 Limited Shares	BHP Billiton Plc Shares
Directors		
David Crawford	33,127	6,000
Graham Kerr	94,661	
Keith Rumble		20,680
Xolani Mkhwanazi[(a)]		28,854

	BHP Billiton Limited Shares	BHP Billiton Plc Shares	Rights Limited (subject to service and/or performance conditions)	Rights Plc (subject to service and/or performance 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:

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).

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.

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.

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(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 GSTIP FY2013 MAP 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 FY2014 MAP FY2014	August 2016 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 FY2015	August 2017	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. 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.
LTI FY2013	August 2017	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.
LTI FY2014	August 2018	
Transitional GMC FY2013	August 2015	
Transitional GMC FY2014	August 2016	
	August 2016	
	August 2017	

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Award	Scheduled vesting date	Treatment
Shareplus	April 2016 April 2017	Holders 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. 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. 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.
LTI FY2015 STI FY2014 GSTIP FY2014 MAP 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.

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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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).

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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 H1 FY2015	H1 FY2014	12 months ended June 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.

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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.

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(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.

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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.

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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.

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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

US$M	South32 combined balance sheet 31 December 2014[a]	Change of control in Manganese Business 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]	South32 Pro forma 31 December 2014
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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US$M	South32 combined balance sheet 31 December 2014[a]	Change of control in Manganese Business 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]	South32 Pro forma 31 December 2014
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** US$1.5 billion	**Maturity date** 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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10.7 PRO FORMA NET INDEBTEDNESS SUMMARY

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.

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(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.

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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

	6 months ended December		12 months ended June		
US$M except where stated	**H1 FY2015**	**H1 FY2014**	**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

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(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.

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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$/dmtu)					
Average	4.34	5.21	4.95	5.29	4.90
Closing	4.32	5.08	4.20	5.54	5.06
Manganese alloy[e] (US$/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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(b) Exchange rates

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)]

	6 months ended December		12 months ended June		
US$M	**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)

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)]

	6 months ended December			12 months ended June	
US$M	**H1 FY2015**	**H1 FY2014**	**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
Alumina	*3*	*2*	*4*	*4*	*8*
Aluminium	*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
Manganese alloy	*6*	*2*	*5*	*3*	*12*
Manganese ore	*51*	*56*	*103*	*268*	*201*
South Africa Manganese	37	32	70	104	131
Manganese Alloy	*9*	*10*	*17*	*42*	*58*
Manganese Ore	*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

	6 months ended December			12 months ended June	
US$M	**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

	6 months ended December		12 months ended June		
US$M	**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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Table 11.11: Reconciliation of movements in Underlying Earnings for the period

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:

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Table 11.13: Adjusted effective tax rate

	H1 FY2015			FY2014			FY2013			FY2012		
	Profit/(loss) before tax US$M	Income tax (expense) US$M	%	Profit/(loss) before tax US$M	Income tax (expense) US$M	%	Profit/(loss) before tax US$M	Income tax (expense) US$M	%	Profit/(loss) before tax US$M	Income tax (expense) US$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.

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Table 11.14: Earnings adjustments

US$M	6 months ended December H1 FY2015	H1 FY2014	12 months ended June 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

	6 months ended December		12 months ended June		
US$M	**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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Table 11.16: Underlying EBIT contribution by Business

US$M	6 months ended December H1 FY2015	H1 FY2014	12 months ended June 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 H1 FY2015	H1 FY2014	12 months ended June 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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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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(2) Year ended 30 June 2014 compared with year ended 30 June 2013

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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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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(2) Year ended 30 June 2014 compared with year ended 30 June 2013

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 lead 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 H1 FY2015	H1 FY2014	12 months ended June 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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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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(1) Half year ended 31 December 2014 compared with half year ended 31 December 2013

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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(g) Australia Manganese

Table 11.23: Australia Manganese financial information

US$M, unless otherwise stated	6 months ended December H1 FY2015	H1 FY2014	12 months ended June 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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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.

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(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

	6 months ended December		12 months ended June		
US$M, unless otherwise stated	**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		12 months ended June		
	H1 FY2015	H1 FY2014	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.

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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

	6 months ended December		12 months ended June		
US$M	**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.

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(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 (l) 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.

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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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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

lf 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:

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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.

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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 captial 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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15 ADDITIONAL INFORMATION

15.1 INCORPORATION AND ACTIVITIES OF SOUTH32

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

Depositary 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	Manner in which South32 Shares will be held	Default form of confirmation
On BHP Billiton Limited s CHESS subregister	On South32 s CHESS subregister	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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Table 15.2: BHP Billiton Plc Shareholders

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.

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(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 (former member)	Shamase Guesthouse (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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15.22 CONSENTS

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 or South32 s interest in Alumar and thus would not be representative of the contribution of

the Brazil Aluminium business.

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15.23 INDEPENDENT COMPETENT PERSONS AND COMPETENT PERSONS INTERESTS IN BHP BILLITON SHARES

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
Illawarra Metallurgical	RungePincock	David McMillan	Nil	Nil
Coal	Minarco	Greg Eisenmonger	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
Cerro Matoso	SRK	Danny Kentwell	700	701
		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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Table 15.7: Competent Persons interests in BHP Billiton Shares (and therefore indirect interest in South32)

Mine	Competent Person	Direct interest in BHP Billiton Shares	Indirect interest in 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
	L Visser	306	Nil
Illawarra Metallurgical Coal	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

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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.

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).
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 Depositary and South32, summarised in Section 15.6(e)(1) pursuant to which the UK Depositary will provide the CSN Facility to CSN Participants.
CSN Facility	the facility arranged by South32 with the UK Depositary 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 Depositary 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.
Depositary Interest or **DI**	has the meaning given in Section 15.6(d)(1).
DI Depositary 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.
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	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; and International Financial Reporting Standards and interpretations as issued by the IASB, collectively referred to as IFRS.
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.

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.
Metalloys	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,

	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.

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 Depositary 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 Expert s 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 Depositary	Computershare Investor Services PLC in its capacity as depositary 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.

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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16.2 UNITS OF MEASURE

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
Al_2O_3	alumina
A.Al_2O_3	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
SiO_2	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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ANNEXURES

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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.

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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.

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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

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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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.

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1.5 COMBINED STATEMENT OF CHANGES IN INVESTED CAPITAL

	2014 US$M	2013 US$M	2012 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 .

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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 and development expenditure	based on reserves on a unit of production basis

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 depend on management s estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation and its interaction with income tax accounting principles. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Exchange rates

The following exchange rates relative to the US dollar have been applied in the historical combined financial information:

	Average year ended 30 June 2014	Average year ended 30 June 2013	Average year ended 30 June 2012	As at 30 June 2014	As at 30 June 2013	As at 30 June 2012

Australian dollar[(a)]	0.92	1.03	1.03	0.94	0.92	1.00
Brazilian real	2.29	2.04	1.78	2.20	2.18	2.08
Colombian peso	1,935	1,814	1,825	1,881	1,923	1,807
South African rand	10.39	8.84	7.77	10.60	10.00	8.41
Mozambican metical	30.63	29.56	27.36	31.55	29.80	27.95

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

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2 Segment reporting

Business segments

South32 operates the Businesses set out below. The reporting of financial information by Business reflects the proposed structure that will be used by South32 s management to assess the performance of South32.

Reportable segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia
South Africa Aluminium	Two aluminium smelters at Richards Bay
Mozal Aluminium	Aluminium smelter near Maputo in Mozambique
Brazil Aluminium	Alumina refinery and aluminium smelter in Brazil
South Africa Energy Coal	Open-cut and underground energy coal mines and processing operations in South Africa
Illawarra Metallurgical Coal	Underground metallurgical coal mines in southern New South Wales
Australia Manganese	Producer of manganese ore in the Northern Territory and manganese alloys in Tasmania
South Africa Manganese	Integrated producer of manganese ore and alloy in South Africa
Cerro Matoso	Integrated laterite ferronickel mining and smelting complex in northern Colombia
Cannington	Silver, lead and zinc mine located in northwest Queensland

All South32 Businesses are operated or jointly operated by South32 except Alumar (which forms part of Brazil Aluminium), which is operated by Alcoa.

Group and unallocated items represent Group centre functions and consolidation adjustments. Exploration and technology activities are recognised within relevant segments.

It is South32 s policy that inter-segment sales are made on a commercial basis.

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US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ eliminations	Total South32
Year ended 30 June 2014												
Revenue												
Group Production	570	1,614	574	529	1,247	878	1,308	788	595	1,079		9,182
Third party products[a]											1,262	1,262
Inter-segment revenue	659										(659)	
Total revenue	1,229	1,614	574	529	1,247	878	1,308	788	595	1,079	603	10,444
Underlying EBITDA[b]	162	190	52	127	197	135	505	120	87	460	20	2,055
Depreciation and amortisation	(138)	(69)	(36)	(83)	(193)	(170)	(91)	(72)	(88)	(47)	2	(985)
Underlying EBIT[b]	24	121	16	44	4	(35)	414	48	(1)	413	22	1,070
Comprising:												
Group Production	24	121	16	44	(6)	(35)	414	48	(1)	413	(7)	1,031
Third party products[a]											29	29
Share of operating profit of equity accounted investments					10							10
Underlying EBIT	24	121	16	44	4	(35)	414	48	(1)	413	22	1,070
Net finance costs[c]												(222)
Income tax expense												(234)
												614

Underlying Earnings												
Earnings adjustments												(397)
Profit/(Loss) after taxation												217
Capital expenditure	56	28	8	9	65	309	108	70	56	60		769
Investments accounted for using the equity method					10							10
Total assets[(d)]	3,894	1,543	726	1,105	2,158	1,768	1,374	1,121	1,105	435	4,461	19,690
Total liabilities[(d)]	476	348	99	137	1,169	384	549	331	245	201	5,931	9,870

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US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Canning	Group and unallocated items/ eliminations	Total BHP Billiton
Year ended 30 June 2013												
Revenue												
Group Production	492	1,663	612	637	1,458	1,287	1,257	856	803	1,365		10,430
Third party products[a]											1,663	1,663
Inter-segment revenue	638										(638)	
Total revenue	1,130	1,663	612	637	1,458	1,287	1,257	856	803	1,365	1,025	12,093
Underlying EBITDA[b]	60	73	31	44	115	302	499	111	234	651	(2)	2,118
Depreciation and amortisation	(175)	(72)	(34)	(84)	(211)	(148)	(63)	(53)	(79)	(40)	(5)	(964)
Underlying EBIT[b]	(115)	1	(3)	(40)	(96)	154	436	58	155	611	(7)	1,154
Comprising:												
Group Production	(115)	1	(3)	(40)	(96)	154	436	58	155	611	(70)	1,091
Third party products[a]											63	63
Share of operating profit of equity accounted investments												
Underlying EBIT	(115)	1	(3)	(40)	(96)	154	436	58	155	611	(7)	1,154
Net finance costs[c]												(143)
Income tax expense												(256)
												755

Underlying Earnings												
Earnings adjustments												(2,059)
Profit/(Loss) after taxation												(1,304)
Capital expenditure	154	17	7	6	133	357	271	104	50	39	1	1,139
Investments accounted for using the equity method												
Total assets[(d)]	3,359	1,632	791	1,309	2,383	1,568	1,266	1,132	1,187	409	4,507	19,543
Total liabilities[(d)]	491	250	122	278	1,049	330	420	287	197	203	5,796	9,423

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US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ eliminations	Total BHP Billiton
Year ended 30 June 2012												
Revenue												
Group Production	344	1,646	629	660	1,894	1,701	1,204	932	876	1,590		11,476
Third party products[a]											2,359	2,359
Inter-segment revenue	648										(648)	
Total revenue	992	1,646	629	660	1,894	1,701	1,204	932	876	1,590	1,711	13,835
Underlying EBITDA[b]	(67)	(10)	51	3	416	818	335	(18)	417	893	(7)	2,831
Depreciation and amortisation	(127)	(73)	(33)	(83)	(190)	(159)	(53)	(33)	(80)	(53)	(21)	(905)
Underlying EBIT[b]	(194)	(83)	18	(80)	226	659	282	(51)	337	840	(28)	1,926
Comprising:												
Group Production	(194)	(83)	18	(80)	226	659	282	(51)	337	840	(122)	1,832
Third party products[a]											94	94
Share of operating profit of equity accounted investments												
Underlying EBIT	(194)	(83)	18	(80)	226	659	282	(51)	337	840	(28)	1,926
Net finance costs[c]												(128)
Income tax expense												(540)
												1,258

Underlying Earnings												
Earnings adjustments												175
Profit/(Loss) after taxation												1,433
Capital expenditure	900	14	9	12	162	314	213	131	105	73	80	2,013
Investments accounted for using the equity method												
Total assets[(d)]	5,668	1,782	860	1,402	2,712	1,412	1,112	1,072	1,231	437	6,324	24,012
Total liabilities[(d)]	563	254	83	258	1,287	354	491	286	228	243	6,153	10,200

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(a) Third party products purchased and sold by South32 Marketing comprise US$802 million for aluminium (2013: US$1,024 million; 2012: US$1,487 million), US$456 million for coal (2013: US$585 million; 2012: US$856 million) and US$4 million for manganese (2013: US$54 million; 2012: US$16 million). Underlying EBIT on third party products comprise US$14 million for aluminium (2013: US$19 million; 2012: US$ nil), US$18 million for coal (2013: US$44 million; 2012: US$90 million) and a loss of US$3 million for manganese (2013: US$ nil; 2012: US$4 million).

(b) Underlying EBIT is earnings before net finance costs, taxation and any earnings adjustment items. Underlying EBIT is reported net of South32 s share of net finance costs and taxation of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation.

(c) Excludes interest income and interest expense on borrowings with BHP Billiton. Refer to note 6 Net finance costs.

(d) Total segment assets and liabilities represent operating assets and liabilities including the carrying amount of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and deferred tax balances.

The carrying amount of investments accounted for using the equity method represents the balance of the Group s investment in equity accounted investments, with no adjustment for any cash balances, interest bearing liabilities and deferred tax balances of the equity accounted investment.

The following items are excluded from profit/(loss) from operations in arriving at Underlying EBIT each period irrespective of materiality:

Exchange gains/losses on restatement of monetary items

Impairment losses/reversals

Net gains/loss on disposal and consolidation of interests in businesses

Fair value gain/loss on derivative instruments

Major corporate restructures

In addition to these, items that do not reflect the underlying operations of South32 and are individually significant to the financial statements are excluded. Such items included within South32 s profit or loss for the Reporting Period are detailed in note 3 Significant items.

In calculating Underlying Earnings, adjustments are also made to dividend income, net finance costs and taxation for amounts with BHP Billiton that will not continue post Demerger and are not reflective of the underlying operations.

The following table shows earnings adjustments in arriving at Underlying Earnings:

US$M	2014	2013	2012

Earnings adjustments to Underlying EBIT			
Exchange gains on restatement of monetary items	(68)	(97)	(100)
Impairment losses	327	2,225	108
Impairment reversals	(8)	(15)	
Fair value (gain)/loss on derivative instruments	2	16	(122)
Dividend income from BHP Billiton	(11)	(12)	(20)
Other:			
Bayside closure costs (excluding impairments)	138		
Gain on sale of Optimum coal rights	(84)		
Total earnings adjustments to Underlying EBIT	296	2,117	(134)
Earnings adjustments to net finance costs			
Exchange variations on net debt	40	(16)	(44)
Interest on borrowings from BHP Billiton	115	108	76
Interest income on loans to BHP Billiton	(25)	(102)	(118)
Total earnings adjustments to net finance costs	130	(10)	(86)
Earnings adjustments to income tax expense			
Tax effect of earnings adjustments to Underlying EBIT	(21)	(528)	48
Tax effect of earnings adjustments to net finance costs	(39)	3	26
Exchange rate movements	4	84	123
Remeasurement of deferred tax assets associated with the MRRT		142	(196)
Non-recognition of tax benefits where benefit remains with BHP Billiton	27	251	44
Total earnings adjustments to income tax expense	(29)	(48)	45
Total earnings adjustments	397	2,059	(175)

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Geographical information

	Revenue by location of customer		
	2014 US$M	2013 US$M	2012 US$M
Australia	851	1,035	1,303
China	1,349	1,320	1,402
India	789	889	1,373
Japan	838	1,004	959
Middle East	482	638	803
Singapore	514	627	321
South Korea	691	733	893
Rest of Asia	386	567	594
United Kingdom	301	354	306
Europe	2,313	2,766	3,184
North America	542	526	750
Southern Africa	1,141	1,234	1,499
Rest of world	247	400	448
Total revenue	10,444	12,093	13,835

	Non-current assets by location of assets		
	2014 US$M	2013 US$M	2012 US$M
Australia	6,852	5,122	7,559
Africa	4,519	5,597	5,430
South America	1,871	2,008	2,134
Unallocated assets[(a)]	1,446	1,580	1,345
Total non-current assests	14,688	14,307	16,468

(a) Unallocated assets predominantly comprise deferred tax assets and other financial assets.

3 Significant items

Significant items are those items where their nature and amount were considered material to the South32 historical combined financial information. Such items included within South32 s profit/(loss) for the year are detailed below.

	2014 US$M	2013 US$M	2012 US$M
Significant items by nature			
Impairment of South Africa Energy Coal assets	292		
Impairment of Worsley Alumina assets		2,190	
Impairment of Manganese assets			93
Bayside closure costs	167		
Gain on sale of Optimum coal rights	(84)		
Total significant items	375	2,190	93

30 June 2014

Impairment of South Africa Energy Coal assets comprise:

As part of South32 s accounting policy to evaluate assets and cash generating units every reporting period to determine whether there are any indications of impairment, impairments of property, plant and equipment of US$244 million and of goodwill of US$48 million were recognised at South Africa Energy Coal 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.

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Bayside closure costs:

As a result of the cessation of aluminium smelting activities at Bayside in June 2014, a charge of US$167 million was recorded, representing an impairment of property, plant and equipment of US$29 million in conjunction with other closure and cessation costs totalling US$138 million.

Gain on sale of 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.

30 June 2013

Impairment of Worsley Alumina assets:

South32 recognised an impairment of assets at Worsley Alumina as a result of expected continued strength in the Australian dollar and weak alumina prices. A total impairment charge of US$2,190 million was recognised.

30 June 2012

Impairment of Manganese assets:

As part of the regular portfolio review, South32 temporarily suspended production at Australia Manganese, permanently closed the Metalloys South Plant at South Africa Manganese and terminated the Samancor Manganese Gabon project. As a result, impairment charges of US$93 million were recognised.

4 Other income

	2014 US$M	2013 US$M	2012 US$M
External dividend income	17	12	3
Dividend income from BHP Billiton	11	12	20
Gains/(losses) on sale of property, plant and equipment	20	32	(4)
Gains/(losses) on sale of investments	2	(3)	
External other income	260	102	41
Total other income	310	155	60

5 Expenses

	2014	2013	2012

	US$M	US$M	US$M
Changes in inventories of finished goods and work in progress	6	188	175
Raw materials and consumables used	3,302	3,396	3,321
Employee benefits expense	1,471	1,577	1,530
Employee share awards	25	26	28
External services (including transportation)	1,837	2,438	2,734
Third party commodity purchases	1,233	1,601	2,265
Net foreign exchange gains	(68)	(97)	(100)
Research and development costs before crediting related grants	16	18	19
Fair value change on derivatives	2	16	(122)
Government royalties paid and payable	348	383	413
Reversal of previously impaired financial assets	(8)		
Depreciation and amortisation expense	985	964	905
Exploration and evaluation expenditure incurred and expensed in the current period	17	21	41
Impairment of property, plant and equipment	279	2,225	108
Reversal of previously impaired property, plant and equipment		(15)	
Impairment of goodwill and intangible assets	48		
Operating lease rentals	94	97	96
All other operating expenses	403	373	422
Total expenses	9,990	13,211	11,835

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6 Net finance costs

	2014 US$M	2013 US$M	2012 US$M
Financial expenses			
Interest on bank loans and overdrafts[a]	3	1	3
Interest on all other borrowings[a]	51	11	61
Finance lease and hire purchase interest	36	4	29
Discounting on provisions and other liabilities	137	143	142
Net interest expense on post-retirement employee benefits	11	12	12
Interest capitalised[b]			(82)
Exchange variations on net debt	40	(16)	(44)
Financial expenses excluding BHP Billiton	278	155	121
Interest on borrowings from BHP Billiton[c]	115	108	76
Total financial expenses	393	263	197
Financial income			
Interest income[d]	(16)	(28)	(37)
Interest income on loans to BHP Billiton[c]	(25)	(102)	(118)
Total financial income	(41)	(130)	(155)
Net finance costs	352	133	42

(a) Interest on bank loans and overdrafts, and other borrowings, relates to financial liabilities carried at amortised cost.

(b) Interest has been capitalised at the rate of interest applicable to the specific borrowings financing the assets under construction or, where financed through general borrowings, at a capitalisation rate representing the average interest rate on such borrowings. For the year ended 30 June 2012, the capitalisation rate was 2.83 per cent.

(c) Interest income and expense are based on historical funding which was provided to South32 under executed agreements between BHP Billiton and South32 at estimated arm s length interest rates. Refer to note 15 Interest bearing liabilities for details of outstanding debt balances with BHP Billiton.

(d) Interest income relates to financial assets carried at amortised cost.

7 Income tax and deferred tax

	2014 US$M	2013 US$M	2012 US$M
Total taxation expense comprises:			
Current tax expense	233	579	579
Deferred tax (benefit)/expense	(28)	(371)	6

Total taxation expense	205	208	585

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	2014		2013		2012	
	%	US$M	%	US$M	%	US$M
Factors affecting income tax expense for the period						
Income tax expense differs to the standard rate of corporation tax as follows:						
Profit/(loss) before taxation		422		(1,096)		2,018
Tax on profit/(loss) at standard rate of 30 per cent	30.0	127	30.0	(329)	30.0	605
Investment and development allowance	(0.7)	(3)	0.3	(3)	(0.1)	(2)
Amounts under/(over) provided in prior years	15.7	66	0.2	(2)	(0.8)	(16)
Initial recognition of tax assets			3.2	(35)	(5.5)	(110)
Non-deductible depreciation, amortisation and exploration expenditure	8.8	37	(9.6)	105	0.8	17
Tax rate differential on foreign income	(8.1)	(34)	2.2	(24)	(1.4)	(28)
Tax on remitted and unremitted foreign earnings			(0.6)	7		
Non-tax-effected operating losses and capital gains	4.5	19	(23.8)	261	7.4	152
Exchange variations and other translation adjustments	1.0	4	(7.7)	84	6.1	123
Tax rate changes			2.1	(23)		
Other	6.9	29	(2.3)	25	2.0	40
Income tax expense	58.1	245	(6.0)	66	38.7	781
Royalty-related taxation (net of income tax benefit)	(9.5)	(40)	(13.0)	142	(9.7)	(196)
Total taxation expense	48.6	205	(19.0)	208	29.0	585

Income tax recognised in other comprehensive income is as follows:

	2014 US$M	2013 US$M	2012 US$M
Income tax effect of:			
Items that may be reclassified subsequently to the income statement:			
Available for sale investments:			
Net valuation gains/(losses) taken to equity	2	17	(15)
Net valuation gains transferred to the income statement	1		
Income tax credit/(charge) relating to items that may be reclassified subsequently to the income statement	3	17	(15)
Items that will not be reclassified to the income statement:			
Actuarial gains on pension and medical schemes			5
Net accrued employee entitlement for share awards			1
			6

Income tax credit relating to items that will not be reclassified to the income statement			
Total income tax credit/(charge) relating to components of other comprehensive income[(a)]	3	17	(9)

(a) Included within total income tax relating to components of other comprehensive income is US$3 million relating to deferred taxes (2013: US$17 million; 2012: US$(9) million).

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The movement for the year in South32 s net deferred tax position is as follows:

	2014 US$M	2013 US$M	2012 US$M
Net deferred tax asset			
At the beginning of the financial year	461	66	116
Income tax credit/(charge) recorded in the income statement	28	371	(6)
Income tax credit/(charge) recorded directly in equity	3	17	(9)
Other movements	(2)	7	(35)
At the end of the financial year	490	461	66

The composition of South32 s net deferred tax asset and liability recognised in the balance sheet and the deferred tax expense charged/(credited) to the income statement is as follows:

	Deferred tax assets			Deferred tax liabilities			Charged/(credited) to the income statement		
	2014 US$M	2013 US$M	2012 US$M	2014 US$M	2013 US$M	2012 US$M	2014 US$M	2013 US$M	2012 US$M
Type of temporary difference									
Depreciation	297	647	225	630	659	809	321	(571)	52
Exploration expenditure			10						8
Employee benefits	71	81	64	(65)	(46)	(66)	(9)	(1)	8
Closure and rehabilitation	232	240	145	(212)	(163)	(249)	(22)	(11)	36
Resource rent tax	137	41	196	43	(13)		(40)	142	(196)
Other provisions	260	13	3	(21)	(9)	(9)	(259)	(10)	(5)
Deferred income	(1)		1	(1)	(1)		1		
Deferred charges			(114)	163	142		20	28	18
Foreign exchange gains and losses		(1)	2	(1)	(3)	8	1	(9)	(10)
Non tax-depreciable fair value adjustments, revaluations and mineral rights		(1)		9	33	48	(25)	(14)	98
Tax-effected losses	53	87	101	(41)	(33)	(35)	4	15	142
Other	(36)	(66)	(20)	19	14	41	(20)	60	(145)
Total	1,013	1,041	613	523	580	547	(28)	(371)	6

The composition of South32 s unrecognised deferred tax assets and liabilities is as follows:

	2014 US$M	2013 US$M	2012 US$M

Unrecognised deferred tax assets			
Tax losses and tax credits	17	38	15
Investments in subsidiaries	155	204	113
Deductible temporary differences relating to MRRT	1,008	1,000	760
Other deductible temporary differences	624	617	649
Total unrecognised deferred tax assets	1,804	1,859	1,537
Unrecognised deferred tax liabilities			
Taxable temporary differences relating to unrecognised deferred tax asset for MRRT	(302)	(300)	(228)
Investments in subsidiaries	(243)	(219)	(206)
Total unrecognised deferred tax liabilities	(545)	(519)	(434)

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Tax losses

At 30 June 2014, South32 had income and capital tax losses with a tax benefit of US$17 million (2013: US$38 million, 2012: US$15 million) which are not recognised as deferred tax assets. South32 has recognised the benefit of tax losses only to the extent BHP Billiton has anticipated sufficient future taxable income or gains in relevant jurisdictions. The gross amount of tax losses carried forward that have not been tax-effected expire as follows:

Year of expiry	2014 US$M	2013 US$M	2012 US$M
Income tax losses			
Not later than one year		110	
Later than two years and not later than five years			43
Unlimited	61		
Gross amount of tax losses not recognised	61	110	43
Tax effect of total losses not recognised	17	38	15

Temporary differences relating to MRRT:

At 30 June 2014, South32 had US$1,008 million of unrecognised deductible temporary differences (2013: US$1,000 million, 2012: US$760 million) relating to the Australian MRRT with a corresponding unrecognised deferred tax liability for income tax purposes of US$302 million (2013: US$300 million, 2012: US$228 million). Recognition of a deferred tax asset for MRRT depends on benefits expected to be obtained from the deduction against MRRT liabilities.

Other deductible temporary differences:

At 30 June 2014, South32 had deductible temporary differences for which deferred tax assets of US$624 million (2013: US$617 million, 2012: US$649 million) have not been recognised because it is not probable that future taxable profits will be available against which South32 can utilise the benefits. The deductible temporary differences do not expire under current tax legislation.

Temporary differences associated with investments in subsidiaries

At 30 June 2014, deferred tax liabilities of US$243 million (2013: US$219 million, 2012: US$ 206 million) associated with undistributed earnings of subsidiaries have not been recognised because the South32 Group is able to control the timing of the reversal of the temporary differences and it is not probable that such differences will reverse in the foreseeable future.

8 Earnings, dividends and asset information per share

	2014	2013	2012
Basic earnings/(loss) per share (US cents)	2.48	(27.55)	26.31
Diluted earnings/(loss) per share (US cents)	2.47	(27.46)	26.20
Basic earnings/(loss) (US$M)	132	(1,467)	1,401
Diluted earnings/(loss) (US$M)	132	(1,467)	1,401
Headline earnings per share (US cents)	7.48	3.32	28.32
Headline earnings (US$M)	398	177	1,508
Net asset value per share (US cents)[(a)]	184	190	259
Tangible net asset value per share (US cents)[(b)]	179	184	253
Dividends paid per share (US cents)[(c)]	9	43	1

(a) Net asset value per share is calculated by dividing South32 s total net assets by the basic number of ordinary shares outstanding.

(b) Tangible net asset value per share is calculated by dividing South32 s total net assets less intangible assets by the basic number of ordinary shares outstanding.

(c) Dividends per share are calculated by dividing South32 s dividends paid by the basic number of ordinary shares outstanding.

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The number of shares used for the purpose of calculating amounts per share is based on the proposed capital structure of South32 at the time of Demerger being a one for one share issue as follows:

Weighted average number of ordinary shares	2014 Million	2013 Million	2012 Million
Basic/headline earnings per share denominator	5,324	5,324	5,324
Shares and options contingently issuable under employee share ownership plans	17	18	23
Diluted earnings per share denominator	5,341	5,342	5,347

Headline earnings

Headline earnings per share has been calculated in accordance with the South African Circular 2/2013 entitled Headline Earnings which forms part of the listing requirements for the JSE. The adjustments made to arrive at headline earnings are as follows:

	2014 US$M		2013 US$M		2012 US$M	
	Gross	Net	Gross	Net	Gross	Net
Profit/(loss) for the year attributable to members of South32		132		(1,467)		1,401
Headline earnings adjustments:						
Impairment of intangible assets[a]	48	48				
Impairment of property, plant and equipment[a]	279	225	2,210	1,666	108	102
Loss on cessation of operations[b]	8	8				
(Gain)/loss on disposal of property, plant and equipment	(20)	(14)	(32)	(22)	7	5
Net profit on disposal of business	(1)	(1)				
Headline earnings		398		177		1,508

(a) Refer to note 3 Significant items and note 5 Expenses.
(b) The aluminium smelting activities at Bayside ceased in June 2014.

9 Trade and other receivables

	2014 US$M	2013 US$M	2012 US$M
Current			
Trade receivables	623	706	921
Other receivables	288	543	788
Trade and other receivables	911	1,249	1,709

Trade receivables from BHP Billiton[(a)]	869	982	890
Interest bearing loans receivable from BHP Billiton[(a)]	1,074	827	2,663
Receivables from BHP Billiton	1,943	1,809	3,553
Total current receivables	2,854	3,058	5,262
Non-current			
Trade receivables		43	63
Interest bearing loans receivable	67	88	82
Other receivables	111	51	73
Total non-current receivables	178	182	218

(a) Disclosures relating to receivables due from BHP Billiton are set out in note 24 Related party balances and transactions.

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10 Other financial assets

	2014 US$M	2013 US$M	2012 US$M
Current			
At fair value			
Forward exchange contracts		1	5
Commodity contracts		19	61
Other derivative contracts	13	8	7
Shares available for sale		37	
Total current other financial assets	13	65	73
Non-current			
At fair value			
Commodity contracts			39
Other derivative contracts	41	44	55
Shares available for sale	317	358	493
Other investments available for sale[(a)]	144	137	145
Total non-current other financial assets	502	539	732

(a) Represents investments held by BHP Billiton Energy Coal South Africa Rehabilitation Trust Fund. The future realisation of this investment is intended to fund environmental obligations relating to the closure of the South African coal operations, and consequently this investment, while under South32 s control, is not available for the general purposes of South32.
Any income from this investment is reinvested or applied to meet these obligations. South32 retains responsibility for these environmental obligations until such time as the former mine sites have been rehabilitated in accordance with the relevant environmental legislation. These obligations are therefore included under non-current provisions. Refer to note 17 Provisions.

11 Inventories

		2014 US$M	2013 US$M	2012 US$M
Current				
Raw materials and consumables	at net realisable value[(a)]	35	4	76
	at cost	514	650	567
		549	654	643
Work in progress	at net realisable value[(a)]	7	16	143
	at cost	400	343	216

		407	359	359
Finished goods	at net realisable value[a]	121	52	307
	at cost	350	485	414
		471	537	721
Total current inventories		1,427	1,550	1,723
Non-current				
Raw materials and consumables	at cost	20	77	87
		20	77	87
Work in progress	at cost	38		
		38		
Total non-current inventories		58	77	87

(a) US$26 million of inventory write-downs were recognised during the year (2013: US$3 million; 2012: US$18 million). Inventory write-downs of US$7 million made in previous periods were reversed during the year (2013: US$16 million; 2012: US$ nil).

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12 Property, plant and equipment

Year ended 30 June 2014	Land and buildings US$M	Plant and equipment US$M	Other mineral assets US$M	Assets under construction US$M	Exploration and evaluation US$M	Total US$M
Cost						
At the beginning of the financial year	2,706	15,492	2,718	1,300	33	22,249
Additions		979	145	652	6	1,782
Disposals	(24)	(104)	(68)			(196)
Transfers and other movements	207	735	12	(929)	(6)	19
At the end of the financial year	2,889	17,102	2,807	1,023	33	23,854
Accumulated depreciation and impairments						
At the beginning of the financial year	(1,098)	(7,704)	(1,346)			(10,148)
Charge for the year	(119)	(754)	(108)			(981)
Impairments for the year	(122)	(110)	(47)			(279)
Disposals	5	96	68			169
Transfers and other movements	(1)	2				1
At the end of the financial year	(1,335)	(8,470)	(1,433)			(11,238)
Net book value at 30 June 2014	1,554	8,632	1,374	1,023	33	12,616

Year ended 30 June 2013	Land and buildings US$M	Plant and equipment US$M	Other mineral assets US$M	Assets under construction US$M	Exploration and evaluation US$M	Total US$M
Cost						
At the beginning of the financial year	2,788	14,591	2,613	1,519	104	21,615
Additions			200	877	8	1,085
Amounts capitalised for closure provisions		(233)				(233)
Disposals	(6)	(138)	(27)			(171)
Transfers and other movements	(76)	1,272	(68)	(1,096)	(79)	(47)
At the end of the financial year	2,706	15,492	2,718	1,300	33	22,249
Accumulated depreciation and impairments						
At the beginning of the financial year	(889)	(5,276)	(988)			(7,153)
Charge for the year	(112)	(754)	(95)			(961)
Impairments for the year	(121)	(1,778)	(326)			(2,225)
Reversal of impairments		15				15
Disposals	4	114	21			139

Transfers and other movements	20	(25)	42			37
At the end of the financial year	(1,098)	(7,704)	(1,346)			(10,148)
Net book value at 30 June 2013	1,608	7,788	1,372	1,300	33	12,101

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Year ended 30 June 2012	Land and buildings US$M	Plant and equipment US$M	Other mineral assets US$M	Assets under construction US$M	Exploration and evaluation US$M	Total US$M
Cost						
At the beginning of the financial year	2,397	11,241	2,708	3,665	93	20,104
Additions	1	26	138	1,881	11	2,057
Disposals	(6)	(338)	(222)			(566)
Transfers and other movements	396	3,662	(11)	(4,027)		20
At the end of the financial year	2,788	14,591	2,613	1,519	104	21,615
Accumulated depreciation and impairments						
At the beginning of the financial year	(727)	(4,854)	(1,107)			(6,688)
Charge for the year	(110)	(677)	(115)			(902)
Impairments for the year	(3)	(105)				(108)
Disposals	6	333	222			561
Transfers and other movements	(55)	27	12			(16)
At the end of the financial year	(889)	(5,276)	(988)			(7,153)
Net book value at 30 June 2012	1,899	9,315	1,625	1,519	104	14,462

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13 Intangible assets

	2014			2013			2012		
	Goodwill US$M	Other Intangibles US$M	Total US$M	Goodwill US$M	Other Intangibles US$M	Total US$M	Goodwill US$M	Other Intangibles US$M	Total US$M
Cost									
At the beginning of the financial year	267	119	386	267	101	368	266	102	368
Additions					20	20	1		1
Disposals					(2)	(2)		(1)	(1)
Impairments for the year[a]	(48)		(48)						
At the end of the financial year	219	119	338	267	119	386	267	101	368
Accumulated amortisation and impairments									
At the beginning of the financial year		(43)	(43)		(42)	(42)		(40)	(40)
Disposals					2	2		1	1
Charge for the year		(4)	(4)		(3)	(3)		(3)	(3)
At the end of the financial year		(47)	(47)		(43)	(43)		(42)	(42)
Total intangible assets	219	72	291	267	76	343	267	59	326

(a) In FY2014 an impairment of goodwill of US$48 million was recognised at Energy Coal South Africa as part of the annual assessment for impairment of the carrying amount of assets and cash generating units.

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The carrying amount of goodwill has been allocated to the South32 Businesses as follows:

South32 Business	2014 US$M	2013 US$M	2012 US$M
Aluminium South Africa	139	139	139
Manganese South Africa	74	74	74
Energy Coal South Africa	6	54	54
Total goodwill	219	267	267

Impairment testing of goodwill

For the purpose of impairment testing, goodwill has been allocated to cash generating units (CGUs), or groups of CGUs that are expected to benefit from the synergies of the business combination and which represent the level at which management will monitor and manage the goodwill.

Impairment of non-financial assets

South32 recognised an impairment of assets at its Wolvekrans Middelburg Complex CGU (WMC CGU) of US$292 million in the year ended 30 June 2014, 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. The WMC CGU consists of the Wolvekrans and Middelburg open cast collieries and South Africa Energy Coal. South32 s determination of CGUs remains unchanged from prior periods.

The recoverable amount of the WMC CGU was determined as US$735 million based on its fair value less cost of disposal. The value is based on South32 s annual business valuation model using a discounted cash flow model with a discount rate of 9.5 per cent. The key assumptions used for export coal prices and exchange rates are comparable to the market consensus forecasts.

14 Trade and other payables

	2014 US$M	2013 US$M	2012 US$M
Current			
Trade creditors	931	957	1,129
Other creditors	380	629	882
Trade and other payables	1,311	1,586	2,011
Payable to BHP Billiton[(a)]	28	10	13
Total current payables	1,339	1,596	2,024

Non-current			
Other creditors	56	8	19
Total non-current payables	56	8	19

(a) Disclosures relating to payables owing to BHP Billiton are set out in note 24 Related party balances and transactions.

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15 Interest bearing liabilities

	2014 US$M	2013 US$M	2012 US$M
Current			
Unsecured bank loans	30	14	73
Secured bank loans[(a)]		20	20
Finance leases	15	1	3
Unsecured other	2	58	89
Unsecured bank overdrafts and short-term borrowings			19
Interest bearing liabilities	47	93	204
Interest bearing liabilities payable to BHP Billiton[(b)]		341	
Total current interest bearing liabilities	47	434	204
Non-current			
Unsecured bank loans	250	30	
Secured bank loans			20
Finance leases	788	32	35
Unsecured other[(c)]	215	219	259
Interest bearing liabilities	1,253	281	314
Interest bearing liabilities payable to BHP Billiton[(b)]	3,728	4,000	4,071
Total non-current interest bearing liabilities	4,981	4,281	4,385

(a) Secured bank loans for 2013 include US$20 million secured by pledge over the assets of Mozal SARL joint operation. The bank loan was repaid during the 2014 financial year. As at 30 June 2014, the pledge over the assets has not yet been released.

(b) All interest bearing balances owed to BHP Billiton were historically provided under executed agreements between counterparties at arms-length interest rates. Refer to Note 24 Related party balances and transactions.

(c) Includes US$60 million (2013: US$66 million; 2012: US$ nil) share of bank loans and other borrowings arranged by joint operations to fund the financing of joint operations. While South32 chose to finance the joint operations directly and not to participate in the external borrowing programs arranged by the joint operations, it recognises its share of those borrowings in accordance with the terms of each arrangement, which are usually in proportion to South32 s interest in the joint operation. A corresponding amount is recognised in interest bearing loans receivables. Refer to note 9 Trade and other receivables, reflecting the direct funding of South32 s contribution to each joint operation.

16 Other financial liabilities

	2014 US$M	2013 US$M	2012 US$M
Current			
Commodity contracts			42
Other derivative contracts	4		1
Total current other financial liabilities	4		43
Non-current			
Commodity contracts			11
Other derivative contracts	6	7	9
Total non-current other financial liabilities	6	7	20

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17 Provisions

	2014 US$M	2013 US$M	2012 US$M
Current			
Employee benefits[a]	302	307	292
Restructuring[b]	16		13
Closure and rehabilitation[c]	156	198	213
Post-retirement employee benefits[d]	8	8	9
Other	55	80	89
Total current provisions	537	593	616
Non-current			
Employee benefits[a]	5	3	4
Closure and rehabilitation[c]	2,036	1,635	1,853
Post-retirement employee benefits[d]	125	130	165
Other	4	11	10
Total non-current provisions	2,170	1,779	2,032

(a) The expenditure associated with total employee benefits will occur in a pattern consistent with when employees choose to exercise their entitlement to benefits.
(b) Total restructuring provisions include provisions for business terminations and office closures.
(c) Total closure and rehabilitation provisions include provision for closed sites of US$381 million (2013: US$186 million; 2012: US$189 million).
(d) The provision for post-retirement employee benefits includes pension assets of US$30 million (2013: US$21 million; 2012: liability US$3 million) and post-retirement medical benefit liabilities of US$163 million (2013: US$159 million; 2012: US$171 million) refer to note 25 Pension and other post-retirement obligations.

Year ended 30 June 2014	Employee benefits US$M	Restructuring US$M	Closure and rehabilitation US$M	Post-retirement employee benefits US$M	Other US$M	Total US$M
At the beginning of the financial year	310		1,833	138	91	2,372
Amounts capitalised			224			224
Charge/(credit) for the year:						
Underlying	266	7	94	5	34	406
Discounting			137			137
Net interest expense				11		11
Exchange variations	(1)		(11)	(7)	(4)	(23)
Released during the year					(26)	(26)
Actuarial loss taken to retained earnings				2		2

Utilisation	(248)	(8)	(92)	(14)	(30)	(392)
Transfers and other movements	(20)	17	7	(2)	(6)	(4)
At the end of the financial year	307	16	2,192	133	59	2,707

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Year ended 30 June 2013	Employee benefits US$M	Restructuring US$M	Closure and rehabilitation US$M	Post-retirement employee benefits US$M	Other US$M	Total US$M
At the beginning of the financial year	296	13	2,066	174	99	2,648
Amounts capitalised			(251)			(251)
Charge/(credit) for the year:						
Underlying	294	4	24	7	100	429
Discounting			143			143
Net interest expense				12		12
Exchange variations	(36)		(30)	(24)	(9)	(99)
Released during the year	(2)		(29)		(19)	(50)
Actuarial gain taken to retained earnings				(2)		(2)
Utilisation	(240)	(7)	(112)	(30)	(70)	(459)
Transfers and other movements	(2)	(10)	22	1	(10)	1
At the end of the financial year	310		1,833	138	91	2,372

Year ended 30 June 2012	Employee benefits US$M	Restructuring US$M	Closure and rehabilitation US$M	Post-retirement employee benefits US$M	Other US$M	Total US$M
At the beginning of the financial year	315		2,081	200	103	2,699
Amounts capitalised			28			28
Charge/(credit) for the year:						
Underlying	187	15	3	7	35	247
Discounting			142			142
Net interest expense				12		12
Exchange variations	(22)		(43)	(38)	(17)	(120)
Released during the year	(18)		(10)			(28)
Actuarial loss taken to retained earnings				12		12
Utilisation	(161)	(2)	(134)	(19)	(23)	(339)
Transfers and other movements	(5)		(1)		1	(5)
At the end of the financial year	296	13	2,066	174	99	2,648

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18 Contingent liabilities

Contingent liabilities at balance date, not otherwise provided for in the financial statements, are categorised as arising from:

	2014 US$M	2013 US$M	2012 US$M
Subsidiaries and joint operations			
Bank guarantees	4	4	29
Actual or potential litigation[a]	587	622	643
Other	13	12	31
Total contingent liabilities	604	638	703

(a) Actual or potential litigation amounts relate to a number of actions against South32, some of which relate to commercially confidential information, none of which were individually significant to BHP Billiton and where BHP Billiton has historically assessed that the liability is not probable and therefore South32 has not provided for such amounts in the historical combined financial statements. 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, the outcome of which cannot be foreseen at present, and for which no amounts have been included in the table above.

19 Commitments

	2014 US$M	2013 US$M	2012 US$M
Capital expenditure commitments	149	229	366
Lease expenditure commitments			
Finance leases[a]			
Due not later than one year	84	4	5
Due later than one year and not later than two years	84	4	5
Due later than two years and not later than three years	84	5	5
Due later than three years and not later than four years	82	4	5
Due later than four years and not later than five years	91	4	30
Due later than five years	1,447	37	17
Total commitments under finance leases	1,872	58	67
Future financing charges	(1,069)	(25)	(29)
Finance lease liability	803	33	38
Operating leases[b]			

Due not later than one year	25	59	64
Due later than one year and not later than two years	21	47	52
Due later than two years and not later than three years	11	35	49
Due later than three years and not later than four years	8	10	35
Due later than four years and not later than five years	5	9	12
Due later than five years	14	30	41
Total commitments under operating leases	84	190	253

(a) Finance leases include leases of power generation and transmission assets. Lease payments are subject to inflation escalation clauses on which contingent rentals are determined. The leases contain extension and renewal options.

(b) Operating leases include property, plant and equipment. Rental payments are generally fixed, but with inflation escalation clauses on which contingent rentals are determined. Certain leases contain extension and renewal options.

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20 Notes to the combined cash flow statement

Cash and cash equivalents

For the purpose of the combined cash flow statement, cash equivalents include highly liquid investments that are readily convertible to cash and with a maturity of less than 90 days, bank overdrafts and interest bearing liabilities at call.

		2014 US$M	2013 US$M	2012 US$M
Cash and cash equivalents comprise:				
Cash		344	336	337
Short-term deposits		9	9	9
Total cash and cash equivalents[(a)]		353	345	346
Bank overdrafts and short-term borrowings	refer to note 15			
Interest bearing liabilities				(19)
Total cash and cash equivalents, net of overdrafts		353	345	327

(a) Cash and cash equivalents include US$28 million (2013: US$36 million; 2012: US$41 million) which is restricted by legal or contractual arrangements.

Significant non-cash investing and financing transactions

Property, plant and equipment of US$768 million (2013: US$ nil; 2012: US$28 million) was acquired under finance leases.

Property, plant and equipment of US$ nil (2013: US$49 million; 2012: US$ nil) was acquired under vendor financing arrangements.

21 Subsidiaries

Significant subsidiaries of South32, which are those with the most significant contribution to South32 s net profit or net assets, including entities which will become subsidiaries on the effective date of the Demerger are as follows:

Name	Country of incorporation	Principal activity	Effective interest 2014 %	2013 %	2012 %
BHP Billiton Aluminium (RAA) Pty Ltd	Australia	Bauxite mining and alumina refining	100	100	100
	Australia	Bauxite mining and alumina refining	100	100	100

BHP Billiton Aluminium (Worsley) Pty Ltd					
BHP Billiton Australia Investment 3 Pty Ltd	Australia	Holding company	100	100	100
BHP Billiton Energy Coal South Africa Proprietary Limited[(a)]	South Africa	Coal mining	100	100	100
BHP Billiton Metais SA	Brazil	Alumina refining and aluminium smelting	100	100	100
BHP Billiton SA Holdings Limited	South Africa	Holding company	100	100	100
BHP Billiton SA Limited	South Africa	Holding and service company	100	100	100
Billiton Aluminium SA (Pty) Ltd	South Africa	Aluminium smelting	100	100	100
Billiton Coal SA Ltd	South Africa	Finance	100	100	100
Cerro Matoso SA	Colombia	Nickel mining and ferro-nickel smelting	99.9	99.9	99.9
Dendrobium Coal Pty Ltd	Australia	Coal mining	100	100	100
Endeavour Coal Pty Ltd	Australia	Coal mining	100	100	100
Groote Eylandt Mining Company Pty Ltd	Australia	Manganese mining	60	60	60
Hillside Aluminium (Pty) Ltd	South Africa	Aluminium smelting	100	100	100
Hotazel Manganese Mines (Proprietary) Limited[(a)]	South Africa	Manganese ore mining and processing	54.6	54.6	54.6
Illawarra Coal Holdings Pty Ltd	Australia	Coal mining	100	100	100

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Name	Country of incorporation	Principal activity	Effective interest 2014 %	2013 %	2012 %
Illawarra Services Pty Ltd	Australia	Coal mining	100	100	100
Samancor AG	Switzerland	Marketing	60	60	60
Samancor Holdings (Proprietary) Limited	South Africa	Holding company	60	60	60
Samancor Manganese (Proprietary) Limited	South Africa	Manganese mining and manganese alloys	60	60	60
Tasmanian Electro Metallurgical Company Pty Ltd	Australia	Manganese alloys	60	60	60

(a) South32 s effective interest in BHP Billiton Energy Coal South Africa Proprietary Limited will reduce to 90 per cent and effective interest in Hotazel Manganese Mines (Proprietary) Limited will reduce to 44.4 per cent pursuant to BBBEE transactions in South Africa.

22 Interests in joint operations

Significant joint operations of South32, which are those with the most significant contributions to South32 s net profit or net assets, are as follows:

Name	Country of operation	Principal activity	Effective interest 2014 %	2013 %	2012 %
Alumar	Brazil	Alumina refining	36	36	36
		Aluminium smelting	40	40	40
Mozal SARL[a]	Mozambique	Aluminium smelting	47.1	47.1	47.1
Phola Coal Processing Plant (Pty) Ltd[a]	South Africa	Coal handling and processing plant	50	50	50
Worsley Alumina[b]	Australia	Bauxite mining and alumina refining	86	86	86

(a) These joint arrangements are separate vehicles however they are classified as joint operations as the participants to the arrangements are entitled to receive output, not dividends, from the arrangements.

(b) Whilst South32 holds a greater than 50 per cent interest in this joint operation, all the participants in the joint operation approve the operating and capital budgets and therefore South32 has joint control over the relevant activities of this arrangement.

Assets held in joint operations subject to significant restrictions are as follows:

	2014 US$M	2013 US$M	2012 US$M
Current assets	657	860	786
Non-current assets	5,421	5,743	7,752

Total assets (South32 share)[(a)]	6,078	6,603	8,538

(a) Whilst South32 is unrestricted in its ability to sell a share of its interest in these joint operations, it does not have the right to sell individual assets which are used in these joint operations without the unanimous consent of the other participants. The assets in these joint operations are also restricted to the extent that they are only available to be used by the joint operation itself and not by other operations of South32.

23 Financial risk management

Financial risk management strategy

Historically, risk management strategies have been adopted by BHP Billiton to reduce the BHP Billiton Group s exposure, which included exposures resulting from South32 s operations, to the risks which arise in the normal course of business.

During the Reporting Periods, South32 s risk management strategy (as a component of the BHP Billiton Group) was managed on the basis of policies and authorities approved by the BHP Billiton Board. These policies and authorities have been used to prepare the historical combined financial information and relevant disclosures of South32. These policies are expected to be adopted by South32 in substantially the same form post Demerger.

The financial risks arising from South32 s operations comprise market, liquidity and credit risk. These risks arise in the normal course of business, and South32 s exposure to these risks has been managed in accordance with BHP Billiton s portfolio risk management strategy. The objective of BHP Billiton s strategy has been to support the delivery of BHP Billiton s financial targets while protecting its future financial security and flexibility by taking advantage of the natural diversification provided by the scale, diversity and flexibility of BHP Billiton s operations and activities.

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A Cash Flow at Risk (CFaR) framework has been used by BHP Billiton to measure the aggregate and diversified impact of financial risks upon BHP Billiton s financial targets. The principal measurement of risk is CFaR measured on a portfolio basis, which is defined as the worst expected loss relative to projected business plan cash flows over a one-year horizon under normal market conditions at a confidence level of 95 per cent.

Market risk

South32 s activities expose it to market risks associated with movements in foreign currencies, commodity prices and interest rates. Operating under the BHP Billiton risk management strategy outlined above, BHP Billiton has sought to achieve financing costs, currency impacts, input costs and commodity prices on a floating or index basis. This strategy gives rise to a risk of variability in earnings which is measured under the CFaR framework.

In executing the strategy, financial instruments have been potentially employed in three distinct but related activities. The following table summarises these activities and the key risk management processes.

Activity	Key risk management processes
1 Risk mitigation	Execution of transactions within approved mandates.
On an exception basis, hedging for the purposes of mitigating risk related to specific and significant expenditure on investments or capital projects will be executed if necessary to support BHP Billiton s strategic objectives.	
2 Economic hedging of commodity sales, operating costs and debt instruments	
Where South32 commodity production is sold to customers on pricing terms that deviate from the relevant index target, and where a relevant derivatives market exists, financial instruments may be executed as an economic hedge to align the revenue price exposure with the index target.	Measuring and reporting the exposure in customer commodity contracts and issued debt instruments.
Where debt is issued in a currency other than the US dollar and/or at a fixed interest rate, fair value and cash flow hedges may be executed to align the debt exposure with South32 s functional currency of US dollars and/or to swap to a floating interest rate. As part of this strategy swaptions may also be used.	Executing hedging derivatives to align the total group exposure to the index target.
3 Strategic financial transactions	
Opportunistic transactions may be executed with financial instruments to capture value from perceived market over/under valuations.	Exposures managed within value at risk and stop loss limits.
	Execution of transactions within approved mandates.

Historically, primary responsibility for identification and control of financial risks, including authorising and

monitoring the use of financial instruments for the above activities and stipulating policy thereon, has rested with the BHP Billiton Financial Risk Management Committee under authority delegated by the BHP Billiton Group Management Committee.

Currency risk

The US dollar is the functional currency of the operations within South32 and as a result currency exposures arise from transactions and balances in currencies other than the US dollar. South32 s potential currency exposures comprise:

- translational exposure in respect of non-US dollar monetary items; and
- transactional exposure in respect of non-US dollar expenditure and revenues.

South32 s foreign currency risk was historically managed as part of the portfolio risk management strategies enacted by BHP Billiton.

Translational exposure in respect of non-US dollar monetary items

Non-US dollar monetary items are periodically restated to US dollar equivalents, and the associated gain or loss is taken to the income statement. The exception is foreign exchange gains or losses on foreign currency denominated provisions for closure and rehabilitation at operating sites, which are capitalised in property, plant and equipment.

The principal non-US dollar currencies to which South32 is exposed are the Australian dollar, South African rand, Brazilian real and Colombian peso.

The following table shows the foreign currency risk arising from financial assets and liabilities, which are denominated in currencies other than the US dollar.

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Net financial (liabilities)/assets by currency of denomination	2014 US$M	2013 US$M	2012 US$M
Australian dollars	(1,356)	(501)	(591)
South African rand	47	34	398
Brazilian real	4	146	246
Colombian peso	(36)	(39)	
Other	10	12	(96)
Total	(1,331)	(348)	(43)

Based on South32 s net financial assets and liabilities as at 30 June 2014, a weakening of the US dollar against non-US dollar currencies, with all other variables held constant, would (decrease)/increase profit after taxation and equity as follows:

	2014 US$M		2013 US$M		2012 US$M	
Currency movement	Profit after taxation	Equity	Profit after taxation	Equity	Profit after taxation	Equity
1 cent movement in Australian dollar	(9)	(9)	(3)	(3)	(4)	(3)
0.2 rand movement in South African rand	(3)	1	(4)		(1)	7
0.05 real movement in Brazilian real			1		2	4
50 peso movement in Colombian peso	(1)		(1)	(1)		

South32 s financial asset and liability profile may not remain constant, and therefore these sensitivities should be used with care.

Transactional exposure in respect of non-US dollar expenditure and revenues

Certain operating and capital expenditure is incurred by some operations in currencies other than US dollars. To a lesser extent, certain sales revenue is earned in currencies other than US dollars, and certain exchange control restrictions may require that funds be maintained in currencies other than US dollars. These currency risks are managed as part of the portfolio risk management strategy. When required under this strategy South32 enters into forward exchange contracts.

The following table shows the fair value of forward exchange contracts outstanding to manage short-term foreign currency cash flows relating to operating activities:

Currency movement	2014 US$M	2013 US$M	2012 US$M
Fair value of asset		1	5
Fair value of liability			

Commodity price risk

The risk associated with commodity prices has been managed as part of BHP Billiton s portfolio risk management strategy. Contracts for the sale and physical delivery of commodities are executed whenever possible on a pricing basis intended to achieve a relevant index target. Where pricing terms deviate from the index, derivative commodity contracts may be used when available to return realised prices to the index. Contracts for the physical delivery of commodities are not typically financial instruments and are carried in the balance sheet at cost (typically at nil); they are therefore excluded from the fair value and sensitivity tables below. Accordingly, the financial instrument exposures set out in the tables below do not represent all of the commodity price risks managed according to BHP Billiton s objectives. Movements in the fair value of contracts included in the tables below are offset by movements in the fair value of the physical contracts, however only the former movement is recognised in South32 s income statement prior to settlement.

Financial instruments with commodity price risk included in the following tables are those entered into for the following activities:

- economic hedging of prices realised on commodity contracts as described above;
- purchases and sales of physical contracts that can be cash-settled; and
- derivatives embedded in other supply contracts.

All such instruments are carried in the balance sheet at fair value.

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Forward commodity and other derivative contracts

	2014		2013		2012	
	Fair value of asset US$M	Fair value of liability US$M	Fair value of asset US$M	Fair value of liability US$M	Fair value of asset US$M	Fair value of liability US$M
Aluminium	54	7	71	6	160	62
Lead, Silver and Zinc		2			7	
Energy coal		1		1		1
Nickel			1			
Total	54	10	72	7	167	63
Comprising:						
Current	13	4	28		73	43
Non-current	41	6	44	7	94	20

South32 s exposure at 30 June 2014 to the impact of movements in commodity prices upon the financial instruments, other than those designated as embedded derivatives, is set out in the following table:

		2014		2013		2012	
	Units of exposure	Net exposure receive/ (deliver)[a]	Impact on equity and profit after taxation of 10% increase in market price US$M	Net exposure receive/ (deliver)	Impact on equity and profit after taxation of 10% increase in market price US$M	Net exposure receive/ (deliver)	Impact on equity and profit after taxation of 10% increase in market price US$M
Aluminium	Tonnes (000s)			2		(73)	15
Lead	Tonnes (000s)			(2)		(8)	2
Silver	Ounces (millions)						3
Nickel	Tonnes (000s)			(1)	1	2	(4)

(a) Exposures on volumes are nil for 30 June 2014 as long and short positions are equal.

Provisionally priced commodity sales contracts

Not included in the above tables are provisionally priced sales volumes for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part

of trade receivables. South32 s exposure at 30 June 2014 to the impact of movements in commodity prices upon provisionally invoiced sales volumes is set out in the following table:

		2014		2013		2012	
	Units of exposure	Net exposure receive/ (deliver)	Impact on equity and profit after taxation of 10% increase in market price US$M	Net exposure receive/ (deliver)	Impact on equity and profit after taxation of 10% increase in market price US$M	Net exposure receive/ (deliver)	Impact on equity and profit after taxation of 10% increase in market price US$M
Zinc	Tonnes (000s)	(11)	2	(7)	1		
Lead	Tonnes (000s)	(29)	6	(59)	12		
Silver	Ounces (000s)	(3,426)	7	(7,788)	14		
Nickel	Tonnes (000s)	(1)	1	(2)	3		
Coal	Tonnes (000s)						

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Interest rate risk

During the Reporting Period, the majority of BHP Billiton s debt was raised under central borrowing programs, and BHP Billiton has funded its businesses through intercompany investments and loans. Interest rate risk for South32 has been managed as part of the portfolio risk management strategy of BHP Billiton s central treasury function.

Liquidity risk

South32 s liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. This has been managed as part of BHP Billiton s centralised portfolio risk management strategy. Operational, capital and regulatory requirements are considered in the management of liquidity risk, in conjunction with short-term and long-term forecast information.

During the Reporting Period, BHP Billiton s portfolio risk management strategy has essentially had a strong credit profile, diversified funding sources and committed credit facilities which ensured that sufficient liquid funds were maintained by the central treasury function to meet its daily cash requirements. BHP Billiton s policy on counterparty credit exposure also ensures that only counterparties of a high credit standing are used for the investment of any excess cash.

Maturity profile of financial liabilities

The maturity profile of South32 s financial liabilities, other than amounts owing to BHP Billiton, based on the contractual amounts and taking into account the derivatives related to debt, is as follows:

2014	Bank loans, debentures and other loans US$M	Expected future interest payments US$M	Other derivatives US$M	Obligations under finance leases US$M	Other financial liabilities US$M	Total US$M
Due for payment:						
In one year or less or on demand	32	7	4	81	1,241	1,365
In more than one year but not more than two years	271	14	1	81	53	420
In more than two years but not more than three years	5	17	1	81		104
In more than three years but not more than four years	5	19	1	80		105
In more than four years but not more than five years	4	20	1	90		115
In more than five years	180	70	2	1,447	2	1,701
Total due for payment	497	147	10	1,860	1,296	3,810
Carrying amount	497		10	803	1,296	2,606

2013	Bank loans, debentures and other loans US$M	Expected future interest payments US$M	Other derivatives US$M	Obligations under finance leases US$M	Other financial liabilities US$M	Total US$M
Due for payment:						
In one year or less or on demand	91	6	2	3	1,310	1,412
In more than one year but not more than two years	36	6	1	15	11	69
In more than two years but not more than three years	7	5	1	2		15
In more than three years but not more than four years	6	5	1	2		14
In more than four years but not more than five years	5	4	1	2		12
In more than five years	196	26	3	25	204	454
Total due for payment	341	52	9	49	1,525	1,976
Carrying amount	341		7	33	1,525	1,906

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2012	Bank loans, debentures and other loans US$M	Expected future interest payments US$M	Other derivatives US$M	Obligations under finance leases US$M	Other financial liabilities US$M	Total US$M
Due for payment:						
In one year or less or on demand	208	25	44	5	1,581	1,863
In more than one year but not more than two years	29	22	12	4	17	84
In more than two years but not more than three years	7	21	1	3		32
In more than three years but not more than four years	7	20	1	3		31
In more than four years but not more than five years	6	18	5	28		57
In more than five years	223	48		19	231	521
Total due for payment	480	154	63	62	1,829	2,588
Carrying amount	480		63	38	1,829	2,410

The amounts presented in the tables above comprise the contractual undiscounted cash flows, and therefore will not always agree with the amounts presented in the balance sheet. South32 holds derivatives related to commodities and currencies that are classified as other financial assets when they are expected to generate cash inflows refer to note 10 Other financial assets.

Credit risk

Credit risk arises from the non-performance by counterparties of their contractual financial obligations towards South32. Historically, BHP Billiton has maintained group-wide procedures covering the application for credit approvals, granting and renewal of counterparty limits and daily monitoring of exposures against these limits. As part of these processes, the financial viability of all counterparties is regularly monitored and assessed. The maximum exposure to credit risk is limited to the total carrying amount of relevant financial assets on the balance sheet as at the reporting date.

South32 s credit exposures are categorised under the following headings:

Counterparties

South32 has conducted transactions with the following major types of counterparties:

Receivables counterparties

Approximately 60 per cent of sales to South32 s customers are made on open terms.

Payment guarantee counterparties

Approximately half of sales to South32 s customers occur via secured payment mechanisms.

Derivative counterparties

Counterparties to derivative contracts consist of a diverse number of financial institutions and industrial counterparties in the relevant markets.

South32 has no significant concentration of credit risk with any single counterparty or group of counterparties.

Geographic

South32 trades in all major geographic regions. Countries in which South32 has a significant credit risk exposure include South Africa, Australia, the United States, Japan and China. Where appropriate, secured payment mechanisms and other risk mitigation instruments are used to protect revenues from credit risk losses.

Industry

In line with South32 s asset portfolio, South32 sells into a diverse range of industries and customer sectors. This diversity means that South32 is not materially exposed to any individual industry or customer.

The following table shows South32 s receivables at the reporting date that are exposed to credit risk and the ageing and impairment profile thereon:

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2014	Gross amount US$M	Receivables neither past due nor impaired US$M	Receivables past due but not impaired: Less than 30 days US$M	31 to 60 days US$M	61 to 90 days US$M	Over 90 days US$M
Trade receivables	623	618	4			1
Trade receivables from BHP Billiton	869	869				
Other receivables	466	392	10	1	2	61
Other receivables from BHP Billiton	1,074	1,074				
Total	3,032	2,953	14	1	2	62

2013	Gross amount US$M	Receivables neither past due nor impaired US$M	Receivables past due but not impaired: Less than 30 days US$M	31 to 60 days US$M	61 to 90 days US$M	Over 90 days US$M
Trade receivables	749	746	2			1
Trade receivables from BHP Billiton	982	982				
Other receivables	682	596	11	4	3	68
Other receivables from BHP Billiton	827	827				
Total	3,240	3,151	13	4	3	69

2012	Gross amount US$M	Receivables neither past due nor impaired US$M	Receivables past due but not impaired: Less than 30 days US$M	31 to 60 days US$M	61 to 90 days US$M	Over 90 days US$M
Trade receivables	984	980	3			1
Trade receivables from BHP Billiton	890	890				
Other receivables	943	814	43	2	2	82

Other receivables from BHP Billiton	2,663	2,663				
Total	5,480	5,347	46	2	2	83

Receivables are deemed to be past due or impaired with reference to South32 s normal terms and conditions of business. These terms and conditions are determined on a case-by-case basis with reference to the customer s credit quality and prevailing market conditions. Receivables that are classified as past due in the above tables are those that have not been settled within the terms and conditions that have been agreed with that customer.

The credit quality of South32 s customers is monitored on an ongoing basis and assessed for impairment where indicators of such impairment exist. The solvency of each debtor and their ability to repay the receivable is considered in assessing receivables for impairment. In certain circumstances, South32 may seek collateral as security for the receivable. Where receivables have been impaired, South32 actively seeks to recover the amounts in question and enforce compliance with credit terms.

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Fair values

All financial assets and financial liabilities, other than derivatives, are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost, as indicated in the tables below. Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value.

The financial assets and liabilities are presented by class in the tables below at their carrying values, which generally approximate to the fair values.

Financial assets and liabilities

2014	Note	Loans and receivables US$M	Available for sale securities US$M	Held at fair value through profit or loss US$M	Other financial assets and liabilities at amortised cost US$M	Total US$M
Financial assets						
Cash and cash equivalents	20	353				353
Trade and other receivables[a]	9	836		8		844
Trade receivables from BHP Billiton	9	869				869
Other derivative contracts	10			54		54
Interest bearing loans receivable	9	67				67
Interest bearing loans receivable from BHP Billiton	9	1,074				1,074
Shares - available for sale	10		317			317
Other investments - available for sale	10		144			144
Total financial assets		3,199	461	62		3,722
Non-financial assets						15,968
Total assets						19,690
Financial liabilities						
Trade and other payables[b]	14			3	1,359	1,362
Payables to BHP Billiton	14				28	28
Other derivative contracts	16			10		10
Unsecured bank loans	15				280	280
Finance leases	15				803	803
Unsecured other	15				217	217
Interest bearing liabilities payable to BHP Billiton	15				3,728	3,728

Total financial liabilities	13	6,415	6,428
Non-financial liabilities			3,442
Total liabilities			9,870

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2013	Note	Loans and receivables US$M	Available for sale securities US$M	Held at fair value through profit or loss US$M	Other financial assets and liabilities at amortised cost US$M	Total US$M
Financial assets						
Cash and cash equivalents	20	345				345
Trade and other receivables[a]	9	1,080		9		1,089
Receivables from BHP Billiton	9	982				982
Forward exchange contracts	10			1		1
Commodity contracts	10			19		19
Other derivative contracts	10			52		52
Interest bearing loans receivable	9	88				88
Interest bearing loans receivable from BHP Billiton	9	827				827
Shares - available for sale	10		395			395
Other investments - available for sale	10		137			137
Total financial assets		3,322	532	81		3,935
Non-financial assets						15,608
Total assets						19,543
Financial liabilities						
Trade and other payables[b]	14				1,491	1,491
Payables to BHP Billiton	14				10	10
Other derivative contracts	16			7		7
Unsecured bank loans	15				44	44
Secured bank and other loans	15				20	20
Finance leases	15				33	33
Unsecured other	15				277	277
Interest bearing liabilities payable to BHP Billiton	15				4,341	4,341
Total financial liabilities				7	6,216	6,223
Non-financial liabilities						3,200
Total liabilities						9,423

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2012	Note	Loans and receivables US$M	Available for sale securities US$M	Held at fair value through profit or loss US$M	Other financial assets and liabilities at amortised cost US$M	Total US$M
Financial assets						
Cash and cash equivalents	20	346				346
Trade and other receivables[a]	9	1,221		2		1,223
Receivables from BHP Billiton	9	890				890
Forward exchange contracts	10			5		5
Commodity contracts	10			100		100
Other derivative contracts	10			62		62
Interest bearing loans receivable	9	82				82
Interest bearing loans receivable from BHP Billiton	9	2,663				2,663
Shares - available for sale	10		493			493
Other investments available for sale	10		145			145
Total financial assets		5,202	638	169		6,009
Non-financial assets						18,003
Total assets						24,012
Financial liabilities						
Trade and other payables[b]	14				1,964	1,964
Payables to BHP Billiton	14				13	13
Commodity contracts	16			53		53
Other derivative contracts	16			10		10
Unsecured bank overdrafts and short-term borrowings	15				19	19
Unsecured bank loans	15				73	73
Secured bank and other loans	15				40	40
Finance leases	15				38	38
Unsecured other	15				348	348
Interest bearing liabilities payable to BHP Billiton	15				4,071	4,071
Total financial liabilities				63	6,566	6,629
Non-financial liabilities						3,571
Total liabilities						10,200

(a) Excludes input taxes of US$178 million (2013: US$254 million; 2012: US$623 million) included in other receivables. Refer to note 9 Trade and other receivables.
(b) Excludes input taxes of US$5 million (2013: US$103 million; 2012: US$66 million) included in other payables. Refer to note 14 Trade and other payables.

Valuation hierarchy

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on South32 s views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. The inputs used in fair value calculations are determined by the relevant BHP Billiton Group function. BHP Billiton s Group Functions support the businesses and operate under a defined set of accountabilities authorised by the BHP Billiton Group Management Committee. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income. The following table shows South32 s financial assets and liabilities carried at fair value with reference to the nature of valuation inputs used:

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2014	Level 1[a] US$M	Level 2[b] US$M	Level 3[c] US$M	Total US$M
Financial assets and liabilities				
Trade and other receivables		8		8
Trade and other payables		(3)		(3)
Other derivative contracts		(4)	48	44
Investments available for sale		144	317	461
Total		145	365	510

2013	Level 1[a] US$M	Level 2[b] US$M	Level 3[c] US$M	Total US$M
Financial assets and liabilities				
Trade and other receivables		9		9
Forward exchange contracts		1		1
Commodity contracts		19		19
Other derivative contracts			45	45
Investments available for sale		137	395	532
Total		166	440	606

2012	Level 1[a] US$M	Level 2[b] US$M	Level 3[c] US$M	Total US$M
Financial assets and liabilities				
Trade and other receivables		2		2
Forward exchange contracts		5		5
Commodity contracts		47		47
Other derivative contracts			52	52
Investments available for sale		145	493	638
Total		199	545	744

(a) Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
(b) Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
(c) Valuation is based on inputs that are not based on observable market data.

Level 3 financial assets and liabilities

The following table shows the movements in South32 s level 3 financial assets and liabilities:

	2014 US$M	2013 US$M	2012 US$M
At the beginning of the financial year	440	545	487
Additions	3		
Disposals	(38)		
Realised gains recognised in the income statement[(a)]			3
Unrealised gains/(losses) recognised in the income statement[(a)]	1	(5)	60
Unrealised losses recognised in other comprehensive income[(b)]	(22)	(100)	(5)
Transfers	(19)		
At the end of the financial year	365	440	545

(a) Realised and unrealised gains and losses recognised in the income statement are recorded in expenses refer to note 5 Expenses.
(b) Unrealised gains and losses recognised in other comprehensive income are recorded in invested capital.

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Sensitivity of Level 3 financial assets and liabilities

The carrying amount of financial assets and liabilities that are valued using inputs other than observable market data are calculated using appropriate valuation models, including discounted cash flow modelling, with inputs such as commodity prices, foreign exchange rates and inflation. The potential effect of using reasonably possible alternative assumptions in these models, based on a change in the most significant input by 10 per cent while holding all other variables constant, is shown in the following table. Significant inputs are assessed individually for each financial asset and liability.

		Profit after taxation		Equity	
2014	**Carrying value US$M**	**10% increase in input US$M**	**10% decrease in input US$M**	**10% increase in input US$M**	**10% decrease in input US$M**
Financial assets and liabilities					
Other derivative contracts	48	22	(22)	22	(22)
Investments available for sale	317			70	(38)
Total	365	22	(22)	92	(60)

		Profit after taxation		Equity	
2013	**Carrying value US$M**	**10% increase in input US$M**	**10% decrease in input US$M**	**10% increase in input US$M**	**10% decrease in input US$M**
Financial assets and liabilities					
Other derivative contracts	45	(5)	6	(5)	6
Investments available for sale	395			71	(67)
Total	440	(5)	6	66	(61)

		Profit after taxation		Equity	
2012	**Carrying value US$M**	**10% increase in input US$M**	**10% decrease in input US$M**	**10% increase in input US$M**	**10% decrease in input US$M**
Financial assets and liabilities					
Other derivative contracts	52	(8)	10	(8)	10
Investments available for sale	493			33	(46)

Total	545	(8)	10	25	(36)

Capital management

During the Reporting Period South32 has operated under BHP Billiton s Capital Management strategy. Capital is monitored using a gearing ratio, being the ratio of net debt to net debt plus net assets.

	2014 US$M	2013 US$M	2012 US$M
Cash and cash equivalents	(353)	(345)	(346)
Current debt	47	434	204
Non-current debt	4,981	4,281	4,385
Net debt	4,675	4,370	4,243
Net assets	9,820	10,120	13,812
Gearing	32%	30%	24%

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24 Related party balances and transactions

Subsidiaries

The percentage of ordinary shares held in significant subsidiaries is disclosed in note 21 Subsidiaries.

Joint operations

The percentage interest held in significant joint operations is disclosed in note 22 Interests in joint operations

Key management personnel

Throughout the Reporting Period, South32 did not have its own key management personnel. These were represented by members of BHP Billiton s key management personnel and it is therefore not meaningful to disclose these balances or transactions.

Balances and transactions with related parties

	BHP Billiton			Joint Ventures		
	2014	2013	2012	2014	2013	2012
Outstanding balances with related parties	US$M	US$M	US$M	US$M	US$M	US$M
Trade amounts owing to related parties[a]	28	10	13	14	24	5
Other amounts owing to related parties[b]	3,728	4,341	4,071			
Trade amounts owing from related parties[a]	869	982	890	15	34	101
Other amounts owing from related parties[b]	1,074	827	2,663	92	66	

	BHP Billiton			Joint Ventures		
	2014	2013	2012	2014	2013	2012
Transactions with related parties	US$M	US$M	US$M	US$M	US$M	US$M
Sales of goods/services		5	13	257	260	269
Purchase of goods/services	264	341	122	80	293	48
Interest income	25	102	118			
Interest expense	115	108	76			
Dividends paid[c]	505	2,296	79			
Dividends received[d]	11	12	20			
Loans made to related parties	861	(2,106)	(1,408)	(27)	(66)	
Equity transactions with BHP Billiton	133	60	135			

(a) Trade amounts due to and from BHP Billiton and its subsidiaries under business operations are unsecured, interest-free and intended to be settled in the ordinary course of business.
(b) Loans due to and from BHP Billiton and its subsidiaries represent group funding arrangements managed through a centralised treasury and cash management function which will be settled at the date of Demerger.
(c) Dividends paid represent payments made by a South32 entity to a BHP Billiton entity. These dividend payments will not occur after Demerger.
(d) Dividends received represent receipts by a South32 entity from a BHP Billiton entity. These dividend receipts will not occur after Demerger.

Terms and conditions

Sales to and purchases from related parties of goods and services are made in arm s length transactions at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured.

Other amounts owing from related parties represent secured loans made to joint ventures under co-funding arrangements. Such loans are made on an arm s length basis with interest charged at market rates and are due to be repaid between 31 July 2014 and 31 August 2031.

No guarantees are provided or received for any related party receivables or payables.

No provision for doubtful debts has been recognised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Transactions with key management personnel

During the financial year, there were no purchases from South32 (2013: US$ nil; 2012 US$ nil).

Loans with key management personnel

There are no loans (2013: US$ nil; 2012: US$ nil) with key management personnel.

Transactions with personally related entities

A number of Directors of South32 hold or have held positions in other companies, where it is considered they control or significantly influence the financial or operating policies of those entities. There have been no transactions with those entities and no amounts were owed by South32 to personally related entities (2013: US$ nil; 2012: US$ nil).

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25 Pension and other post-retirement obligations

South32 operates the following pension and post-retirement medical schemes:

Defined contribution pension schemes and multi-employer pension schemes

South32 contributed US$115 million (2013: US$124 million; 2012: US$87 million) to defined contribution plans and multi-employer defined contribution plans. These contributions are expensed as incurred.

Defined benefit pension schemes

South32 has closed all defined benefit schemes to new entrants. Defined benefit pension schemes remain operating for existing members in South Africa and Brazil and, as part of BHP Billiton s pension schemes, in Australia. Full actuarial valuations are prepared and updated annually to 30 June by local actuaries for all schemes. The Projected Unit Credit valuation method is used. South32 operates final salary schemes that provide final salary benefits only, non-salary related schemes that provide flat dollar benefits and mixed benefit schemes that consist of a final salary defined benefit portion and a defined contribution portion.

Defined benefit post-retirement medical schemes

South32 operates a number of post-retirement medical schemes in South Africa. Full actuarial valuations are prepared by local actuaries for all schemes. All of the post-retirement medical schemes in South32 are unfunded. South32 s defined benefit pension schemes and post-retirement medical schemes expose South32 to a number of risks:

Risk	Description
Volatility in asset values	South32 is exposed to changes in the value of assets held in funded pension schemes to meet future benefit payments.
Uncertainty in benefit payments	The cost to South32 of meeting future benefit obligations will depend on the value of the benefits paid in the future. To the extent these payments are dependent on future experience, there is some uncertainty. Some of the schemes benefit obligations are linked to inflation or to salaries, and some schemes provide benefits that are paid for the life of the member. If future experience varies from the assumptions used to value these obligations, the cost of meeting the obligations will vary.
Uncertainty in future funding requirements	Movement in the value of benefit obligations and scheme assets will impact the contributions that South32 will be required to make to the schemes in the future. In many cases, pension schemes are managed under trust, and South32 does not have full control over the rate of funding or investment policy for scheme assets. In addition, South32 is exposed to changes in the regulations applicable to benefit schemes.

Recognising this, South32 has adopted an approach of moving away from providing defined benefit pensions. The majority of South32 sponsored defined benefit pension schemes have been closed to new entrants for many years. Existing benefit schemes, and the terms of employee participation in these schemes, are reviewed on a regular basis.

South32 follows a coordinated strategy for the funding and investment of its defined benefit pension schemes (subject to meeting all local requirements). South32 s aim is for the value of defined benefit scheme assets to be maintained at close to the value of the corresponding benefit obligations, allowing for some short term volatility.

The following tables set out details of South32 s defined benefit pension and post-retirement medical schemes.

Balance sheet disclosures

The amounts recognised in the combined balance sheet are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US$M	**2013 US$M**	**2012 US$M**	**2014 US$M**	**2013 US$M**	**2012 US$M**
Present value of funded defined benefit obligation	287	314	351			
Present value of unfunded defined benefit obligation				163	159	171
Fair value of defined benefit scheme assets	(317)	(335)	(348)			
Scheme (surplus)/deficit	(30)	(21)	3	163	159	171
Unrecognised surplus						
Unrecognised past service credits						
Net (asset)/liability recognised in the combined balance sheet	(30)	(21)	3	163	159	171

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South32 has no legal obligation to settle these liabilities with any immediate contributions or additional one-off contributions. South32 intends to continue to contribute to each defined benefit pension and post-retirement medical scheme in accordance with the latest recommendations of each scheme actuary.

Income statement disclosures

The amounts recognised in the combined income statement are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US$M	2013 US$M	2012 US$M	2014 US$M	2013 US$M	2012 US$M
Current service cost	5	7	7			
Net interest expense/(income) on net defined benefit liability/(asset)	(2)	(3)	(3)	13	15	15
Total expense	3	4	4	13	15	15
Recognised in employee benefits expense	5	7	7			
Recognised in net finance costs	(2)	(3)	(3)	13	15	15

Statement of comprehensive income (SOCI) disclosures

The amounts recognised in the combined statement of comprehensive income are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US$M	2013 US$M	2012 US$M	2014 US$M	2013 US$M	2012 US$M
Actuarial (gains)/losses	(6)	(12)	21	8	10	4
Limit on net assets and other adjustments			(13)			
Total amount recognised in the SOCI	(6)	(12)	8	8	10	4
Total cumulative amount recognised in the SOCI[(a)]	(10)	(4)	8	22	14	4

(a) Cumulative amounts are calculated from the transition to IFRS on 1 July 2004.

The change in the net defined benefit liability is as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US$M	2013 US$M	2012 US$M	2014 US$M	2013 US$M	2012 US$M
Net defined benefit (asset)/liability at the beginning of the financial year	(21)	3		159	171	200
Amount recognised in the income statement	3	4	4	13	15	15
Remeasurement (gain)/loss recognised in other comprehensive income	(6)	(12)	8	8	10	4
Disbursements and settlements paid directly by employer				(8)	(9)	(9)
Employer contributions	(6)	(21)	(10)			
Foreign exchange losses/(gains)	2	4	1	(9)	(28)	(39)
Other adjustments	(2)	1				
Net defined benefit (asset)/liability at the end of the financial year	(30)	(21)	3	163	159	171

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The changes in the present value of defined benefit obligations are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US$M	2013 US$M	2012 US$M	2014 US$M	2013 US$M	2012 US$M
Defined benefit (asset)/obligation at the beginning of the financial year	(21)	3		159	171	200
Current service cost	5	7	7			
Interest cost	(2)	(3)	(3)	13	15	15
Contributions by scheme participants	(6)	(21)	(10)	(8)	(9)	(9)
Actuarial (gains)/losses on benefit obligation	(6)	(12)	8	8	10	4
Foreign exchange losses/(gains)	2	4	1	(9)	(28)	(39)
Other adjustments	(2)	1				
Defined benefit (asset)/obligation at the end of the financial year	(30)	(21)	3	163	159	171

The change in the fair value of scheme assets for defined benefit pension schemes is as follows:

	Defined benefit pension schemes		
	2014 US$M	2013 US$M	2012 US$M
Fair value of scheme assets at the beginning of the financial year	335	348	396
Interest income on scheme assets	24	26	28
Return on scheme assets greater than the discount rate	(13)	22	11
Employer contributions	6	21	10
Contributions by scheme participants			1
Benefits paid to participants	(23)	(35)	(32)
Foreign exchange losses	(9)	(47)	(66)
Settlements	(3)		
Fair value of scheme assets at the end of the financial year	317	335	348

The fair values of defined benefit pension scheme assets segregated by major asset class are as follows:

	Fair value		
	2014 US$M	2013 US$M	2012 US$M
Asset class			

Bonds[(a)]	104	117	108
Equities	42	47	54
Property[(b)]	5	6	8
Cash and net current assets	31	15	22
Insured annuities	135	146	155
Other[(c)]		4	1
Total	317	335	348

(a) The bonds asset class as at 30 June 2014 includes Fixed Interest Government Bonds of US$50 million, and Index linked Government Bonds of US$54 million.
(b) Property is the only asset class that does not have a quoted market price in an active market.
(c) Scheme assets classified as Other as at 30 June 2014 primarily comprise private equity investments and alternate assets in Australia.

The fair value of scheme assets includes no amounts relating to any of South32 s own financial instruments or any of the property occupied by or other assets used by South32.

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Scheme assets are invested in a diversified range of asset classes, predominantly comprising bonds and insured annuities in South Africa. In some locations, scheme trustees and other bodies have legal responsibility for the investment of scheme assets, and decisions on investment strategy are taken in consultation with South32.

South32 monitors its exposure to changes in equity markets, interest rates and inflation, and measures its balance sheet pension risk using a risk-based approach. Asset-liability studies are carried out periodically for the major pension schemes and the suitability of investment strategies for all defined benefit pension schemes are also reviewed periodically.

South32 s aim is to progressively shift defined benefit pension scheme assets towards investments that match the anticipated profile of the benefit obligations, as funding levels improve, and as benefit obligations mature. Over time, this is expected to result in a further reduction in the total exposure of pension scheme assets to equity markets. For pension schemes that pay lifetime benefits, South32 may consider and support the purchase of annuities to back these benefit obligations if it is commercially sensible to do so.

Weighted average maturity profile of defined benefit obligation

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014	2013	2012	2014	2013	2012
Weighted average duration of defined benefit obligation (years)	4.1	4.7	6.0	14.8	13.9	13.6

Actuarial assumptions

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for defined benefit pension schemes are as follows:

	Australia			Brazil			South Africa		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
	%	%	%	%	%	%	%	%	%
Discount rate	3.3	3.1	2.7	11.7	10.4	9.2	9.4	8.6	8.7
Future salary increases	3.9	4.0	4.3	7.5	7.3	6.6	9.0	8.3	8.0

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for post-retirement medical schemes are as follows:

	South Africa		
	2014	2013	2012
	%	%	%
Discount rate	9.2	8.7	9.0
Medical cost trend rate (ultimate)	8.7	7.9	8.0

Assumptions regarding future mortality can be material depending upon the size and nature of the plan liabilities. Post-retirement mortality assumptions in South Africa are based on standard post-retirement mortality tables.

These tables imply the following expected future lifetimes (in years) for employees aged 65 as at 30 June 2014: South African males 19.2 (2013: 19.0; 2012: 18.8), South African females 23.6 (2013: 23.4; 2012: 23.3).

Estimated contributions for the defined benefit pension and post-retirement medical schemes are as follows:

	Defined benefit pension schemes US$M	Post-retirement medical schemes US$M
Estimated employer contributions for the year ending 30 June 2015	5	
Estimated benefits paid to participants directly by employer for the year ending 30 June 2015		8

Sensitivity to assumptions

South32 s defined benefit obligation at 30 June 2014 has been determined using actuarial calculations that require assumptions about future events. The estimated sensitivity of the defined benefit obligation to each significant assumption shown below has been determined at an individual scheme level if each assumption were changed in isolation. In practice, the schemes are subject to multiple external experience items which may vary the defined benefit obligation over time. The methods and assumptions used in preparing these sensitivity results remain consistent with those used in previous Reporting Periods.

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The estimated effects of variations in the principal actuarial assumptions on South32 s defined benefit obligation at 30 June 2014 are as follows:

	Increase/(decrease) in defined benefit obligation	
	Defined benefit pension schemes US$M	**Post-retirement medical schemes US$M**
Discount rate		
Increase of 1%	(11)	(20)
Decrease of 1%	15	25
Future salary increases		
Increase of 1%	5	n/a
Decrease of 1%	(4)	n/a
Mortality		
Increase in the life expectancy at age 65 of 1 year	1	7
Decrease in the life expectancy at age 65 of 1 year	(1)	(7)
Medical cost trend rate (initial and ultimate)		
Increase of 1%	n/a	25
Decrease of 1%	n/a	(20)

26 Subsequent events
30 June 2014

Proposed Demerger of assets

In contemplation of the proposed Demerger, BHP Billiton and Anglo American agreed to make certain changes to the agreement which governs their interests in the Manganese Business. South32 will acquire BHP Billiton s interest and following implementation of the Demerger, South32 will manage and own 60 per cent of the Manganese Business with Anglo American owning the remaining 40 per cent.

Following receipt on 2 March 2015 of the last of the approvals required for the agreement, the changes result in South32 and Anglo American agreeing to share joint control of the Manganese Business. With effect from this date South32 will discontinue consolidation of the Manganese Business and account for its 60 per cent interest as an equity accounted joint venture. South32 will therefore derecognise the existing carrying amounts of all assets, liabilities and the non-controlling interest in the Manganese Business attributed to Anglo American and initially record its retained 60 per cent interest at fair value. The remeasurement at fair value gives rise to a gain of approximately US$2 billion. There are no tax consequences arising from the remeasurement of the Manganese Business.

Following the move to equity accounting, South32 received a dividend from Australia Manganese that decreased the carrying value of the investment in the Manganese Business by US$342 million.

Repeal of Minerals Resource Rent Tax (MRRT)

On 2 September 2014, legislation to repeal the MRRT in Australia received the support of both Houses of Parliament. The MRRT continued to apply until 30 September 2014. At 30 June 2014, South32 carried an MRRT deferred tax asset (net of income tax consequences) of US$66 million. An income tax charge of US$111 million was recognised in the first half of the 2015 financial year due to the derecognition of deferred tax assets (as of the date of repeal of the legislation) relating to the MRRT.

Other than the matters outlined above, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of South32 in subsequent accounting periods.

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1.7 INDEPENDENT AUDITOR REPORT

Independent Auditor Report of KPMG (KPMG Australia) and KPMG Inc (KPMG South Africa) to the Directors of South32 Limited

We have audited the accompanying historical combined financial information of the South32 Limited Group (as defined in this Document, the Group), being special purpose financial information as at and for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 prepared for the purpose of the Group s listing on the Johannesburg Stock Exchange (JSE) and admission to the Official List of the Financial Conduct Authority (FCA) of the United Kingdom. The historical combined financial information comprises, for each of the years described above: the combined balance sheet and combined statement of invested capital as at the year end; the combined income statement, combined statement of comprehensive income and combined cash flow statement for the year then ended; and notes comprising a summary of significant accounting policies and other explanatory information. The historical combined financial information has been prepared by the Directors using the basis of preparation set out in Note 1 to the historical combined financial information and in compliance with the respective listing requirements of the JSE and of the FCA.

Directors responsibility for the historical combined financial information

The Directors of the Group are responsible for the preparation and fair presentation of the historical combined financial information in accordance with the basis of preparation described in Note 1 to the historical combined financial information and the respective listing requirements of the JSE and of the FCA. The Directors responsibility also includes determining the acceptability of the basis of preparation in the circumstances and for such internal controls as the Directors determine are necessary to enable the preparation and presentation of the historical combined financial information that is free from material misstatement, whether due to fraud or error.

Auditor s responsibility

Our responsibility is to express an audit opinion on the historical combined financial information based on our audit.

KPMG Australia conducted an audit of the historical combined financial information in accordance with Australian Auditing Standards and International Standards on Auditing (UK and Ireland).

KPMG South Africa conducted an audit of the historical combined financial information in accordance with International Standards on Auditing.

These standards require that we comply with relevant ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the historical combined financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the historical combined financial information. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the historical combined financial information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the historical combined financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the historical combined financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independence

In conducting our audit, KPMG Australia has complied with the independence requirements of the Australian Accounting Professional and Ethical Standards Board.

Audit opinion

In our opinion, the historical combined financial information of the Group as at and for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 is presented fairly, in all material respects, in accordance with the basis of preparation described in Note 1 of the historical combined financial information and the respective listing requirements of the JSE and of the FCA.

Basis of preparation

Without modifying our audit opinion, we draw attention to Note 1 to the historical combined financial information which describes the basis of preparation of the historical combined financial information, including the approach to and the purpose for preparing the information and that the preparation involves complex allocations of certain items. Consequently, the historical combined financial information may not necessarily be indicative of the financial performance that would have been achieved if the South32 Group had operated as an independent group, nor may it be indicative of the results of operations of the South32 Group for any future period.

The historical combined financial information has been prepared solely for the purpose of fulfilling the Directors financial reporting responsibilities in order to comply with the respective listing requirements of the JSE and of the FCA. As a result, the historical combined financial information may not be suitable for another purpose.

Declaration for the purposes of the Prospectus Directive Regulation as required by the FCA

This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the 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 prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

KPMG

Chris Sargent

Partner

KPMG Inc.

Per Jacques Erasmus

Chartered Accountant (SA), Registered Auditor, Director

Melbourne, Australia

Johannesburg, South Africa

16 March 2015

16 March 2015

KPMG, an Australian partnership, and KPMG Inc, a South African company incorporated under the South African Companies Act, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

KPMG Australia s liability limited by a scheme approved under Professional Standards Legislation

KPMG Inc s Policy Board:

Chief Executive:	RM Kgosana
Executive Directors:	T Fubu, A Hari, E Magondo, JS McIntosh, CAT Smit, D van Heerden
Other Directors:	DC Duffield, LP Fourie, N Fubu, TH Hoole, A Jaffer, M Letsitsi, A Masemola, M Mokgabudi, Y Suleman (Chairman of the Board), A Thunström

KPMG Inc s principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors names is available for inspection.

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ANNEXURE 2

HALF YEAR HISTORICAL COMBINED FINANCIAL INFORMATION FOR THE HALF YEAR PERIODS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013 FOR SOUTH32

2.1 COMBINED INCOME STATEMENT

	Notes	H1 FY2015 US$M	H1 FY2014 US$M
Revenue			
Group production	2	4,636	4,572
Third party products	2	404	776
Revenue	2	5,040	5,348
Other income	4	521	105
Expenses excluding net finance costs		(4,313)	(4,906)
Share of operating profit of equity accounted investments		3	7
Profit from operations		1,251	554
Comprising:			
Group production		1,221	526
Third party products		30	28
Financial income	5	44	28
Financial expenses	5	(81)	(136)
Net finance costs	5	(37)	(108)
Profit before taxation		1,214	446
Income tax expense		(380)	(113)
Royalty-related taxation (net of income tax benefit)		(96)	25
Total taxation expense	6	(476)	(88)
Profit after taxation		738	358
Attributable to non-controlling interests		50	41
Attributable to members of South32		688	317
Basic earnings per ordinary share (US cents)	7	12.92	5.95
Diluted earnings per ordinary share (US cents)	7	12.88	5.94

The accompanying notes form part of the historical combined financial information.

Certain administration 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 figure, 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) in Annexure 1 for details of assumptions made in preparing the historical combined financial information.

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2.2 COMBINED STATEMENT OF COMPREHENSIVE INCOME

	H1 FY2015 US$M	H1 FY2014 US$M
Profit after taxation	738	358
Other comprehensive income		
Items that may be reclassified subsequently to the income statement:		
Available for sale investments:		
Net valuation losses taken to equity	(18)	(7)
Net valuation gains transferred to the income statement		(2)
Tax recognised within other comprehensive income	1	
Total items that may be reclassified subsequently to the income statement	(17)	(9)
Items that will not be reclassified to the income statement:		
Actuarial (losses)/gains on pension and medical schemes	(9)	12
Tax recognised within other comprehensive income	3	(3)
Total items that will not be reclassified to the income statement	(6)	9
Total other comprehensive loss	(23)	
Total comprehensive income	715	358
Attributable to non-controlling interests	55	41
Attributable to members of South32	660	317

The accompanying notes form part of the historical combined financial information.

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2.3 COMBINED BALANCE SHEET

	Note	31 December 2014 US$M	31 December 2013 US$M
ASSETS			
Current assets			
Cash and cash equivalents		459	196
Trade and other receivables		1,098	1,320
Receivables from BHP Billiton		9,508	1,764
Other financial assets		15	13
Inventories		1,406	1,626
Current tax assets		107	305
Other		37	137
Total current assets		12,630	5,361
Non-current assets			
Trade and other receivables		185	382
Other financial assets		508	501
Investments accounted for using the equity method		13	7
Inventories		60	78
Property, plant and equipment		12,220	11,990
Intangible assets		290	343
Deferred tax assets		801	970
Other		16	51
Total non-current assets		14,093	14,322
Total assets		26,723	19,683
LIABILITIES			
Current liabilities			
Trade and other payables		1,232	1,593
Payables to BHP Billiton		41	136
Interest bearing liabilities		136	69
Interest bearing liabilities payable to BHP Billiton			78
Other financial liabilities		6	7
Current tax payable		104	108
Provisions		413	533
Deferred income		4	77
Total current liabilities		1,936	2,601
Non-current liabilities			
Trade and other payables		34	258
Interest bearing liabilities		877	484
Interest bearing liabilities payable to BHP Billiton		3,728	3,730

Other financial liabilities		18	6
Deferred tax liabilities		569	533
Provisions		2,010	1,779
Deferred income		4	3
Total non-current liabilities		7,240	6,793
Total liabilities		9,176	9,394
Net assets		17,547	10,289
INVESTED CAPITAL			
Invested capital attributable to members of South32	8	16,710	9,396
Invested capital attributable to non-controlling interests		837	893
Total invested capital		**17,547**	**10,289**

The accompanying notes form part of the historical combined financial information.

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2.4 COMBINED CASH FLOW STATEMENT

	Note	H1 FY2015 US$M	H1 FY2014 US$M
Operating activities			
Profit before taxation		1,214	446
Adjustments for:			
Depreciation and amortisation expense		506	466
Net gain on sale of non-current assets		(1)	
Net finance costs		37	108
Share of operating profit of equity accounted investments		(3)	(7)
Other		(327)	(11)
Changes in assets and liabilities:			
Trade and other receivables		93	(254)
Inventories		(4)	(106)
Trade and other payables		(193)	130
Net other financial assets and liabilities		(10)	52
Provisions and other liabilities		(181)	(43)
Cash generated from operations		1,131	781
Dividends received		368	18
Interest received		25	92
Interest paid		(141)	(147)
Income tax refunded			3
Income tax paid		(134)	(254)
Net operating cash flows		1,249	493
Investing activities			
Purchases of property, plant and equipment		(411)	(394)
Exploration expenditure		(13)	(14)
Exploration expenditure expensed and included in operating cash flows		9	11
Purchase of intangibles			(1)
Investment in financial assets		(13)	(12)
Cash outflows from investing activities		(428)	(410)
Proceeds from sale of property, plant and equipment		6	11
Proceeds from financial assets		7	46
Net investing cash flows		(415)	(353)
Financing activities			
Proceeds from interest bearing liabilities		7	235
Repayment of interest bearing liabilities		(103)	(463)
Proceeds from issue of shares	8	8,000	

Deposit with BHP Billiton	(7,565)	
Other movements in invested capital	(327)	298
Dividends paid	(661)	(343)
Dividends paid to non-controlling interests	(85)	(52)
Net financing cash flows	(734)	(325)
Net increase/(decrease) in cash and cash equivalents	100	(185)
Cash and cash equivalents, net of overdrafts, at the beginning of the period	353	345
Foreign currency exchange rate changes on cash and cash equivalents	(4)	(2)
Cash and cash equivalents, net of overdrafts, at the end of the period	449	158

The accompanying notes form part of the historical combined financial information.

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2.5 COMBINED STATEMENT OF CHANGES IN INVESTED CAPITAL

	Note	H1 FY2015 US$M	H1 FY2014 US$M
Invested capital attributable to members of South32			
Balance as at 1 July		8,953	9,213
Profit for the period		688	317
Other comprehensive income		(28)	
Dividends paid		(661)	(343)
Equity transactions with BHP Billiton	8	7,758	209
Balance as at 31 December		16,710	9,396
Invested capital attributable to non-controlling interests			
Balance as at 1 July		867	907
Profit for the period attributable to non-controlling interests		50	41
Other comprehensive income		5	
Distributions paid to non-controlling interests		(85)	(52)
Equity contributed			(3)
Balance as at 31 December		837	893

The accompanying notes form part of the historical combined financial information.

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2.6 NOTES TO THE HALF YEAR HISTORICAL COMBINED FINANCIAL INFORMATION

1 Accounting policies

The historical combined financial information for the half year ended 31 December 2014 and the comparative period ended 31 December 2013 (Half Year Reporting Period) is unaudited and has been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) in conjunction with the basis of preparation contained in Annexure 1. The comparative balance sheets as at 30 June 2014 and 30 June 2013 as required by IAS 34 have been included as part of the annual historical combined financial information as set out in Annexure 1.

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 in Annexure 1 and below.

The half year 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.

The historical financial information has been extracted from the consolidation schedules which supported the unaudited financial statements of the BHP Billiton Group for the Half Year Reporting Period.

The half year historical combined financial information represents a combined condensed set of historical financial information . Accordingly, they do not include all of the information required for a full annual report and are to be read in conjunction with the annual historical combined financial information contained within Annexure 1.

The half year historical combined financial information has been prepared on the basis of accounting policies and methods of computation consistent with those applied in the annual historical combined financial information contained within Annexure 1, and with those anticipated to be applied by South32, with the exception of the following new accounting standards and interpretations which became effective from 1 July 2014:

Amendments to IAS 32 Financial Instruments: Presentation clarify the criteria for offsetting financial assets and liabilities.

IFRIC 21 Levies confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs.

Rounding of amounts

Amounts in this half year historical combined financial information have, unless otherwise indicated, been rounded to the nearest million dollars.

Comparatives

Where applicable, comparatives have been restated to disclose them on the same basis as current period figures.

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2 Segment reporting

Business segments

South32 operates the Businesses set out below. The reporting of financial information by Business reflects the proposed structure that will be used by South32 s management to assess the performance of South32.

Reportable segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia
South Africa Aluminium	Aluminium smelter at Richards Bay
Mozal Aluminium	Aluminium smelter near Maputo in Mozambique
Brazil Aluminium	Alumina refinery and aluminium smelter in Brazil
South Africa Energy Coal	Open-cut and underground energy coal mines and processing operations in South Africa
Illawarra Metallurgical Coal	Underground metallurgical coal mines in southern New South Wales
Australia Manganese	Producer of manganese ore in the Northern Territory and manganese alloys in Tasmania
South Africa Manganese	Integrated producer of manganese ore and alloy in South Africa
Cerro Matoso	Integrated laterite ferronickel mining and smelting complex in northern Colombia
Cannington	Silver, lead and zinc mine located in northwest Queensland

All South32 Businesses are operated or jointly operated by South32 except Alumar (which forms part of Brazil Aluminium), which is operated by Alcoa.

Group and unallocated items represent Group centre functions and consolidation adjustments. Exploration and technology activities are recognised within relevant segments.

It is South32 s policy that inter-segment sales are made on a commercial basis.

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US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Canning	Group and unallocated items / eliminations	Total South32
Half year ended 31 December 2014												
Revenue												
Group Production	319	823	340	268	683	425	566	386	340	486		4,636
Third party products[a]											404	404
Inter-segment revenue	332										(332)	
Total revenue	651	823	340	268	683	425	566	386	340	486	72	5,040
Underlying EBITDA[b]	143	201	88	140	83	120	215	63	113	183	(43)	1,306
Depreciation and amortisation	(76)	(34)	(18)	(39)	(92)	(100)	(53)	(37)	(27)	(29)	(1)	(506)
Underlying EBIT[b]	67	167	70	101	(9)	20	162	26	86	154	(44)	800
Comprising:												
Group Production	67	167	70	101	(12)	20	162	26	86	154	(74)	767
Third party products [a]											30	30
Share of operating profit of equity accounted investments					3							3
Underlying EBIT	67	167	70	101	(9)	20	162	26	86	154	(44)	800
Net finance costs[c]												(103)
Income tax expense												(163)
												534

Underlying Earnings												
Earnings adjustments												204
Profit after tax												738
Capital expenditure	27	10	5	5	58	180	57	37	18	14		411
Investments accounted for using the equity method					13							13
Total assets[(d)]	3,793	1,502	719	1,078	2,051	1,770	1,343	1,100	1,082	402	11,883	26,723
Total liabilities[(d)]	380	307	91	140	1,037	236	453	298	228	210	5,796	9,176

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US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Canning	Group and unallocated items / Eliminations	Total South32
Half year ended 31 December 2013												
Revenue												
Group Production	223	796	291	266	639	410	677	350	315	605		4,572
Third party products[(a)]											776	776
Inter-segment revenue	342										(342)	
Total revenue	565	796	291	266	639	410	677	350	315	605	434	5,348
Underlying EBITDA[(b)]	108	84	17	35	54	70	252	21	43	272	20	976
Depreciation and amortisation	(63)	(36)	(18)	(42)	(98)	(78)	(36)	(30)	(42)	(21)	(2)	(466)
Underlying EBIT[(b)]	45	48	(1)	(7)	(44)	(8)	216	(9)	1	251	18	510
Comprising:												
Group Production	45	48	(1)	(7)	(51)	(8)	216	(9)	1	251	(10)	475
Third party products [(a)]											28	28
Share of operating profit of equity accounted investments					7							7
Underlying EBIT	45	48	(1)	(7)	(44)	(8)	216	(9)	1	251	18	510
Net finance costs[(c)]												(65)
Income tax expense												(76)

Underlying Earnings												369
Earnings adjustments												(11)
Profit after tax												358
Capital expenditure	22	7	3	7	22	173	58	32	35	30	5	394
Investments accounted for using the equity method					7							7
Total assets[(d)]	3,496	1,629	763	1,282	2,296	1,678	1,325	1,102	1,171	413	4,528	19,683
Total liabilities[(d)]	634	230	129	272	983	365	438	289	234	169	5,651	9,394

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(a) Third party products purchased and sold by South32 Marketing comprise US$358 million (2013: US$456 million) for aluminium, US$46 million (2013: US$317 million) for coal and US$ nil (2013: US$3 million) for manganese. Underlying EBIT on third party products comprise US$17 million (2013: US$ nil million) for aluminium, US$13 million (2013: US$28 million) for coal and US$ nil (2013: US$ nil million) for manganese.
(b) Underlying EBIT is earnings before net finance costs, taxation and any earnings adjustments. Underlying EBIT is reported net of South32 s share of net finance costs and taxation of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation.
(c) Excludes interest income and interest expense on borrowings with BHP Billiton. Refer to note 5 Net finance costs.
(d) Total segment assets and liabilities represent operating assets and liabilities and predominantly excludes cash balances, interest bearing liabilities and deferred tax balances. Total segment assets of equity accounted investments represent the balance of South32 s investment in equity accounted investments, and therefore include cash balances, interest bearing liabilities and deferred tax balances.

The following items are excluded from profit/(loss) from operations in arriving at Underlying EBIT each period irrespective of materiality:

Exchange gains/losses on restatement of monetary items

Impairment losses/reversals

Net gains/loss on disposal and consolidation of interests in businesses

Fair value gain/loss on derivative instruments

Major corporate restructures

In addition to these, items that do not reflect the underlying operations of South32, and are individually significant to the financial statements are excluded. Such items included within South32 s profit or loss for the Reporting Period are detailed in note 3 Significant items.

In calculating Underlying Earnings adjustments are also made to dividend income, net finance costs and taxation for amounts with BHP Billiton that will not continue post Demerger and are reflected in the underlying operations.

The following table shows earnings adjustments in arriving at Underlying Earnings:

US$M	H1 FY2015	H1 FY2014
Earnings adjustments to Underlying EBIT		
Exchange gains on restatement of monetary items	(82)	(47)
Impairment losses		
Impairment reversals		(2)
Fair value (gain)/loss on derivative instruments	(5)	16

Dividends received from BHP Billiton	(364)	(11)
Total earnings adjustments to Underlying EBIT	(451)	(44)
Earnings adjustments to net finance costs		
Exchange variations on net debt	(105)	(1)
Interest on borrowings from BHP Billiton	64	61
Interest income on loans to BHP Billiton	(25)	(17)
Total earnings adjustments to net finance costs	(66)	43
Earnings adjustments to income tax expense		
Tax effect of earnings adjustments to Underlying EBIT	27	8
Tax effect of earnings adjustments to net finance costs	20	(13)
Exchange rate movements	155	3
Remeasurement of deferred tax assets associated with the MRRT	111	(25)
Non-recognition of tax benefits where benefit remains with BHP Billiton		39
Total earnings adjustments to income tax expense	313	12
Total earnings adjustments	(204)	11

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Geographical information

	Revenue by location of customer	
	H1 FY2015 US$M	**H1 FY2014 US$M**
Australia	336	430
China	488	787
India	361	383
Japan	399	358
Middle East	66	237
Singapore	168	230
South Korea	164	335
Rest of Asia	757	189
United Kingdom	77	185
Europe	1,136	1,231
North America	355	248
Southern Africa	638	567
Rest of world	95	168
Total revenue	5,040	5,348

3 Significant items

Significant items are those items where their nature and amount were considered material to the South32 historical combined financial information. Such items included within South32 s profit for the period are detailed below.

	H1 FY2015 US$M	**H1 FY2014 US$M**
Significant items by nature		
Repeal of Mineral Resource Rent Tax legislation	111	
Total significant items	111	

31 December 2014

On 2 September 2014, legislation to repeal the Minerals Resource Rent Tax (MRRT) in Australia received the support of both Houses of Parliament and took effect on 30 September 2014. As a result, South32 derecognised a MRRT deferred tax asset (net of income tax consequences) of US$111 million and a corresponding income taxation charge of US$111 million was recognised in the half year ended 31 December 2014.

31 December 2013

No significant items during the period ended 31 December 2013.

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4 Other income

	H1 FY2015 US$M	H1 FY2014 US$M
External dividend income	1	1
Dividend income from BHP Billiton	364	11
External other income	156	93
Total other income	521	105

5 Net finance costs

	H1 FY2015 US$M	H1 FY2014 US$M
Financial expenses		
Interest on bank loans and overdrafts	1	1
Interest on all other borrowings	6	5
Finance lease and hire purchase interest	32	2
Discounting on provisions and other liabilities	77	62
Net interest expense on post-retirement employee benefits	6	6
Exchange variations on net debt	(105)	(1)
Financial expenses excluding BHP Billiton	17	75
Interest on borrowings from BHP Billiton	64	61
Total financial expenses	81	136
Financial income		
Interest income	(19)	(11)
Interest income on loans to BHP Billiton	(25)	(17)
Total financial income	(44)	(28)
Net finance costs	37	108

6 Income tax and deferred tax

	H1 FY2015 US$M	H1 FY2014 US$M

Total taxation expense comprises:		
Income tax expense	380	113
Royalty-related taxation	96	(25)
Total taxation expense	476	88

Total taxation expense including royalty-related taxation, significant items and exchange rate movements, was US$476 million, representing an effective tax rate of 39.2 per cent (31 December 2013: 19.7 per cent).

Exchange rate movements increased taxation expense by US$155 million, representing an increase in the effective tax rate of 12.8 per cent (31 December 2013: increase of US$3 million and increase of 0.7 per cent).

Government imposed royalty arrangements calculated by reference to profits are reported as royalty-related taxation. Total royalty-related taxation increased taxation expense by US$96 million resulting in an increase in the effective tax rate of 7.9 per cent (31 December 2013: decrease of US$25 million and 5.6 per cent).

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7 Earnings, dividends and asset information per share

	H1 FY2015	H1 FY2014
Basic earnings per share (US cents)	12.92	5.95
Diluted earnings per share (US cents)	12.88	5.94
Basic earnings (US$M)	688	317
Diluted earnings (US$M)	688	317
Headline earnings per share (US cents)	12.92	5.92
Headline earnings (US$M)	688	315
Net asset value per share (US cents)[(a)]	330	193
Tangible net asset value per share (US cents)[(b)]	324	187
Dividends per share (US cents)[(c)]	12	6

(a) Net asset value per share is calculated by dividing South32 s total net assets by the basic number of ordinary shares outstanding.
(b) Tangible net asset value per share is calculated by dividing South32 s total net assets less intangible assets by the basic number of ordinary shares outstanding.
(c) Dividends per share are calculated by dividing South32 s dividends paid by the basic number of ordinary shares outstanding.

The number of shares used for the purpose of calculating amounts per share is based on the proposed capital structure of South32 at the time of the Demerger being a one for one share issue as follows:

Weighted average number of ordinary shares	H1 FY2015 Million	H1 FY2014 Million
Basic earnings per share denominator	5,324	5,324
Shares and options contingently issuable under employee share ownership plans	17	16
Diluted earnings per share denominator	5,341	5,340

Headline earnings

Headline earnings per share has been calculated in accordance with the South African Circular 2/2013 entitled Headline Earnings , which forms part of the listing requirements for the JSE. The adjustments made to arrive at the headline earnings are as follows:

	H1 FY2015 US$M	H1 FY2014 US$M
Profit for the year attributable to owners of the parent	688	317
Impairment reversals		(2)
Headline earnings	688	315

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8 Financial risk management Fair values

Financial risk management strategy

All financial assets and financial liabilities, other than derivatives, are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost, as indicated in the tables below. Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value.

During the Half Year Reporting Period, the majority of BHP Billiton s debt was raised under central borrowing programs, and BHP Billiton has funded its businesses through intercompany investments and loans. Interest rate risk for South32 has been managed as part of the portfolio risk management strategy of BHP Billiton s central treasury function.

Financial assets and liabilities

31 December 2014	Loans and receivables US$M	Available for sale securities US$M	Held at fair value through profit or loss US$M	Other financial assets and liabilities at amortised cost US$M	Total US$M
Financial assets					
Cash and cash equivalents	459				459
Trade and other receivables[(a)]	1,025				1,025
Trade receivables from BHP Billiton	370				370
Other derivative contracts			78		78
Interest bearing loans receivable	88				88
Interest bearing loans receivable from BHP Billiton	9,137				9,137
Shares - available for sale		308			308
Other investments		136			136
Total financial assets	11,079	444	78		11,601
Non-financial assets					15,122
Total assets					26,723
Financial liabilities					
Trade and other payables[(b)]				1,264	1,264
Payables to BHP Billiton				41	41
Other derivative contracts			24		24
Unsecured bank overdrafts and short-term borrowings				10	10
Unsecured bank loans				111	111
Finance leases				695	695

Unsecured other		196	196
Interest bearing liabilities payable to BHP Billiton		3,728	3,728
Total financial liabilities	24	6,045	6,069
Non-financial liabilities			3,107
Total liabilities			9,176

(a) Excludes input taxes of US$170 million (2013: US$261 million) included in other receivables.
(b) Excludes input taxes of US$2 million (2013: US$120 million) included in other payables.

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31 December 2013	Loans and receivables US$M	Available for sale securities US$M	Held at fair value through profit or loss US$M	Other financial assets and liabilities at amortised cost US$M	Total US$M
Financial assets					
Cash and cash equivalents	196				196
Trade and other receivables	1,145				1,145
Trade receivables from BHP Billiton	590				590
Commodity contracts			6		6
Other derivative contracts			38		38
Interest bearing loans receivable	295				295
Interest bearing loans receivable from BHP Billiton	1,174				1,174
Shares - available for sale		333			333
Other investments		137			137
Total financial assets	3,400	470	44		3,914
Non-financial assets					15,769
Total assets					19,683
Financial liabilities					
Trade and other payables				1,731	1,731
Payables to BHP Billiton				136	136
Commodity contracts			6		6
Other derivative contracts			7		7
Unsecured bank overdrafts and short-term borrowings				38	38
Unsecured bank loans				264	264
Finance leases				31	31
Unsecured other				220	220
Interest bearing liabilities payable to BHP Billiton				3,808	3,808
Total financial liabilities			13	6,228	6,241
Non-financial liabilities					3,153
Total liabilities					9,394

Fair value hierarchy

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on

South32 s views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. The inputs used in fair value calculations are determined by the relevant BHP Billiton Group Function. BHP Billiton s Group Functions support the Businesses and operate under a defined set of accountabilities authorised by BHP Billiton s Group Management Committee. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income. The following table shows South32 s financial assets and liabilities carried at fair value with reference to the nature of valuation inputs used.

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H1 FY2015	Level 1[a] US$M	Level 2[b] US$M	Level 3[c] US$M	Total US$M
Financial assets and liabilities				
Other derivative contracts		(6)	60	54
Investments - available for sale		136	308	444
Total		130	368	498

(a) Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
(b) Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
(c) Valuation is based on inputs that are not based on observable market data.

Level 3 financial assets and liabilities

The following table shows the movements in South32 s level 3 financial assets and liabilities.

	H1 FY2015 US$M
At the beginning of the financial year	365
Unrealised gains recognised in the income statement[a]	12
Unrealised losses recognised in other comprehensive income[b]	(9)
At the end of the financial year	368

(a) Realised and unrealised gains and losses recognised in the income statement are recorded in expenses.
(b) Unrealised gains and losses recognised in other comprehensive income are recorded in invested capital.

Sensitivity of Level 3 financial assets and liabilities

The carrying amount of financial assets and liabilities that are valued using inputs other than observable market data are calculated using appropriate valuation models, including discounted cash flow modelling, with inputs such as commodity prices, foreign exchange rates and inflation. The potential effect of using reasonably possible alternative assumptions in these models, based on a change in the most significant input by 10 per cent while holding all other variables constant, is shown in the following table. Significant inputs are assessed individually for each financial asset and liability.

H1 FY2015	Carrying value US$M	Profit after taxation 10% increase in input	Profit after taxation 10% decrease in input	Equity 10% increase in	Equity 10% decrease in input

		US$M	US$M	input US$M	US$M
Financial assets and liabilities					
Other derivative contracts	60	13	(13)	13	(13)
Investments - available for sale	308			59	57
Total	368	13	(13)	72	44

During the period to 31 December 2014, as part of the process of South32 legally acquiring the entities that comprise its business operations and which are included in this half year historical combined financial information, an equity injection of US$8 billion was made by BHP Billiton Limited. As at 31 December 2014 some of these funds have been loaned back to an entity within BHP Billiton pending legal acquisition of the specific entities. The net assets of the entities to be acquired are already included in the combined balance sheet of South32. Accordingly, as the entities are acquired the receivable from BHP Billiton Group companies will decrease reflecting a return of invested capital to BHP Billiton.

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9 Contingent liabilities

Contingent liabilities at balance date, not otherwise provided for in the financial statements, are categorised as arising from:

	H1 FY2015 US$M	H1 FY2014 US$M
Subsidiaries and joint operations		
Bank guarantees	6	4
Actual or potential litigation[(a)]	653	622
Other	26	12
Total contingent liabilities	685	638

(a) Actual or potential litigation amounts relate to a number of actions against South32, some of which relate to commercially confidential information, none of which were individually significant to BHP Billiton and where BHP Billiton has historically assessed that the liability is not probable and therefore South32 has not provided for such amounts in the historical combined financial statements. 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, the outcome of which cannot be foreseen at present, and for which no amounts have been included in the table above.

10 Subsequent events

In contemplation of the proposed Demerger, BHP Billiton and Anglo American agreed to make certain changes to the agreement which governs their interests in the Manganese Business. South32 will acquire BHP Billiton s interest and following implementation of the Demerger, South32 will manage and own 60 per cent of the Manganese Business with Anglo American owning the remaining 40 per cent.

Following receipt on 2 March 2015 of the last of the approvals required for the agreement, the changes result in South32 and Anglo American agreeing to share joint control of the Manganese Business. With effect from this date South32 will discontinue consolidation of the Manganese Business and account for its 60 per cent interest as an equity accounted joint venture. South32 will therefore derecognise the existing carrying amounts of all assets, liabilities and the non-controlling interest in the Manganese Business attributed to Anglo American and initially records its retained 60 per cent interest at fair value. The remeasurement at fair value gives rise to a gain of approximately US$2 billion. There are no tax consequences arising from the remeasurement of the Manganese Business.

Following the move to equity accounting, South32 received a dividend from Australia Manganese that decreased the carrying value of the investment in the Manganese Business by US$342 million.

Other than the matters outlined above or elsewhere in this half year historical combined financial information, no matters or circumstances have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of South32 in subsequent accounting periods.

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2.7 INDEPENDENT REVIEW REPORT

Independent Review Report of KPMG (KPMG Australia) and KPMG Inc (KPMG South Africa) to the Directors of South32 Limited

We have reviewed the accompanying half year historical combined financial information of the South32 Limited Group (as defined in this Document, the Group), being special purpose financial information as at and for the half-years ended 31 December 2013 and 31 December 2014 prepared for the purpose of the Group s listing on the Johannesburg Stock Exchange (JSE) and admission to the Official List of the Financial Conduct Authority (FCA) of the United Kingdom. The half year historical combined financial information comprises, for each of the periods described above: the combined balance sheet and combined statement of invested capital as at the period end; the combined income statement, combined statement of comprehensive income and cash flow statement for the period then ended; and notes comprising a summary of significant accounting policies and other explanatory information. The historical combined financial information has been prepared by the Directors using the basis of preparation set out in Note 1 to the historical combined financial information and in compliance with the respective listing requirements of the JSE and of the FCA.

Directors responsibility for the historical combined financial information

The Directors of the Group are responsible for the preparation and fair presentation of the half year historical combined financial information in accordance with the basis of preparation set out in Note 1 to the half year: historical combined financial information and the respective listing requirements of the JSE and of the FCA. The Directors responsibility also includes determining the acceptability of the basis of preparation in the circumstances and for such internal controls as the Directors determine are necessary to enable the preparation and presentation of the half year historical combined financial information that is free from material misstatement, whether due to fraud or error.

Auditor s responsibility

Our responsibility is to express a conclusion on the half year historical combined financial information based on our review.

KPMG Australia conducted a review of the half year historical combined financial information in accordance with Australian Auditing Standard on Review Engagements 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity* as issued by the Australian Auditing and Assurance Standards Board and International Standard on Review Engagements (UK and Ireland) 2410(*Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the United Kingdom.

KPMG South Africa conducted a review of the half year historical combined financial information in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.*

These standards require that we comply with relevant ethical requirements.

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

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our review conclusion.

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Independence

In conducting our review, KPMG Australia has complied with the independence requirements of the Australian Accounting Professional and Ethical Standards Board.

Review conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year historical combined financial information of the Group as at and for the half years ended 31 December 2013 and 31 December 2014 is not presented fairly, in all material respects, in accordance with Note 1 to the half year historical combined financial information and the respective listing requirements of the JSE and of the FCA.

Basis of preparation

Without modifying our review conclusion, we draw attention to Note 1 to the half year historical combined financial information which describes the basis of preparation of the half year historical combined financial information, including the approach to and the purpose for preparing the information and that the preparation involves complex allocations of certain items. Consequently, the half year historical combined financial information may not necessarily be indicative of the financial performance that would have been achieved if the South32 Group had operated as an independent group, nor may it be indicative of the results of operations of the South32 Group for any future period.

The half year historical combined financial information has been prepared solely for the purpose of fulfilling the Directors financial reporting responsibilities in order to comply with the respective listing requirements of the JSE and of the FCA. As a result, the half year historical combined financial information may not be suitable for another purpose.

Declaration for the purposes of the Prospectus Directive Regulation as required by the FCA

This report is required by paragraph 20.6.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the 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 prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

KPMG

Chris Sargent

Partner

Melbourne, Australia

16 March 2015

KPMG Inc.

Per Jacques Erasmus

Chartered Accountant (SA), Registered Auditor, Director

Johannesburg, South Africa

16 March 2015

KPMG, an Australian partnership, and KPMG Inc, a South African company incorporated under the South African Companies Act, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

KPMG Australia s liability limited by a scheme approved under Professional Standards Legislation

KPMG Inc s Policy Board:

Chief Executive:	RM Kgosana
Executive Directors:	T Fubu, A Hari, E Magondo, JS McIntosh, CAT Smit, D van Heerden
Other Directors:	DC Duffield, LP Fourie, N Fubu, TH Hoole, A Jaffer, M Letsitsi, A Masemola, M Mokgabudi, Y Suleman (Chairman of the Board), A Thunström

KPMG Inc s principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors names is available for inspection.

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ANNEXURE 3

SOUTH32 PRO FORMA HISTORICAL CONSOLIDATED INCOME STATEMENT AND CASH FLOW STATEMENT RECONCILIATIONS

3.1 OVERVIEW

This Annexure sets out the reconciliation of pro forma adjustments made to the historical combined financial information set out in Annexures 1 and 2 to derive the summary pro forma historical consolidated income statements and summary pro forma historical consolidated cash flow statements. The pro forma financial information has been prepared on the basis of preparation set out in Section 10.2. The continuing effects of the pro forma adjustments set out in this Annexure are as follows:

the share of Manganese operating profit/(loss) will be equity accounted into the South32 Group, while the consolidation of Manganese profits will not recur;

South32 will incur financing and tax costs based on its post Demerger structure.

3.2 RECONCILIATION OF PRO FORMA HISTORICAL CONSOLIDATED INCOME STATEMENT

Table A3.1: Reconciliation of South32 historical combined income statement to South32 pro forma historical consolidated income statement

H1 FY2015 US$M	South32 combined financial information [(a)]	Change of control of Manganese Business: Removal of consolidated results[(b)]	Change of control of Manganese Business: Equity accounted profit/(loss)[(c)]	Intercompany financing[(d)]	South32 pro forma consolidated financial information
Revenue	5,040	(951)			4,089
Other income	521	(7)		(364)	150
Expenses excluding net finance costs	(4,313)	763			(3,550)
Share of operating profit of equity accounted investments	3		32		35
Profit from operations	**1,251**	**(195)**	**32**	**(364)**	**724**
Net finance costs	(37)	3		39	5

Taxation expense	(476)	65		(12)	(423)
Profit after taxation	**738**	**(127)**	**32**	**(337)**	**306**
Other financial information					
Profit from operations	1,251	(195)	32	(364)	724
Earnings adjustments[(e)]	(451)	17	(6)	364	(76)
Underlying EBIT	**800**	**(178)**	**26**		**648**
Depreciation and amortisation	506	(89)			417
Underlying EBITDA	**1,306**	**(267)**	**26**		**1,065**
Profit after taxation	**738**	**(127)**	**32**	**(337)**	**306**
Earnings adjustments after taxation[(e)]	(204)	9	(6)	337	136
Underlying Earnings	**534**	**(118)**	**26**		**442**

(a) South32 s historical combined income statement has been extracted, without material adjustment from the historical combined financial information in Annexures 1 and 2.

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(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 1 July 2013. This information has been extracted, without material adjustment from the underlying accounting records of South32. The de-consolidation of the Manganese Business includes Australia Manganese, South Africa Manganese and certain balances and transactions included within South32 Group and Unallocated representing the Manganese Business share of central functions, consolidation adjustments and sale of third party product. For this reason, the de-consolidation pro forma adjustment will not fully reconcile with Australia Manganese and South Africa Manganese results contained in note 2 Segment reporting to the historical combined financial information in Annexures 1 and 2.

(c) The adjustment represents South32 s equity share of the profit/(loss) after taxation of the equity accounted investment in the Manganese Business. This adjustment has been calculated from the underlying accounting records of South32 and adjusted for the impact of additional depreciation arising from the uplift in the fair value of the Manganese Business. Also refer to Equity accounted investment in Manganese Business in Section 10.8(b) under accounting judgements and estimates.

US$M	H1 FY2015	FY2014
Profit after taxation of Manganese Business	127	214
Attributable to non controlling interests	(50)	(85)
Attributable to members of South32	77	129
Depreciation charge on fair value uplift (after taxation)	(45)	(80)
Share of operating profit of equity accounted investment in Manganese Business	32	49

(d) This adjustment reflects the removal of the historical net finance costs associated with BHP Billiton centrally managed borrowings, and the removal of dividends received from BHP Billiton. Both adjustments have been tax effected at 30 per cent. Net finance costs and dividends associated to BHP Billiton have been extracted, without material adjustment from the historical combined financial information in Annexures 1 and 2.

(e) Further details regarding earnings adjustments are set out in Table A3.3.

Table A3.2: Reconciliation of South32 historical combined income statement to South32 pro forma historical consolidated income statement

		Change of control of Manganese Business			
FY2014 US$M	South32 combined financial information (a)	Removal of consolidated results(b)	Equity accounted profit/(loss) (c)	Intercompany financing(d)	South32 pro forma consolidated financial information
Revenue	10,444	(2,100)			8,344
Other income	310	(30)		(11)	269
Expenses excluding net finance costs	(9,990)	1,652			(8,338)
Share of operating profit of equity accounted investments	10		49	3	62

Profit from operations	**774**	**(478)**	**49**	**(8)**	**337**
Net finance costs	(352)	81		84	(187)
Taxation expense	(205)	183		(25)	(47)
Profit after taxation	**217**	**(214)**	**49**	**51**	**103**
Other financial information					
Profit from operations	**774**	**(478)**	**49**	**(8)**	**337**
Earnings adjustments[(e)]	296	15	4	8	323
Underlying EBIT	**1,070**	**(463)**	**53**		**660**
Depreciation and amortisation	985	(162)			823
Underlying EBITDA	**2,055**	**(625)**	**53**		**1,483**
Profit after taxation	**217**	**(214)**	**49**	**51**	**103**
Earnings adjustments after taxation[(e)]	397	(7)	4	(51)	343
Underlying Earnings	**614**	**(221)**	**53**		**446**

See notes to Table A3.1

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3.3 UNDERLYING EARNINGS AND EARNINGS ADJUSTMENTS

In discussing the operating results of South32, the focus is on Underlying Earnings. Underlying Earnings is the key measure that South32 proposes to use to assess the performance of the South32 Group, make decisions on the allocation of resources and assess senior management. In addition the performance of each of the South32 Businesses (described in 7.1(a) to 7.1(j)) and operational management will be assessed based on Underlying EBIT. South32 management will use this measure because financing structures and tax regimes differ across the South32 Businesses and substantial components of historical tax and interest charges are levied at a South32 level rather than Business level. In order to calculate Underlying Earnings, Underlying EBIT and Underlying EBITDA, the following items are adjusted as applicable each period irrespective of materiality:

exchange gains/losses on restatement of monetary items;

impairment losses/reversals;

net gains/loss on disposal and consolidation of interests in businesses;

fair value gain/loss on derivative instruments;

major corporate restructures;

the income tax impact of the above items.

In addition to these, items that do not reflect the underlying operations of South32, and are individually significant to the financial statements, are excluded. Such items included within South32 s profit or loss for the Reporting Period are detailed in note 3 Significant items to the historical combined financial information in Annexures 1 and 2.

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 the items above 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.

Refer to Section 11.5(d) for a description of the components of Underlying Earnings adjustments. In calculating Underlying Earnings, adjustments are also made to net finance costs and taxation for amounts that will not continue post the Demerger and are not reflective of the underlying operations.

The following table shows the pro forma earnings adjustments to the South32 pro forma consolidated income statements for H1 FY2015 and FY2014.

Table A3.3: South32 pro forma earnings adjustments

US$M	H1 FY2015	FY2014
Earnings adjustments to Underlying EBIT		
Exchange gains on restatement of monetary items	(64)	(53)
Impairment losses		327
Impairment reversals		(8)
Fair value (gain)/loss on derivative instruments	(6)	2
Other:		
Bayside closure costs (excluding impairments)		138
Gain on sale of Optimum coal rights		(84)
Equity share of earnings adjustment to Manganese after net finance costs and taxation	(6)	1
Total earnings adjustments to Underlying EBIT	(76)	323
Earnings adjustment to net finance costs		
Exchange variation on net debt	(93)	40
Total earnings adjustment to net finance costs	(93)	40
Earnings adjustments to income tax expense		
Tax effect of earnings adjustments to Underlying EBIT	22	(25)
Tax effect of earnings adjusted to net finance costs	28	(13)
Exchange rate movements	144	(9)
Re-measurements of deferred tax assets associated with the MRRT	111	
Non-recognition of tax benefits where benefit remains with BHP Billiton		27
Total earnings adjustments to income tax expense	305	(20)
Total earnings adjustments	136	343

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3.4 RECONCILIATION OF PRO FORMA HISTORICAL CONSOLIDATED CASH FLOW STATEMENT

Table A3.4: Reconciliation of South32 historical combined cash flow statement to South32 pro forma consolidated cash flow statement before financing activities and tax and after capital expenditure

H1 FY2015 US$M	South32 combined financial information (a)	Change of control in Manganese Business: Removal of consolidated results (b)	Equity accounted profit/(loss) (c)	Intercompany financing (d)	South32 pro forma consolidated financial information
Profit from operations	**1,251**	**(195)**	**32**	**(364)**	**724**
Other non-cash items	178	(97)		364	445
Profit from equity accounted investments	(3)		(32)		(35)
Change in working capital	(295)	90			(205)
Cash generated from operations	**1,131**	**(202)**			**929**
Dividends received (including equity accounted investments)	368		127	(364)	131
Capital expenditure	(411)	94			(317)
Net operating cash flows before financing activities and tax and after capital expenditure	**1,088**	**(108)**	**127**	**(364)**	**743**

(a) South32 s historical combined cash flow statement has been extracted, without material adjustment from the historical combined financial information in Annexures 1 and 2.

(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 1 July 2013. This information has been extracted, without material adjustment from the underlying accounting records of South32.

(c) The adjustment represents South32 s share of the operating profit/(loss) and dividends received from the equity accounted investments being South32 s equity share of the Manganese Business. This information has been derived from the underlying accounting records of South32. South32 s equity accounted profit/(loss) is set out in footnote (c) to Table A3.1. Dividends received by South32 represent 60 per cent of dividends paid by the companies that represent the Manganese Business.

(d) Pro forma adjustment reflects the removal of the impact of intercompany dividends received by South32 from BHP Billiton which have been extracted, without material adjustment from the historical combined financial information in Annexures 1 and 2.

Table A3.5: Reconciliation of South32 historical combined cash flow statement to South32 pro forma consolidated cash flow statement before financing activities and tax and after capital expenditure

FY2014 US$M	South32 combined financial information (a)	Change of control in Manganese Business Removal of consolidated results(b)	Equity accounted profit/(loss) (c)	Intercompany financing(d)	South32 pro forma consolidated financial information
Profit from operations	**774**	**(478)**	**49**	**(8)**	**337**
Other non-cash items	1,267	(149)		11	1,129
Profit from equity accounted investments	(10)		(49)	(3)	(62)
Change in working capital	77	(62)			15
Cash generated from operations	**2,108**	**(689)**			**1,419**
Dividends received (including equity accounted investments)	31	(12)	198	(11)	206
Capital expenditure	(769)	179			(590)
Net operating cash flows before financing activities and tax and after capital expenditure	**1,370**	**(522)**	**198**	**(11)**	**1,035**

See notes to Table A3.4

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ANNEXURE 4

SOUTH32 PRO FORMA SEGMENT REPORTING

The pro forma segment reporting financial information for the South32 Businesses for H1 FY2015 and FY2014 is set out below. The segment information reflects South32 s interest in the Manganese Business on a proportional consolidation basis, which is the proposed measure that will be used by South32 s management to assess the performance of the Manganese Business. The statutory adjustment column reconciles the proportional consolidation of the Manganese Business to the treatment of the Manganese Business on an equity accounted basis as set out in the pro forma financial information in Section 10 and Annexure 3.

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Table A4.1: South32 pro forma segment reporting half year ended 31 December 2014

H1 FY2015 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ eliminations	Statutory adjustments	Total South32
Revenue													
Group Production	319	823	340	268	683	425	339	231	340	486		(569)	3,685
Third party products[(a)]											404		404
Inter-segment revenue	332										(332)		
Total revenue	651	823	340	268	683	425	339	231	340	486	72	(569)	4,089
Underlying EBITDA[(b)]	143	201	88	140	83	120	129	38	113	183	(32)	(141)	1,065
Depreciation and amortisation	(76)	(34)	(18)	(39)	(92)	(100)	(83)	(33)	(27)	(29)	(2)	116	(417)
Underlying EBIT[(b)]	67	167	70	101	(9)	20	46	5	86	154	(34)	(25)	648
Comprising:													
Group Production	67	167	70	101	(12)	20	46	5	86	154	(64)	(51)	589
Third party products											30		30
Share of operating profit of equity accounted investments[(c)]					3							26	29
Underlying EBIT	67	167	70	101	(9)	20	46	5	86	154	(34)	(25)	648
Net finance costs													(88)
Income tax expense													(118)

Underlying Earnings													442
Earnings Adjustments													(136)
Profit/(loss) after tax													306
Capital expenditure	27	10	5	5	58	180	34	22	18	14		(56)	317
Investments accounted for using equity method					13							3,027	3,040
Total assets[(d)]	3,793	1,502	719	1,078	2,051	1,770	1,861	1,305	1,082	402	5,198	(3,076)	17,685
Total liabilities[(d)]	380	307	91	140	1,037	236	272	179	228	210	2,106	(451)	4,735

(a) Third party products purchased and sold by South32 Marketing comprise US$358 million for aluminium (2014: US$802 million), US$46 million for coal (2014: US$456 million) and US$ nil for manganese (2014: US$2 million). Underlying EBIT on third party products comprise US$17 million for aluminium (2014: US$14 million), US$13 million for coal (2014: US$18 million) and US$ nil for manganese (2014: (US$2) million).

(b) Underlying EBIT is earnings before net finance costs, taxation and any earnings adjustments items. Underlying EBIT is reported net of South32 s share of net finance costs and taxation of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation.

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

(d) Total segment assets and liabilities represent operating assets and liabilities including the carrying amount of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and deferred tax balances. The carrying amount of investments accounted for using the equity method represents the balance of the Group s investment in equity accounted investments, with no adjustment for any cash balances, interest bearing liabilities and deferred tax balances of the equity accounted investment.

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Table A4.2: South32 pro forma segment reporting year ended 30 June 2014

FY2014 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ eliminations	Statutory adjustments	Total South32
Revenue													
Group Production	570	1,614	574	529	1,247	878	785	473	595	1,079		(1,258)	7,086
Third party products[(a)]											1,260	(2)	1,258
Inter-segment revenue	659										(659)		
Total revenue	1,229	1,614	574	529	1,247	878	785	473	595	1,079	601	(1,260)	8,344
Underlying EBITDA[(b)]	162	190	52	127	197	135	303	72	87	460	18	(320)	1,483
Depreciation and amortisation	(138)	(69)	(36)	(83)	(193)	(170)	(148)	(62)	(88)	(47)	1	210	(823)
Underlying EBIT[(b)]	24	121	16	44	4	(35)	155	10	(1)	413	19	(110)	660
Comprising:													
Group Production	24	121	16	44	(6)	(35)	155	10	(1)	413	(11)	(165)	565
Third party products											30	2	32
Share of operating profit of equity accounted investments[(c)]					10							53	63
Underlying EBIT	24	121	16	44	4	(35)	155	10	(1)	413	19	(110)	660
Net finance costs													(147)
Income tax expense													(67)

Underlying Earnings													446
Earnings Adjustments													(343)
Profit/(loss) after tax													103
Capital expenditure	56	28	8	9	65	309	65	42	56	60	(1)	(107)	590

See notes to Table A4.1

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ANNEXURE 5

SELECTED FINANCIAL METRICS FOR THE PAST 10 FINANCIAL YEARS

Selected financial metrics for each Business for the past 10 financial years are presented below being Revenue, Underlying EBITDA, Underlying EBIT and Capital Expenditure.

The historical commodity prices for the past 10 financial years are quoted prices obtained from the sources noted under the table.

The historical production and sales volumes for each Business have been extracted from BHP Billiton s Operational Review (previously referred to as the Production Report).

FY2012 to FY2014

The financial information presented for FY2012 to FY2014 has been extracted from the historical combined financial information contained within Annexure 1. The historical combined financial information contained within Annexure 1 has been subject to audit by KPMG.

The calculation of Underlying EBIT and Underlying EBITDA for FY2012 to FY2014 is based on the policy that South32 proposes to use when discussing its operating results in the future. Note 2 Segment reporting to the historical combined financial information in Annexure 1 sets out the adjustments made to arrive at Underlying EBIT and Underlying EBITDA for FY2012 to FY2014.

FY2005 to FY2011

The financial information presented for FY2005 to FY2011 has been extracted from the accounting records of BHP Billiton. For South Africa Energy Coal, Illawarra Metallurgical Coal, Cerro Matoso and Cannington, the information was previously published by BHP Billiton as unaudited supplementary financial information released as part of BHP Billiton s results announcement. For the other South32 Businesses the information represents further dissection of BHP Billiton s previously released unaudited supplementary financial information.

The calculation of Underlying EBIT and Underlying EBITDA for FY2005 to FY2011 is based on BHP Billiton s accounting policy, which excludes exceptional items.

Table A5.1: South32 s 10 year history of revenue by Business

Revenue								**Per Annexure 1**		
	FY2005	**FY2006**	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**
Worsley Alumina	594	875	1,203	1,244	878	907	930	992	1,130	1,229

South Africa Aluminium	1,354	1,996	2,492	2,502	1,655	1,767	2,047	1,646	1,663	1,614
Mozal Aluminium	434	640	783	756	542	526	609	629	612	574
Brazil Aluminium	426	627	747	712	484	632	743	660	637	529
South Africa Energy Coal	1,461	1,474	1,502	1,963	1,340	1,143	1,754	1,894	1,458	1,247
Illawarra Metallurgical Coal	416	659	756	706	1,355	1,018	1,525	1,701	1,287	878
Australia Manganese[(a)]	547	396	450	1,255	1,226	1,176	1,297	1,204	1,257	1,308
South Africa Manganese[(a)]	620	448	637	1,505	1,156	884	1,126	932	856	788
Cerro Matoso	768	792	1,856	1,234	680	954	988	876	803	595
Cannington	678	835	982	1,382	816	1,317	1,889	1,590	1,365	1,079
Third party products	2,243	1,988	3,122	3,897	3,770	2,463	2,471	2,359	1,663	1,262
Intersegment revenue	(659)	(870)	(1,018)	(920)	(590)	(898)	(727)	(648)	(638)	(659)
Group and unallocated	167	121	62	84	91	83				
Total	**9,049**	**9,981**	**13,574**	**16,320**	**13,403**	**11,972**	**14,652**	**13,835**	**12,093**	**10,444**

(a) Manganese is reported at a 100% consolidation.

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Table A5.2: South32 s 10 year history of Underlying EBITDA by Business

Underlying EBITDA[a]								Per Annexure 1		
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Worsley Alumina	345	335	580	517	132	215	189	(67)	60	162
South Africa Aluminium	413	625	857	737	313	386	431	(10)	73	190
Mozal Aluminium	208	247	362	304	174	135	147	51	31	52
Brazil Aluminium	201	220	243	156	(36)	51	11	3	44	127
South Africa Energy Coal	290	190	212	659	317	222	399	416	115	197
Illawarra Metallurgical Coal	115	328	297	297	850	369	740	818	302	135
Australia Manganese[b]	340	146	143	834	746	514	536	335	499	505
South Africa Manganese[b]	320	(42)	187	824	708	364	350	(18)	111	120
Cerro Matoso	511	511	1,469	806	202	506	370	417	234	87
Cannington	353	491	628	880	310	814	1,232	893	651	460
Third party products	75	113	158	(69)	267	95	63	94	63	29
Group and unallocated	(48)	73	(39)	38	(47)	(88)	(105)	(101)	(65)	(9)
Total	**3,123**	**3,237**	**5,097**	**5,983**	**3,936**	**3,583**	**4,363**	**2,831**	**2,118**	**2,055**

(a) FY2005 FY2011 based on BHP Billiton policy; FY2012 FY2014 based on South32 policy.
(b) Manganese is reported at a 100% consolidation.

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Table A5.3: South32 s 10 year history of Underlying EBIT by Business

Underlying EBIT[a]								Per Annexure 1		
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Worsley Alumina	241	253	480	427	23	109	69	(194)	(115)	24
South Africa Aluminium	283	522	786	634	213	309	352	(83)	1	121
Mozal Aluminium	165	213	334	273	141	104	115	18	(3)	16
Brazil Aluminium	171	196	223	135	(67)	6	(89)	(80)	(40)	44
South Africa Energy Coal	162	7	47	520	250	141	230	226	(96)	4
Illawarra Metallurgical Coal	74	258	167	185	743	245	603	659	154	(35)
Australia Manganese[b]	327	133	126	814	723	476	492	282	436	414
South Africa Manganese[b]	300	(61)	167	802	687	340	317	(51)	58	48
Cerro Matoso	473	470	1,418	735	129	430	289	337	155	(1)
Cannington	320	448	592	841	279	780	1,197	840	611	413
Third party products	75	113	158	(69)	267	95	63	94	63	29
Group and unallocated	(54)	67	(43)	27	(52)	(99)	(111)	(122)	(70)	(7)
Total	**2,537**	**2,619**	**4,455**	**5,324**	**3,336**	**2,936**	**3,527**	**1,926**	**1,154**	**1,070**

(a) FY2005 FY2011 based on BHP Billiton policy; FY2012 FY2014 based on South32 policy.
(b) Manganese is reported at a 100% consolidation.

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Table A5.4: South32 s 10 year history of capital expenditure by Business

Capital expenditure

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Major projects capital expenditure										
Worsley Alumina	78	136	33	103	380	793	1,160	773	77	
South Africa Aluminium	28	37	25	5	2	8	9			
Mozal Aluminium	11	7	4	4	2	3	5			
Brazil Aluminium						85	10			
South Africa Energy Coal	23	28	10	115	498	424	179	25	18	6
Illawarra Metallurgical Coal					4	45	113	166	277	199
Australia Manganese[(a)]	4	1	5	79	111	13	19	87	136	32
South Africa Manganese[(a)]	13	1			23			68	46	59
Cerro Matoso			37	52	16	48	205	62	7	20
Cannington							4	11		
Third party products										
Group and unallocated										
Minor and maintenance capital expenditure										
Worsley Alumina	66	73	48	50	45	78	102	127	77	56
South Africa Aluminium	22	16	21	17	14	17	21	14	17	28
Mozal Aluminium	3	3	4	5	7	5	11	9	7	8
Brazil Aluminium						20	8	12	6	9
South Africa Energy Coal	50	66	114	81	65	58	97	137	115	59
Illawarra Metallurgical Coal	198	238	203	139	133	151	194	148	80	110
Australia Manganese[(a)]	14	17	42	22	70	61	75	126	135	76
South Africa Manganese[(a)]	21	17	20	40	67	95	148	63	58	11
Cerro Matoso	81	54	54	46	36	24	36	43	43	36
Cannington	28	21	24	31	34	40	45	62	39	60
Third party products										
Group and unallocated	14	10						80	1	
Total	**654**	**725**	**644**	**789**	**1,507**	**1,968**	**2,441**	**2,013**	**1,139**	**769**

(a) Manganese is reported at a 100% consolidation.

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Table A5.5: South32 s 10 year history of commodity prices

Average quoted prices

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Metallurgical coal (US$/t)[a]	125	115	98	300	257	147	244	239	159	128
Energy coal (US$/t)[b]	53.51	47.63	51.52	94.60	95.16	75.93	116.70	105.56	84.66	77.48
Aluminium (LME cash) (US$/t)	1,802	2,260	2,699	2,718	1,862	2,018	2,375	2,168	1,938	1,764
Alumina (US$/t)[c]	389	545	307	391	255	314	369	334	327	321
Manganese Alloys (US$/t)[d]	1,081	683	907	2,255	1,848	1,351	1,369	1,177	1,106	1,020
Manganese Ores (US$/dmtu)[e]	N/A	11.16	3.04	11.20	9.43	6.46	6.29	4.90	5.29	4.95
Nickel (LME cash) (US$/t)	14,947	15,498	37,809	28,506	13,294	19,357	23,942	19,335	16,380	15,168
Lead (LME Cash) (US$/t)[f]	963	1,070	1,694	2,890	1,453	2,097	2,395	2,128	2,134	2,104
Zinc (LME Cash) (US$/t)[g]	1,170	2,117	3,671	2,598	1,400	2,072	2,244	2,019	1,928	1,967
Silver (US$/oz)[h]	6.95	9.23	12.72	15.40	12.91	16.85	28.61	33.26	28.97	20.57

(a) FY2011 onwards Platts low-vol hard coking coal Index FOB Australia representative of high-quality hard coking coals. Pre-FY2011 Tex Reports Hard coking coal FOB Australia.
(b) Richards Bay Coal Terminal (RBCT) FOB (API 4).
(c) FY2012 onwards Platts PAX FOB Australia market price assessment of calcined Metallurgical/Smelter Grade Alumina. Pre-FY2012 CRU Spot FOB Australia.
(d) CRU Bulk FerroAlloy HCFeMn Western Europe DDP.
(e) FY2013 onwards Metal Bulletin manganese ore 44 per cent Mn CIF, FY2010 to FY2012 CRU CIF China import 43 per cent contained manganese. FY2007 to FY2009 CRU China spot import 45 per cent contained manganese. No credible index for CIF China pre-FY2007.
(f) Annual average of the Lead Cash Daily Official $ per Tonne Monthly Average.
(g) Annual average of Zinc Cash LME Daily Official $ per Tonne Monthly Average.

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Table A5.6: South32 s 10 year history of production volumes by Business

Total production volume	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Metallurgical coal (000 tonnes)										
Illawarra Metallurgical Coal	5,765	6,112	6,005	6,498	5,561	5,714	5,709	6,621	6,664	5,974
Energy coal (000 tonnes)										
South Africa Energy Coal[a]	54,650	51,948	51,642	45,072	29,896	30,459	34,328	33,279	31,627	30,384
Illawarra Metallurgical Coal	486	902	881	767	712	821	1,175	1,305	1,278	1,539
Alumina (000 tonnes)										
Worsley Alumina	2,813	2,763	2,956	3,035	2,924	3,054	2,902	2,917	3,675	3,916
Brazil Alumina	495	503	526	536	537	709	1,108	1,235	1,205	1,262
Aluminium (000 tonnes)										
South Africa Aluminium	851	879	898	863	801	808	808	719	761	804
Mozal Aluminium	260	262	265	257	255	259	264	264	264	266
Brazil Aluminium	176	178	177	178	177	174	174	170	154	104
Manganese ores (000 tonnes)										
Australia Manganese[b]	2,947	2,980	3,439	3,535	2,284	3,406	4,086	4,306	5,027	4,776
South Africa Manganese[b]	2,508	2,300	2,570	3,040	2,191	2,718	3,007	3,625	3,490	3,526
Manganese alloys (000 tonnes)										
Australia Manganese[b]	263	218	239	262	212	219	267	198	234	269
South Africa Manganese[b],[c]	492	350	493	513	301	364	486	404	374	377
Nickel (000 tonnes)										
Cerro Matoso	51	52	51	42	51	50	40	49	51	44
Lead (000 tonnes)										
Cannington	282	266	211	252	227	245	243	239	213	187
Zinc (000 tonnes)										
Cannington	53	69	46	61	55	63	61	55	56	58
Silver (k ounces)										
Cannington	44,030	38,447	29,105	35,485	33,367	37,276	35,225	34,208	31,062	25,161

(a) Shown on 100% basis. BHP Billiton interest in saleable production reduced to 90% during the second half of FY2013.
(b) Shown on 100% basis. BHP Billiton interest in saleable production is 60%, except Hotazel Manganese Mines which reduced to 44.4% for FY2010 onwards.
(c) Production includes Medium Carbon Ferro Manganese.

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Table A5.7: South32 s 10 year history of sales volumes by Business

Total Sales Volume	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Metallurgical coal (000 tonnes)										
Illawarra Metallurgical Coal	5,654	5,447	6,297	6,403	5,423	6,137	5,664	6,233	7,032	5,921
Energy coal (000 tonnes)										
South Africa Energy Coal										
Export	20,477	21,638	20,665	15,584	8,646	10,531	12,381	14,106	13,935	13,298
Local utility	31,281	29,956	30,255	29,225	20,795	18,679	21,308	19,172	18,008	16,330
Inland	1,230	1,033	1,051	1,274	666	198	321	448	122	
Illawarra Metallurgical Coal	346	935	931	840	718	731	1,325	1,098	1,410	1,623
Alumina (000 tonnes)										
Worsley Alumina	2,856	2,675	2,939	2,981	2,958	3,046	2,862	2,928	3,677	3,864
Brazil Alumina	524	505	529	531	523	727	1,083	1,201	1,275	1,248
Aluminium (000 tonnes)										
South Africa Aluminium										
Hillside, South Africa	682	691	693	687	707	691	652	616	667	708
Bayside, South Africa	170	165	194	177	96	110	127	97	105	96
Mozal Aluminium	264	259	260	258	270	259	277	265	264	276
Brazil Aluminium	176	178	171	181	182	180	174	163	164	104
Manganese ores (000 tonnes)										
Australia Manganese				3,726	2,167	3,632	3,960	4,428	4,578	5,063
South Africa Manganese				2,976	1,995	3,133	3,051	3,451	3,491	3,480
Manganese alloys (000 tonnes)										
Australia Manganese				237	181	257	258	229	227	276
South Africa Manganese				505	286	345	516	459	385	400
Nickel (000 tonnes)										
Cerro Matoso	50	51	51	42	51	49	42	48	52	45
Lead (000 tonnes)										
Cannington	285	265	214	241	234	246	242	237	219	189
Zinc (000 tonnes)										
Cannington	53	65	45	56	55	65	57	55	57	62

Silver (k ounces)										
Cannington	44,051	38,627	30,330	34,636	34,796	37,178	34,690	33,259	30,258	26,160

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ANNEXURE 6

INDEPENDENT COMPETENT PERSONS REPORTS

1. Boddington Bauxite Mine and Worsley Alumina Refinery SRK Consulting

2. South Africa Energy Coal Xstract Mining Consultants

3. Illawarra Coal Runge Pincock Minarco

4. Groote Eylandt Manganese Mine CSA Global

5. Hotazel Manganese Mines CSA Global

6. Cerro Matoso SRK Consulting

7. Cannington Xstract Mining Consultants

High resolution versions of the Independent Competent Persons Reports are available on BHP Billiton s website at *www.bhpbilliton.com/demerger*

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ANNEXURE 6

INDEPENDENT COMPETENT PERSONS REPORTS

1.	Boddington Bauxite Mine and Worsley Alumina Refinery	SRK Consulting

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A Competent Person s

Report and Valuation

on the Boddington Bauxite Mine

and Worsley Alumina Refinery,

Western Australia

Report Prepared for

BHP Billiton and South32 Limited

Report Prepared by

SRK Consulting (Australasia) Pty Ltd

BHP151

March 2015

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A Competent Person s Report and Valuation on the Boddington Bauxite Mine and Worsley Alumina Refinery, Western Australia

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SRK Project Number BHP151

March 2015

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Executive Summary

Introduction

Background

SRK Consulting (Australasia) Pty Ltd (**SRK**) has been commissioned by South32 Limited (**South32**) and BHP Billiton, which includes South32 Limited, BHP Billiton Limited and BHP Billiton Plc (herein after also referred to as the **Company)** to prepare a Competent Person s Report, including a Valuation (**CPR**) on BHP Billiton Worsley Alumina Pty Ltd (**BWAPL**). BHP Billiton Limited and BHP Billiton Plc are public companies (ticker; **BHP** and **BLT)** listed on the London Stock Exchange (**LSE**), the Australian Stock Exchange (**ASX**), the New York Stock Exchange **(NYSE)** and the Johannesburg Stock Exchange (**JSE**) and have an 86% holding in the Boddington Bauxite Mine (**BBM**) and Worsley Alumina Refinery (**Worsley Refinery**) in a Joint Venture with Japan Alumina Associates (Australia) Pty Ltd (**Japan Alumina**) and Sojitz Alumina Pty Ltd (**Sojitz Alumina**). Both operations are situated in Western Australia, Australia.

BHP Billiton is considering the demerger of certain aluminium, coal, manganese, nickel and silver assets (Demerger); BWAPL is part of this consideration.

The demerged assets will be held by South32. It is currently intended that South32 will be listed on the ASX and JSE, and potentially on the Official List of the United Kingdom Listing Authority (**UKLA)** (together, the Relevant Listing Authorities).

This CPR presents the following key technical information as at the Effective Date (31 December 2014):

Mineral Resource and Ore Reserve statements (the **2014 Statements (Worsley)**) reported in accordance with the terms and definitions of the JORC Code (defined below)

Ore Reserve statements (the **2014 Statements (SRK Depleted)**) reported in accordance with the terms and definitions of the JORC Code (defined below) and used as the basis for the Valuation

The associated Life of Mine plans (**LOMPs**) and associated technical and economic parameters (**TEPs**) included in the LOMPs

A Technical Valuation for the BWAPL as at 31 December 2014.

Requirement and Reporting Standard

The reporting standard adopted for the reporting of the 2014 Statements (**SRK Depleted)** for BWAPL is that defined by the terms and definitions given in ***The 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) as published by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of***

Australia . The JORC Code is an internationally recognised reporting code as defined by the Combined Reserves International Reporting Standards Committee. SRK has been informed that the JORC Code is currently adopted by the Company in respect of Mineral Resource and Ore Reserve reporting.

The reporting standard adopted for the reporting of the Valuation for BWAPL is the **Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports: The VALMIN Code (2005 Edition)** , (the **VALMIN Code 2005**).

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Reliance on SRK

The CPR is addressed to and may be relied upon by the Company, the Directors of the Company, the Shareholders of the Company and the Advisors of the Company in support of the Demerger, specifically in respect of compliance with the Requirements. SRK is responsible for this CPR and for all of the technical information in the prospectus released by the Company in connection with the Demerger and dated the same date as the CPR (the South32 Listing Documents) that has been extracted directly from this CPR. SRK declares that it has taken all reasonable care to ensure that this CPR and the technical information extracted here from and included in the South32 Listing Documents is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

SRK has no obligation or undertaking to advise any person of any development in relation to BWAPL which comes to its attention after the date of this CPR or to review, revise or update the CPR or opinion in respect of any such development occurring after the date of this CPR.

The Competent Person who has reviewed the Mineral Resources as reported by BHP Billiton is Mr Rodney Brown, BSc, MGAA, MAusIMM, MAIG, who is an employee of SRK. He is a Member of The AusIMM within the meaning of the JORC Code. Rod Brown is a mining geologist with over 25 years experience in the mining industry and has been involved in the reporting of Mineral Resources on various properties internationally during the past 20 years.

The Competent Person who has reviewed the Ore Reserves as reported by BHP Billiton is Mr Sjoerd Duim, qualifications, MSc Eng (Mining Engineering), GDip (Engineering), who is an employee of SRK. He is a Member of The AusIMM. Sjoerd Duim is a mining engineer with over 32 years experience in the mining industry and has been involved in the reporting of Ore Reserves on various properties internationally during the past 11 years.

The Competent Person and Competent Evaluator is Mr Anthony Stepcich, MSc (Mineral Economics), BEng (Mining), Grad Dip (Finance & Investment), Dip (Technical Analysis), MAusIMM(CP), who is an employee of SRK. Anthony Stepcich is a mining engineer with over 20 years experience in the mining and metals industry and has been involved in the preparation of Competent Persons Report comprising technical valuations on various mineral assets internationally during the past nine years. Anthony Stepcich assumes the responsibility for the estimates presented and has the relevant experience to be considered an Expert under the VALMIN guidelines.

Whilst SRK has exercised all due care in reviewing the supplied information, SRK does not accept responsibility for finding any errors or omissions contained therein and disclaims liability for any consequences of such errors or omissions.

SRK s assessment of BWAPL s Mineral Resources and Ore Reserves, TEP forecasts and the Valuation for BWAPL is based on information provided by the Company and BWAPL throughout the course of SRK s investigations, which in turn reflect various technical economic conditions prevailing at the date of this report. In particular, the Ore Reserves, the TEPs and the Valuation for BWAPL are based on expectations regarding the commodity prices and exchange rates prevailing at the Effective Date of this CPR. These TEPs can change significantly over relatively short periods of time. Should these change materially, the TEPs could be materially different in these changed circumstances. This CPR specifically excludes all aspects of legal issues, marketing, commercial and financing matters, insurance, land titles and usage agreements, and any other agreements and/or contracts that BWAPL may have entered into.

This CPR includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

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Review process

SRK has conducted a review (which specifically excludes independent verification by means of re-calculation) and assessment of all material technical issues likely to influence the future performance of BWAPL and the resulting TEPs which included the following:

- Inspection visits to the BWAPL s mining and processing facilities and associated infrastructure undertaken during October 2014
- Enquiry of key mine and head office personnel during Q4 2014 in respect of the BWAPL operation, the 2014 Statements (SRK Depleted), the TEPs and other related matters
- Examination of historical information for the financial reporting periods ended 30 June 2014
- Review of the 2014 Statements (Worsley) for BWAPL whilst SRK has not re-estimated the Mineral Resources and Ore Reserves, SRK has performed all necessary validation and verification procedures deemed appropriate in order to place reliance on such information
- Reporting of the 2014 Statements (SRK Depleted) based on Ore Reserve depletion adjustments to the 2014 Statements (Worsley)
- Examination, review and where appropriate modification of technical studies and LOMPs completed in respect of BWAPL and all conclusions and recommendations drawn therefrom
- Valuation of the BBM and Worsley Refinery.

SRK has also assessed the reasonableness of the macro-economic and commodity price assumptions as currently assumed in the projections for inclusion in the 2014 Statements (SRK Depleted), the TEPs and the Valuation for BBM and Worsley Refinery.

Overview of the Boddington Bauxite Mine and the Worsley Alumina Refinery

Introduction

BWAPL is an integrated bauxite mining/ alumina refining operation that includes rail and port facilities. The mine is located some 123 km south east of Perth and the refinery is situated 55 km northeast of the port of Bunbury, Western Australia. The operation opened in 1983 and the Boddington Bauxite Mine supplies bauxite ore to the Worsley Alumina Refinery via a 51 km-long conveying system. Capacity has increased from the original 1 Mtpa of alumina production to the current nameplate capacity of 4.6 Mtpa through a series of expansions. BWAPL is the operator and

ownership is held within a Joint Venture (BHP Billiton 86%, Sojitz Alumina 4% and Japan Alumina 10%). BHP Billiton s share of BWAPL s FY2014 production was 3.9 Mt of alumina.

Title and Rights

The key mining lease for the project (M70/258SA) was granted to the Worsley Joint Venture (WJV) partners on 16 August 1983 (expiry 15 August 2025). M70/258SA was granted through the *Alumina Refinery (Worsley) Agreement Act 1973* Act and covers both State Forest and privately owned land. WJV is also the holder of other supporting Mining Leases granted under the *Mining Act 1978.* WJV also has sub-leases with the Boddington Gold Mine for use of several of these mining leases. WJV also holds a sub-lease of two parts of ML1SA held by Alcoa of Australia Limited. WJV holds several General Purpose Leases for the construction of the Campsite for the project expansion. All these General Purpose Leases are current and will expire on 31 August 2019. WJV also has several Crown Leases for the Overland Conveyor and for the Refinery. The Bunbury Port Facility is situated on ground that is leased through the Bunbury Port Authority.

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Geology

The BWAPL deposits are located on the eastern flanks of the Darling Ranges approximately 100 km south-southeast of Perth in the south west of Western Australia. The bauxites have developed on the exposed Achaean basement of the Western Gneiss Terrane, which is located on the western edge of the Yilgarn Block. In the project area, the Western Gneiss Terrane is predominantly composed of granitic gneisses and migmatites, as well as the greenstones of the Saddleback Greenstone Belt. The northerly trending greenstone belt is approximately 43 km long and 5 - 12 km wide, and consists of sequences of mafic to felsic volcanics, pyroclastics, and sediments that have undergone greenschist facies metamorphism. The gneisses and greenstones have been intruded by relatively undeformed granites, and subsequently by numerous northerly trending doleritic dykes that range in thickness from 1 to 200 m. The dominant structural feature in the region is the Darling Fault, which forms the western boundary of the Western Gneiss Terrane.

In the project area, bauxite exists as irregular lenses, locally referred to as pods, within the remnant laterite. The pods are generally elongated in the NNW-SSE direction and vary in size from 1 to 200 ha. The majority of the pods contain approximately 2 million tonnes (Mt) of bauxite. The pods are generally confined to slopes where the gradient is between 5° and 10°. In steeper areas, the lateritic cover has often been removed by erosion.

Mineral Reserves and Ore Reserves

As at 31 December 2014; BWAPL had Ore Reserves of 288.5 Mt grading 31.0% available alumina ($A.Al_2O_3$). Mineral Resources are reported inclusive of Ore Reserves at a total of 1,131 Mt grading 31.4% $A.Al_2O_3$.

Mining operation

BWAPL mines the bauxite by shallow open pit mining methods from a number of open pits. The bauxite occurs in pods, close to the surface, with an ore thickness of up to 10 m.

Typically, mining operations will be from three to four active open pits simultaneously, in order to be able to blend the required Al2O3 feed grade for the Worsley Refinery. There are currently two mining areas at BBM, the Saddleback Mining Envelope (SME) and the Marradong Mining Envelope (MME).

The crushed bauxite product, after primary crushing (at Marradong or Saddleback) and secondary crushing at the Saddleback area, is transported to the Worsley Refinery near Collie, via a 2-flight cable belt overland bauxite conveyor (OBC) with a total length of 51 km. The bauxite is stockpiled at the refinery.

Alumina refinery

Worsley Refinery has been operating since 1984. In the 30 years since operations commenced, the capacity has increased from the original 1 million tonnes per annum (Mtpa) of alumina production to the current nameplate capacity of 4.6 Mtpa through a series of expansions. The most recent expansion in 2012 makes it one of the largest bauxite mining and alumina refinery operations in the world.

Bauxite is refined to alumina using the Bayer process. This process relies on the principal that aluminium is an element with a high solubility in alkaline solution, whereas most of the other elements in bauxite ore (except silica) are not. The process uses sodium hydroxide to digest (leach) alumina from the bauxite. The liquor containing dissolved alumina is separated (clarified) from residual solids before being precipitated as hydrated alumina before

being calcined at high temperature to drive off chemically bound waters of hydration to produce the final alumina product.

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Tailings storage facilities

BWAPL currently operates five bauxite residue disposal areas (BRDAs) at its refinery site. BWAPL currently produces ~4.6 Mtpa of alumina and as a result produces ~2.24 t of bauxite residue for each ton of alumina i.e. ~10.1 Mt bauxite residue is produced annually.

Environmental liabilities

In 2014, the Closure Plan was revised and the cost model updated as part of the biannual update. The current closure cost (June 2014) has an undiscounted closure cost of A$2,094M with an accounting provision estimated at A$218M.

Concluding remarks

Mineral Resources and Ore Reserves

The 2014 Statements (SRK Depleted) for BWAPL are summarised in Table ES-1 and Table ES-2.

SRK concludes that the Mineral Resources and Ore Reserves as stated herein are reported in accordance with the terms and definitions of the JORC Code (2012). Mineral Resources are reported inclusive of Ore Reserves.

Table ES-1: Mineral Resource as at 31 December 2014 (inclusive of Reserves)

	Measured Resource			Indicated Resource			Inferred Resource			Total Resource			BHPB
Ore type	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	interest
Laterite	358	31.1	1.5	355	32	2.3	418	31.2	2.6	1,131	31.4	2.2	86%

(1) $A.Al_2O_3$ available alumina reported at Worsley Design Indicated Extraction basis (WDIE)
(2) $RxSiO_2$ reactive silica reported at Worsley Design Indicated Extraction basis (WDIE)

Table ES-2: Ore Reserves as at 31 December 2014

	Proved Reserve			Probable Reserve			Total Ore Reserve		
31 December 2014	Mass Mdt	Grade AAl_2O_3	Grade $RXSiO_2$	Mass Mdt	Grade AAl_2O_3	Grade $RXSiO_2$	Mass Mdt	Grade AAl_2O_3	Grade $RXSiO_2$
Granite derived	52	31.3	2.3	2	31.2	2.5	54	31.3	2.3
Greenstone derived	214	30.1	1.4	20	30.2	1.6	234.5	30.9	1.4
Total	**266**	**31.1**	**1.6**	**22**	**30.3**	**1.7**	**288**	**31.0**	**1.6**

Valuation

The preferred Technical Value based on BWAPL s Ore Reserves is US$1.245 billion (86% holding).

This value is derived from the net present value of the after tax cash flows as determined in the financial model, assuming consensus market forecasts and a long term Alumina price of US$350/t.

This valuation is reflective of BWAPL, based on SRK s view in relation to Ore Reserves only. It is important to emphasise that this value does not represent the value of the Ore Reserves in the ground in isolation, but rather, incorporates the value of all of ungeared net assets contributing to the project based on an Ore Reserve production profile. For example, at BWAPL, this includes the value of the refinery, conveyors, truck fleet, port infrastructure as well as the mine.

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1 Introduction

1.1 Background

SRK Consulting (Australasia) Pty Ltd (**SRK**) has been commissioned by South32 Limited (**South32**) and BHP Billiton, which includes South32 Limited, BHP Billiton Limited and BHP Billiton Plc (herein after also referred to as the **Company)** to prepare a Competent Person s Report, including a Valuation (**CPR**) on BHP Billiton Worsley Alumina Pty Ltd (**BWAPL**). BHP Billiton Limited and BHP Billiton Plc are public companies (ticker; **BHP** and **BLT)** listed on the London Stock Exchange (**LSE**), the Australian Stock Exchange (**ASX**), the New York Stock Exchange **(NYSE)** and the Johannesburg Stock Exchange (**JSE**) and have an 86% holding in the Boddington Bauxite Mine (**BBM**) and Worsley Alumina Refinery (**Worsley Refinery)** in a Joint Venture with Japan Alumina Associates (Australia) Pty Ltd (**Japan Alumina)** and Sojitz Alumina Pty Ltd (**Sojitz Alumina)**. Both operations are situated in Western Australia, Australia.

BHP Billiton is considering the demerger of certain aluminium, coal, manganese, nickel and silver assets (Demerger); BWAPL is part of this consideration.

The demerged assets will be held by South32. It is currently intended that South32 will be listed on the ASX and JSE, and potentially on the Official List of the United Kingdom Listing Authority (**UKLA**) (together, the Relevant Listing Authorities).

The BWAPL operations are located in the south west of Western Australia (WA). Bauxite mining takes place in the State Forest on the eastern edge of the Darling Range, near Boddington, using shallow open pit mining methods, from a number of open pits, over extended areas.

The main tenement lease areas are the State Agreement Mining Lease 258SA (ML258SA) and a sublease area from Alcoa of Australia Ltd (Alcoa) of a portion of State Agreement Mining Lease 1SA (ML1SA). The Primary Bauxite Area (PBA) is the area where State Government environmental approval to mine bauxite has been granted. Currently, all mining operations take place inside the PBA limits. The majority of the FY2014 mining operations are in the Marradong and Saddleback areas.

BWAPL is the operator and ownership is held within a Joint Venture (BHP Billiton 86%, Sojitz Alumina 4% and Japan Alumina 10%). BHP Billiton s share of BWAPL FY2014 production was 3.9 Mt of alumina.

The Company has informed SRK that the mineral assets (the **Mineral Assets)** being the focus of the CPR are limited to the established BBM (the current Mineral Resources and Ore Reserves) and Worsley Alumina Refinery (Worsley Refinery), including the Bunbury Port Facility. The Company has advised SRK that it is not appropriate to report on any other Mineral Assets, i.e. exploration.

As at 31 December 2014, SRK, based on depletion adjustments alone, reports the following in respect of BWAPL (on a 100% basis):

Ore Reserves of approximately 288.5 Mt grading 31.0%Al^2O^3

Measured and Indicated Mineral Resources of approximately 1,131 Mt grading 31.4%Al^2O^3.

This CPR presents the following key technical information as at the Effective Date (defined below):

Mineral Resource and Ore Reserve statements (the **2014 Statements (Worsley)**) reported in accordance with the terms and definitions of the JORC Code (defined below)

Ore Reserve statements (the **2014 Statements (SRK Depleted)**) reported in accordance with the terms and definitions of the JORC Code (defined below) and used as the basis for the Valuation

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The associated Life of Mine plans (**LOMPs**) and associated technical and economic parameters (**TEPs**) included in the LOMPs

A Technical Valuation for the BWAPL as at 31 December 2014.

Certain units of measurements and technical terms defined in the JORC Code (defined below under Section 1.2.2) are defined in the list of abbreviations included at the end of this CPR.

Unless otherwise stated, all statistics presented are on a100% basis.

1.2 Reporting Compliance, Reporting Standard and Reliance

1.2.1 Reporting Compliance

SRK has been informed that the Company is required to comply with the following requirements which together comprise the **Requirements** European Securities and Markets Authority (**ESMA**); ESMA/2013/319.

1.2.2 Reporting Standard

The reporting standard adopted for the reporting of the 2014 Statements (**SRK Depleted)** for BWAPL is that defined by the terms and definitions given in ***The 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) as published by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia*** **.** The JORC Code is an internationally recognised reporting code as defined by the Combined Reserves International Reporting Standards Committee. SRK has been informed that the JORC Code is currently adopted by the Company in respect of Mineral Resource and Ore Reserve reporting.

The reporting standard adopted for the reporting of the Valuation for BWAPL is the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports: The VALMIN Code (2005 Edition) , (the VALMIN Code 2005).

1.2.3 Reliance on SRK

The CPR is addressed to and may be relied upon by the Company, the Directors of the Company, the Shareholders of the Company, and the Advisors of the Company in support of the Demerger, specifically in respect of compliance with the Requirements. Accordingly, SRK agrees that the CPR may be made available to and relied upon by the Company s various financial, legal and accounting advisors (the **Advisors)**. SRK is responsible for this CPR and for all of the technical information in the prospectus released by the Company in connection with the Demerger and dated the same date as the CPR (the **South32 Listing Documents)** that has been extracted directly from this CPR. SRK declares that it has taken all reasonable care to ensure that this CPR and the technical information extracted here from

and included in the South32 Listing Documents is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

SRK believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in this CPR. The preparation of a CPR is a complex process and does not lend itself to partial analysis or summary.

SRK has no obligation or undertaking to advise any person of any development in relation to BWAPL which comes to its attention after the date of this CPR or to review, revise or update the CPR or opinion in respect of any such development occurring after the date of this CPR.

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1.3 Base Technical Information Date, Effective Date and Publication Date

The effective date of the CPR is 31 December 2014 (the **Effective Date**). The 2014 Statements (SRK Depleted) and the Valuation have been prepared as at the Effective Date in reliance on the following:

- 2014 Statements (Worsley) as declared and published by BHP Billiton in their annual report for the year ending 30 June 2014 (the **Base Technical Information Date)**
- Adjustments made to the 2014 Mineral Resource and Ore Reserve Statements (Worsley) by SRK having conducted, inter alia, depletion and historical performance analyses and a review of any additional information dated after the Base Technical Information Date published by the Company.

As advised by the Company, as at the publication date of this CPR (the **Publication Date),** no material change has occurred since the Effective Date. This includes, *inter alia,* no material change to the 2014 Statements (SRK Depleted) or to the Valuation for BWAPL.

1.4 Verification and Validation

SRK has conducted a review (which specifically excludes independent verification by means of re-calculation) and assessment of all material technical issues likely to influence the future performance of BWAPL and the resulting TEPs which included the following:

- Inspection visits to the BWAPL s mining and processing facilities and associated infrastructure undertaken by Rodney Brown, Sjoerd Duim, Simon Walsh and Peter Smith for a total of two days during the week commencing 20 October 2014
- Enquiry of key mine and head office personnel during Q4 2014 in respect of the BWAPL operation, the 2014 Statements (SRK Depleted), the TEPs and other related matters
- Examination of historical information for the financial reporting periods ended 30 June 2014
- Review of the 2014 Statements (Worsley) for BWAPL whilst SRK has not re-estimated the Mineral Resources and Ore Reserves, SRK has performed all necessary validation and verification procedures deemed appropriate in order to place reliance on such information
- Reporting of the 2014 Statements (SRK Depleted) based on Ore Reserve depletion adjustments to the 2014 Statements (Worsley)

- Examination, review and where appropriate modification of technical studies and LOMPs completed in respect of BWAPL and all conclusions and recommendations drawn therefrom

- Valuation of the Boddington Bauxite Mine and Worsley Refinery.

SRK has also assessed the reasonableness of the macro-economic and commodity price assumptions as currently assumed in the projections for inclusion in the 2014 Statements (SRK Depleted), the TEPs and the Valuation for BBM and Worsley Refinery.

Accordingly, the Company and BWAPL have provided technical data to SRK for the purpose of this review and inclusion in the CPR. SRK confirms that it has performed all necessary validation and verification procedures deemed necessary and/or appropriate by SRK in order to place an appropriate level of reliance on such technical information.

In presenting the 2014 Statements (SRK Depleted), the TEPs and the Valuation for BBM and Worsley Refinery in this CPR, the following applies:

- Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Ore Reserves, i.e. they are reported on an inclusive basis

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Commodity long-term price (**LTP**) assumptions of US$350/t Alumina for the valuation of Ore Reserves

Consensus market forecasts (**CMF**) which currently project a range of US$340-335/t Alumina

SRK has not included any consideration of Inferred Mineral Resources in determining the Valuation for BBM and Worsley Refinery. The exclusion of these sources of potential value, as well as the exclusion of a premium or discount related to market, strategic or other considerations means that the Valuation does not reflect a Fair Market Value.

1.5 Limitations, Reliance on Information, Declaration, Consent and Cautionary Statements

1.5.1 Limitations

Ore Reserve estimates are based on many factors, including in this case, data with respect to drilling and sampling. Ore Reserves are derived from estimates of future technical factors, operating and capital expenditures, product prices and the exchange rate between the various currencies and the United States dollar (US$). The Ore Reserve estimates contained in this report should not be interpreted as assurances of the economic life of BWAPL. As Ore Reserves are estimates based on the factors and assumptions described herein, future Ore Reserve estimates may need to be revised. For example, if production costs increase or product prices decrease, a portion of the current Mineral Resources, from which the Ore Reserves are derived, may become uneconomical to recover and would therefore result in lower estimated Ore Reserves. Furthermore, should any of the assumed factors change, the 2014 Statements (SRK Depleted), the TEPs and the Valuation for BWAPL as reported herein, may need to be revised and may well result in lower estimates. The 2014 Statements (SRK Depleted), the TEPs and the Valuation for BBM and Worsley Refinery include a number of forward-looking statements. These forward-looking statements are estimates and involve a number of risks and uncertainties that could cause, actual results, to differ materially.

The achievability of the projections of TEPs as included in this CPR and incorporated into the Valuation for BWAPL is neither warranted nor guaranteed by SRK. The projections as presented and discussed herein have been proposed by BWAPL s management and adjusted where appropriate by SRK, and cannot be assured; they are necessarily based on economic assumptions, many of which are beyond the control of the Company and BWAPL. Future cash flows and profits derived from such forecasts are inherently uncertain and actual results may be significantly more or less favourable. Unless otherwise expressly stated, all the opinions and conclusions expressed in this CPR are those of SRK.

1.5.2 Reliance on information

SRK has relied upon the accuracy and completeness of technical, financial and legal information and data:

Furnished by or through the Company, including information and data originating with BWAPL

In respect of all aspects relating to BWAPL, publicly available information published by BHP Billiton from time to time, including and not limited to any Mineral Resource and Ore Reserve statements and any technical studies contained in such information or data.

The Company has confirmed to SRK that, to its knowledge, the information provided by it (when provided) was complete and not incorrect or misleading in any material respect. SRK has no reason to believe that any material facts have been withheld.

Whilst SRK has exercised all due care in reviewing the supplied information, SRK does not accept responsibility for finding any errors or omissions contained therein and disclaims liability for any consequences of such errors or omissions.

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SRK s assessment of BWAPL s Mineral Resources and Ore Reserves, TEP forecasts and the Valuation for BWAPL is based on information provided by the Company and BWAPL throughout the course of SRK s investigations, which in turn reflect various technical economic conditions prevailing at the date of this report. In particular, the Ore Reserves, the TEPs and the Valuation for BWAPL are based on expectations regarding the commodity prices and exchange rates prevailing at the Effective Date of this CPR. These TEPs can change significantly over relatively short periods of time. Should these change materially, the TEPs could be materially different in these changed circumstances. This CPR specifically excludes all aspects of legal issues, marketing, commercial and financing matters, insurance, land titles and usage agreements, and any other agreements and/or contracts that BWAPL may have entered into.

This CPR includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

1.5.3 Declaration

SRK will receive a fee for the preparation of this report in accordance with normal professional consulting practice. This fee is not dependent on the findings of this CPR and SRK will receive no other benefit for the preparation of this CPR. SRK does not have any pecuniary or other interests that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Ore Reserves, the TEPs, the Valuation for BWAPL and the projections and assumptions included in the various technical studies completed by BWAPL, opined upon by SRK and reported herein. Neither SRK, the Competent Persons (identified under Section 1.6) nor the Competent Evaluator (identified under Section 1.6) who are responsible for authoring this CPR, have had within the previous two years, any shareholding in the Company, (except as detailed below), or any other economic or beneficial interest (present or contingent) in any of the assets being reported on. SRK is not a group, holding or associated company of the Company. None of SRK s principals or officers are officers or proposed officers of any group, holding or associated company of the Company. Further, no Competent Person or Competent Evaluator involved in the preparation of this CPR is an officer, employee or proposed officer of the Company or any group, holding or associated company of the Company.

Consequently, SRK, the Competent Persons and Competent Evaluator and the Directors of SRK consider themselves to be independent of the Company, its directors, senior management and Advisors. In this CPR, SRK provides assurances to the Board of Directors of the Company, in compliance with the Requirements and specifically the Reporting Standard that the Ore Reserves, the TEPs, including production profiles, operating expenditures and capital expenditures of BWAPL as provided to SRK by the Company and reviewed, and where appropriate, modified by SRK are reasonable, given the information currently available.

SRK declares that at the time of reporting, the following Competent Persons held personal shareholdings in BHP Billiton:

Rodney Brown: 1,100 shares.

1.5.4 Consent

SRK has given and has not withdrawn its written consent to the inclusion in the South32 Listing Document of this CPR.

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1.6 Qualifications of Consultants, Competent Persons and Competent Evaluators

SRK is an associate company of the international group holding company SRK (Global) Limited. The SRK Group comprises over 1,500 staff, offering expertise in a wide range of resource engineering disciplines with 50 offices located on six continents. The SRK Group s independence is ensured by the fact that it holds no equity in any project. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgement issues. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, Mineral Experts Reports, Competent Person s Reports, Mineral Resource and Ore Reserve Compliance Audits, Independent Valuation Reports and Independent Feasibility Evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group has also worked with a large number of major international mining companies and their projects, providing mining industry consultancy service inputs.

SRK also has specific experience in commissions of this nature.

This CPR has been prepared based on a technical and economic review by a team of 11 consultants and associates sourced from the SRK offices in Australia over a 2-month period. These consultants are specialists in the fields of geology, resource and reserve estimation and classification, open-pit mining, geotechnical engineering, mineral processing, hydrogeology and hydrology, tailings management, infrastructure, environmental management and mineral asset technical valuation.

Rod Brown, Sjoerd Duim, Simon Walsh and Peter Smith visited the site for a total of two days during the week commencing 20 October 2014.

Rodney Brown, BSc, MGAA, MAusIMM, MAIG Geology and Mineral Resources

Sjoerd Duim, MSc Eng (Mining Engineering), GDip (Engineering), MAusIMM Mining and Ore Reserves

Ian de Bruyn, BSc Hons (Engineering Geology), Pr.Sci.Nat., MAusIMM Geotechnical engineering

Ewan Wilson, PhD (Groundwater Management), MAusIMM Hydrology

David Western, MSc (Hydrogeology), MIAH, MAusIMM, MIMWA, MAWA Hydrogeology

Simon Walsh, BSc (Extractive Metallurgy & Chemistry), MBA, MAusIMM, GAICD Metallurgical processing

Dave Luppnow, BSc (Civil Engineering), PE (Washington) Tailings

Peter Smith, BSc (Environmental Sciences), Environmental; GDip Course (Advanced Environmental Management and Environmental Impact Assessment), MAusIMM Environmental

Luke Esprey, PhD (Modelling), Pr.Sci.Nat., MAusIMM Closure Cost Estimate

Anthony Stepcich, BEng, MSc, GDip (Finance & Investment), Dip (Technical Analysis), MAusIMM(CP) Technical valuation

Peter Fairfield, BEng (Mining), FAusIMM CPR review.

The Competent Person who has reviewed the Mineral Resources as reported by BHP Billiton is Mr Rodney Brown, BSc, MGAA, MAusIMM, MAIG, who is an employee of SRK. He is a Member of The AusIMM within the meaning of the JORC Code. Rod Brown is a mining geologist with over 25 years experience in the mining industry and has been involved in the reporting of Mineral Resources on various properties internationally during the past 20 years.

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The Competent Person who has reviewed the Ore Reserves as reported by BHP Billiton is Mr Sjoerd Duim, qualifications, MSc Eng (Mining Engineering), GDip (Engineering), who is an employee of SRK. He is a Member of the The AusIMM. Sjoerd Duim is a mining engineer with over 32 years experience in the mining industry and has been involved in the reporting of Ore Reserves on various properties internationally during the past 11 years.

The Competent Person and Competent Evaluator is Mr Anthony Stepcich, MSc (Mineral Economics), BEng (Mining), Grad Dip (Finance & Investment), Dip (Technical Analysis), MAusIMM(CP), who is an employee of SRK. Anthony Stepcich is a mining engineer with over 21 years experience in the mining and metals industry and has been involved in the preparation of Competent Persons Reports comprising technical valuations on various mineral assets internationally during the past nine years. Anthony Stepcich assumes the responsibility for the estimates presented and has the relevant experience to be considered an Expert under the VALMIN guidelines. Mr Stepcich did not visit site and has relied on site visit reports of the SRK specialists who visited the site and carried out the technical review.

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2 Overview

2.1 Property description

BWAPL is an integrated bauxite mining/alumina refining operation that includes rail and port facilities. The mine is located some 123 km south east of Perth and the refinery is situated 55 km northeast of the port of Bunbury, Western Australia. The operation opened in 1983 and the Boddington Bauxite Mine supplies bauxite ore to the Worsley Alumina Refinery via a 51 km-long conveying system. Capacity has increased from the original 1 Mtpa of alumina production to the current nameplate capacity of 4.6 Mtpa through a series of expansions. BWAPL is the operator and ownership is held within a Joint Venture (BHP Billiton 86%, Sojitz Alumina 4% and Japan Alumina 10%). BHP Billiton s share of BWAPL FY2014 production was 3.9 Mt of alumina.

2.2 Property rights

The status of land tenure is as follows:

Mining Lease (M70/258SA) was granted to the Worsley Joint Venture (WJV) Partners on 16 August 1983 (expires 15 August 2025). M70/258SA was granted through the Agreement Act and covers both State Forest and privately owned land. There are no annual reporting requirements under M70/258SA.

WJV is the holder of mining leases M70/110, M70/111, M70/112, M70/113, M70/114, M70/115 and M70/116. There are no specific tenement conditions in these mining leases that relate to environmental management and reporting.

WJV is also the holder of mining leases M70/21, M70/22, M70/23, M70/24, M70/25, M70/554, M70/564, M70/799 and M70/976. There are tenement conditions in these mining leases that pertain to environmental management and reporting, and mine closure plans. WJVs has sub-leases with the Boddington Gold Mine for use of the above mining leases (i.e. through the Restated Cross Operation Agreement [RCOA], dated 30 September 2002). The tenement conditions that pertain to environmental management and reporting, and mine closure plans, all relate to the Boddington Gold Mine.

WJV also holds sub-leases of two parts excised from ML1SA held by Alcoa of Australia Limited. These sub-leases are covered under the Deed of Sublease between Alcoa of Australia Limited and BWAPL (dated 14 February 2001), and the Deed of Sublease between Alcoa of Australia Limited and BWAPL (dated 31 August 2001).

WJVs holds Exploration Licence E70/710 (granted 16 January 1989, expiry 15 January 1997). SRK notes that E70/710 is recorded being Live (i.e. not expired) on the Department of Mines and Petroleum (DMP) database.

WJV also holds several General Purpose Leases for the construction of the Campsite for the project expansion. All these General Purpose Leases are current and will expire on 31 August 2019. The tenement conditions contain only general environmental provisions, and there are no annual environmental reporting requirements.

WJV also has Crown Leases granted under the Agreement Act for the Overland Conveyor (CL19/1986, LR3149/678, LR3149/679, LR3149/680, LR3149/681, LR3149/682, LR3149/683, LR3149/684, LR3149/685, LR3150/736 and LR3150/738), and for the Refinery (LR3080/471, LR3080/472, LR3080/473, and LR3080/474).

The Port is situated on lease (LR3115/503) leased through the Bunbury Port Authority.

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2.3 Environmental Permits and Approvals

BWAPL has current key environmental approvals and permits in line with the relevant Australian Federal and WA State environmental legislative requirements.

The status of the project s environmental approvals and permits is outlined below:

Federal Environmental Approvals

Native Title Act 1993 (Native Title Act): There is no Native Title Agreement for the project. However, there is a Native Title Claim covering the general project area and surrounds the Gnaala Karla Booja Native Title Claim. This Native Title Claim is included in the WA South West Native Title Settlement being negotiated by the WA Government. BWAPL has stated that there are no current or anticipated impacts / risks to the project from this Native Title Claim, and that the mining leases that are located on private property are not subject to any Native Claim.

Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act): Approval for the Worsley Alumina Project Expansion under the EPBC Act (EPBC 2004/1566) was issued by Minister for the Environment and Heritage on 6 June 2007.

WA State Agreement Act

Alumina Refinery (Worsley) Agreement Act 1973 (Agreement Act): This Agreement Act was established in 1973 and is the main State project approval and regulatory instrument. It covers the Mine, Overland Conveyor, Refinery and Port Facilities. The key environmental provisions within the Agreement Act are the obligations for the implementation of EP Act Part IV approval commitments and annual environmental reporting.

Extension of the Overland Conveyor (i.e. Plan Z Amendment): On 27 October 2009, the WA Minister for State Development granted approval under the Agreement Act for the extension of the Overland Conveyor.

WA State Environmental Approvals and Permits

Environmental Protection Act 1986 (EP Act) Part IV The Worsley Alumina Project Expansion was approved under Part IV of the EP Act through Ministerial Statement 719 (MS719) which was issued by the WA Minister of Environment on 13 April 2006. MS719 includes seven attachments for project non-substantial changes undertaken from 2007 to 2012. MS719 provides approval to mine within the designated PBA and provides for future mining outside of the PBA. Ministerial Statement 751 as a result of a 546 application against MS179 has also been granted.

EP Act Part V; the following have been issued under Part V of the EP Act:

Works Approvals (2) for construction and commissioning of the power generation facility and infrastructure for increased production capacity, and the multi-fuel cogeneration boiler (both expire on 14 August 2015).

Environmental Licences (2) the Mine licence (L5960/1983/11 expires 30 September 2019) and Refinery licence (L4504/1981/16 - expires 30 September 2015).

Environmental Registration (No. 1859) for the port facility (no expiry).

Native Vegetation Clearing Permits (2) Area Permit 4481/1 for the clearing of 5.04 hectares (ha) of native vegetation within M70/258SA (expires 1 October 2016), and Purpose Permit 4331/1 for the clearing of 2.71 ha native vegetation for purpose of infrastructure maintenance on the Overland Conveyor (expires 25 July 2016).

Rights in Water and Irrigation Act 1914 (RIWI Act):

BWAPL holds a current licence to take water (surface water) No. SWL68041(4), which was issued on 26 April 2013 (expires 8 October 2018). This licence authorises BWAPL to take 5,400,000 kilolitres (kL) per year from the freshwater lake at the refinery.

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Groundwater is extracted at the mine through several groundwater bores which are not required to be licenced under the RIWI Act, as the mine is not located within a proclaimed groundwater resource area.

Aboriginal Heritage Act 1972 (AH Act) To date, there has been no requirement for the approval under the AH Act to disturb an Aboriginal heritage site. BWAPL has, through the completion of Aboriginal heritage sites surveys for the project area, identified all Aboriginal heritage sites of significance and these have been protected from disturbance.

Mining Rehabilitation Fund Act 2012 (MRF Act):

BWAPL is not required to make MRF Act submissions and payments for the project mining lease M70/258SA (i.e. as mining leases issued under State Agreement are exempt from making levy payments under the MRF Act).

BWAPL is required to make MRF Act submissions and payments for the mining leases it holds and the leases that are subleased by the Boddington Gold Mine. BWAPL has submitted to DMP the 2014 summary of areas of disturbance as required under the MRF Act and paid the required fee (A$17,686). Newmont Asia Pacific has made the 2014 MRF Act levy payments to the DMP on behalf of BWAPL for the subleased areas. SRK has sighted an email from Newmont Asia Pacific to BWAPL that confirms three MRF Act levy payments were made to the DMP on 17 July 2014 (i.e. for the amounts of A$24,089, A$1,172,142 and A$111,579).

SRK has also sighted an email from the DMP dated 27 September 2014 confirming that Unconditional Performance Bonds for the mining leases that are sub-leased by the Boddington Gold Mine have been retired. Unconditional performance bonds for Worsley-operated tenements M70/116 and M70/114 have also been retired.

Dangerous Goods Safety Act 2004 (DGS Act) There are two current dangerous goods licences for the Refinery. (Licence No.DGS009760) was issued on 19 April 2012 (expires 19 April 2017) and covers the storage of fuel and chemical reagents; and Licence DGS012436, was issued 18 June 2012 (expiry 23 June 2016) and covers the storage of sodium hydroxide solution. The current dangerous goods licence for the Mine (Licence DGS009772) was issued on 23 April 2012 (expiry 27 April 2016), and covers the storage of diesel fuel. The current explosive storage licence for the mine (Licence No.ETS002343) was issued on the 17 June 2012 (expires 18 June 2019).

Mining Act 1978 (Mining Act) The BWAPL does not require environmental approval under the Mining Act. However, BWAPL has utilised relevant technical guidelines produced by the DMP in relation to factors such

as closure planning and rehabilitation.

Contaminated Sites Act 2003 (CS Act) The BWAPL is required under the CS Act to report known and/or suspected contaminated sites to the Department of Environment Regulation (DER). To meet this obligation, BWAPL has developed a Contaminated Sites Reporting Strategy and has submitted a Preliminary Site Investigation report to the DER (Section 13.6).

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3 Geology and Resource

The June 2014 Competent Person s Report for BWAPL (BWAPL, 2014), was used as the primary source of information for this review. This was supplemented by site visit observations, discussions with BWAPL personnel, the main resource modelling files, and ancillary study reports. The review focused on the main components that can impact upon the reliability of the resource estimates, namely the geological model, the data acquisition program, and the resource estimation techniques and parameters.

Rod Brown visited the Worsley Refinery site on 22 and 23 October 2014. The site visit included discussions with site personnel, inspection of the mining operation, and inspection of the Marradong and Saddleback crushing facilities.

3.1 Mineral Resource

The Mineral Resource provided by BWAPL declares the combined resources for 10 separate regions within their Darling Range lease area. The total Mineral Resource is summarised in Table 3-1. A location plan showing the individual resource regions is presented in Figure 3-1.

The cut-off grade parameters that have been used for the preparation and the reporting of the resource estimates are based on achieving the available alumina ($A.Al_2O_3$) and reactive silica ($R.SiO_2$) grade specifications requested by the refinery. The parameters used for bauxites, that have developed on granites, differ from those used for bauxites, that have developed on greenstone.

Greenstone (Marradong, Saddleback, Hotham North):

Gravel: > 29.5% $A.Al_2O_3$ and < 3.0% $R.SiO_2$

Other Domains: > 24.0% $A.Al_2O_3$ and < 3.0% $R.SiO_2$.

Granite (Brookton, Collie, Collie East, Collie South, Hotham West, Mid-Central, Southern):

Gravel: > 29.5% $A.Al_2O_3$ and < 4.5% $R.SiO_2$

Other Domains: > 28.0% $A.Al_2O_3$ and < 4.5% $R.SiO_2$.

The above grades are based on WDIE analyses, except for greenstone $R.SiO_2$, which are based on Worsley Laboratory Available Alumina (WLAA). These analytical techniques were developed by BWAPL and are described in Section 3.4.3.

Table 3-1: Mineral Resource as at 30 June 2014 (inclusive of Reserves)

Ore type	Measured Resource			Indicated Resource			Inferred Resource			Total Resource			BHPB interest
	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	
Laterite	366	31.1	1.5	355	32	2.3	418	31.2	2.6	1,140	31.4	2.2	86%

(1) $A.AI_2O_3$ available alumina reported at Worsley Design Indicated Extraction basis (WDIE)
(2) $RxSiO_2$ reactive silica reported at Worsley Design Indicated Extraction basis (WDIE)
The Mineral Resource is reported at a variable cut-off grade of 24-29.5% $A.AI_2O_3$ (WDIE basis) and a minimal 1 m laterite profile thickness.

The FY2014 reported Mineral Resource is significantly different from the FY2013 statement mainly due to:

Mining depletion from Marradong and Saddleback areas: -14 million dry metric tonnes (Mdt)

Model update of Hotham North: +17 Mdt

Changes to Resource model methodology of Brookton, Collie East, Collie (Worsley), Collie South, Hotham West, Mid-Central, Southern ML258SA: +166 Mdt

Sterilisation and re-evaluation of exercise rules: -2 Mdt.

Source: BWAPL (2014)

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3.2 Mineral Resource (SRK Depleted)

Based on the Mineral Resource (Worsley), SRK has prepared a Mineral Resource (SRK Depleted) as at 31 December 2014, as detailed in Table 3-2.

Table 3-2: Mineral Resources as at 31 December 2014 (inclusive of Reserves)

Ore	Measured Resource			Indicated Resource			Inferred Resource			Total Resource			BHPB
type	Mdt	A.Al_2O_3[1]	RxSiO_2[2]	Mdt	A.Al_2O_3[1]	RxSiO_2[2]	Mdt	A.Al_2O_3[1]	RxSiO_2[2]	Mdt	A.Al_2O_3[1]	RxSiO_2[2]	interest
Laterite	358	31.1	1.5	355	32	2.3	418	31.2	2.6	1,131	31.4	2.2	86%

The Mineral Resource Inventory forecast as of 31 December 2014 is based on the following depletions from the 30 June 2014 Resource Inventory:

Actual Measured Resource depletion from July to October 2014: 4.8 Mt @ 32.3% A.Al_2O_3; and 1.2% RxSiO_2

Forecast Measured Resource depletion from November to December 2014: 2.9 Mt @ 30.3% A.Al_2O_3 and 1.5% RxSiO_2.

Note:

This report includes information on Mineral Resources (inclusive of Ore Reserves) as reported by J Binoir (MAusIMM) and J Engelbrecht (MAusIMM). The information is extracted from the report titled BHP Billiton 2014 Annual Report and is available to view on www.bhpbilliton.com.

All Competent Persons are full-time employees of BHP Billiton at the time of reporting and have the required qualifications and experience to qualify as Competent Persons for Mineral Resources under the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). The Competent Persons verify that the report is based on and fairly reflects the Mineral Resources information in the supporting documentation and agree with the form and context of the information presented.

BHP Billiton confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. BHP Billiton confirms that the form and context in which the Competent Persons findings are presented have not been materially modified from the original market announcements.

The Mineral Resources breakdown by classification (100% basis) are contained in Table 3-1. All tonnes and quality information has been rounded, hence small differences may be present in the totals.

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Figure 3-1: BWAPL Resource regions

Source: BWAPL (2014)

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3.3 Geological Setting

3.3.1 Regional Geology

The BWAPL deposits are located on the eastern flanks of the Darling Ranges approximately 100 km south-southeast of Perth in the south west of Western Australia. The bauxites have developed on the exposed Achaean basement of the Western Gneiss Terrane, which is located on the western edge of the Yilgarn Block. In the project area, the Western Gneiss Terrane is predominantly composed of granitic gneisses and migmatites, as well as the greenstones of the Saddleback Greenstone Belt. The northerly trending greenstone belt is approximately 43 km long and 5 12 km wide, and consists of sequences of mafic to felsic volcanics, pyroclastics, and sediments that have undergone greenschist facies metamorphism. The gneisses and greenstones have been intruded by relatively undeformed granites, and subsequently by numerous northerly trending doleritic dykes that range in thickness from 1 to 200 m. The dominant structural feature in the region is the Darling Fault, which forms the western boundary of the Western Gneiss Terrane.

The bauxites are thought to have formed from the lateritisation of the peneplained surface of the Western Gneiss Terrane rocks. Lateritisation is thought to have commenced during the Cretaceous and continued through to the Eocene. Subsequent periodic activity of the Darling Fault resulted in the current landform of scarps and deeply incised valleys on the western edge of the Darling Range. To the east, where the BWAPL deposits are located, the topography is more subdued, consisting of wide valleys and low hills separated by numerous minor streams. Remnant laterite occurs on the tops and flanks of these hills.

In the project area, bauxite exists as irregular lenses, locally referred to as ***pods,*** within the remnant laterite. The pods are generally elongated in the NNW-SSE direction and vary in size from 1 to 200 ha. The majority of the pods contain approximately 2 million tonnes (Mt) of bauxite. The pods are generally confined to slopes where the gradient is between 5° and 10°. In steeper areas, the lateritic cover has often been removed by erosion. In areas where the slope gradients are less than 5°, sub-surface water flow is usually insufficient to promote the removal for the soluble silicate materials. The material in these areas often has a high clay content and is usually not economically viable.

A summary description of the bauxite occurrences in the 10 project regions is shown in Table 3-3.

Table 3-3: Summary of bauxite deposits

Brookton	Discontinuous mineralisation over an area covering 20 km northwest / southeast and 12 km northeast / southwest. The total profile depth from surface, varies from 1 m to a maximum of 14 m, but is generally only a few metres thick.
Collie East	Discontinuous mineralisation over an area covering 20 km north / south and 30 km east / west. Total thickness ranges from <1 m up to 16 m with an average thickness of 2.3 m.
Collie (Worsley)	Discontinuous mineralisation over an area covering 15 km north / south and 17 km east / west. Total thickness ranges from <1 m up to 10 m with an average thickness of 1.9 m.
Collie South	Discontinuous mineralisation over an area covering 17 km north / south and 15 km east / west. Total thickness ranges from <1m up to 12 m with an average thickness of 2.2 m.

Hotham North	Discontinuous mineralisation over an area covering 20 km north / south and 14 km east / west Total thickness ranges from <1 m up to 27 m with an average thickness of 5.4 m.
Hotham West	Discontinuous mineralisation over an area covering 6 km north / south and 3 km east / west. Total thickness is up to 25 m but generally is roughly 5-6 m.

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Marradong	Discontinuous mineralisation over an area covering 8 km north / south and 8 km east / west. Total thickness ranges from <1 m up to 30 m with an average thickness of 7.4 m.
Mid-Central	Discontinuous mineralisation over an area covering 45 km north / south and 30 km east / west. Total thickness ranges from <1 m up to 13 m with an average thickness of 3 m.
Saddleback	Discontinuous mineralisation over an area covering 19 km northwest / southeast and 10 km northeast / southwest. Total thickness ranges from <1 m up to 32 m with an average thickness of 7.3 m.
Southern MLA258SA	Hotham South covers and area is approximately 14 km north / south and between 5 km and 10 km east /west although mineralisation is discontinuous over this area. Williams South strikes roughly northwest over a distance of approximately 7 km. In the northeast direction, mineralisation stretched up to 2 km. Morgan covers to w areas with dimensions 6 km north / south and 4 km east / west as well as 6 km northwest / southeast and 2 km northeast / southwest. Mineralisation occurs from surface to depths <1 m and up to 11 m but general is only a few metres thick.

3.3.2 Bauxite characteristics

In the project area, bauxites have developed on the meta-basalts that comprise the Saddleback Greenstone Belt as well as on the surrounding granites. The bauxites that have formed on greenstone are usually thicker, higher in iron and sulphate, but lower in silica and organic carbon compared to the bauxites that have formed on granite. However, in general, the bauxite profile is similar across the project area, and typically comprises the horizons described below. Dolerite is not part of the lateritic profile, but it cuts the sequence and is included in the list below for completeness. A schematic depiction of the layers is presented in Figure 3-2.

Topsoil. A mix of humus, sandy loam and gravel, which is typically 0.1 m thick.

Lateritic Gravel. Unconsolidated iron rich pisoliths and gravels in a sandy or silty matrix generally between 0 and 2 m thick.

Hardcap. A ferruginous and bauxitic indurated laterite consisting of cemented angular fragments and / or pisoliths. The dominant minerals are gibbsite, hematite and goethite, with lesser amounts of quartz, maghemite and kaolinite also present. The hardcap is typically 3 m thick over greenstone and 1 m thick over granite.

Bauxite Zone. (B zone). A friable, unconsolidated, yellow-brown to red-brown bauxitic layer in which the original rock textures have been destroyed. The dominant minerals are gibbsite, goethite and hematite, with minor kaolinite and trace illite. The horizon is often referred to as the *B-zone*, and is generally between 1 and 8 m thick.

Clay Zone. Kaolinite clays with variable degrees of ferruginisation, silicification and kaolinisation. Relict bedrock textures and quartz veins are common. The dominant minerals are kaolinite, mica or illite, kaolinite-halloysite, quartz and phyllosillicates. The Clay Zone is generally 10 30 m thick.

Lower Saprolite. A transitional zone between fresh bedrock and the overlying clay zone. This zone is typified by partially weathered bedrock fragments in a clay matrix. It is often referred to as basement in the geological logs.

Dolerite. The dykes range in breadth from several to over 100 m wide. These are not bauxitised, and in places have acted as impediments to drainage. As a consequence, proximal bauxite on the upslope side of dykes often reports elevated reactive silica concentrations.

With the exception of the top of the Hardcap, most contacts are transitional, although the thickness of the transition zone can vary markedly. The dominant minerals are gibbsite, kaolinite, quartz, hematite and goethite. Elevated concentrations of organic carbon occur in the upper parts of the profile. These are monitored in the feed (expressed as oxalate) because of the adverse effect on refining. In general, boehmite occurs in trace concentrations only. It is thought to have formed from the dehydration of gibbsite during periodic wildfire activity and is typically confined to the upper parts of the profile. Some available alumina is also thought to occur as alumino-goethite, and some partially reactive silica is thought to exist in an amorphous form.

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The deposits are described as lateritic bauxites. Compared to many mined lateritic bauxites, they report relatively low total and available alumina, low reactive silica, high quartz grades and, apart from organic carbon, few contaminant minerals.

Figure 3-2: Typical profile of Darling Range bauxite

Source: BWAPL (2014)

3.4 Data acquisition

BWAPL has used similar data acquisition techniques for the delineation of resources in all of the regions included in the resource inventory and, unless otherwise stated, the commentary below applies to all of the individual resource estimates.

3.4.1 Exploration history

The economic viability of Darling Range bauxite was recognised in the late 1950s, and numerous exploration programs have been conducted by several companies since then. The majority of the early programs were conducted by Alwest Pty Ltd. In 1978, management transferred to Reynolds with the formation of the Worsley Alumina joint venture and the commencement of mine and refinery design. Production of alumina commenced in 1984.

The current databases that have been used to prepare the resource estimates still contain some legacy data from the early Alwest and Reynolds (later Alcoa) programs, but the majority of the data have been collected by BWAPL since 1993. Table 3-4 presents a summary of the numbers of drillholes used for resource estimation, grouped according to period.

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Table 3-4: Drillhole quantities used for Resource Estimation

Region	pre 1993	1993 2006	2007 - 2014
Saddleback	35035	50341	9003
Marradong	2220	3123	20799
Hotham North	7844	4283	3057
Collie	392	5456	21426
Hotham South	24	1119	408
Hotham West	81	148	812
MCE Bannister	240	7043	7467
MCE Brookton	89	912	2815

3.4.2 Sample spacing and collection

Prospective areas are determined from regional reconnaissance drilling, or by identifying areas with suitable topographical and floral characteristics. The regional mapping of hardcap exposures is not routinely practiced. Prospective areas are drilled on a 200 x 200 m grid pattern. The wide-spaced drilling is conducted prior to any clearing and development operations, and to date has been limited to the summer months. Subsequent infill drilling is then conducted in prospective areas using 100, 70, 50 and 25 metre square and quincunx patterns.

Open-hole drilling is conducted using a fleet of Edson 2000 tractor-mounted vacuum drill rigs. The drills are equipped with 50 mm diameter bladed bits and the sample is extracted using vacuum to draw the sample from the cutting bit through the hollow drill rods into a collection flask. Sampling commenced at the base of the overburden soils and was terminated when either clay or basement material was encountered. Wet holes were abandoned and redrilled at a later date. Samples were collected on nominal intervals of either 0.5 m or 1.0 m, and typically weighed between 2 and 4 kg. There has been little change to the drilling techniques in the past 40 years. Similar equipment is used on other Darling Range mines, and in the local industry it is widely considered as being fit for purpose.

A cone splitter was used to collect a split weighing approximately 500 g. Prior to 2004, riffle splitters were used for this purpose. The drillers complete a basic geological log for each hole. The information from these logs was used to determine the position of the Hardcap and B Zone base. Since the start of 2014, the driller has recorded an estimate of the sample recovery for each interval. BWAPL reports recoveries ranging from 50 - 200%, with an average of approximately 175%. This significant amount of oversampling is likely due to belling of the hole walls when drilling through friable zones. The expected impact on sample quality is discussed in Section 3.11

3.4.3 Sample preparation and analysis

Detailed descriptions of the sample preparation and analytical procedures that were used prior to 1993 are not available, but BWAPL reports that they are understood to be similar to their current practices, which are summarised in the flowchart presented in Figure 3-3.

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Figure 3-3: Sample preparation and analysis flowchart

Source: BWAPL (2014)

For bauxite projects, bomb digest tests are often performed to provide an estimate of the amount of alumina that will be recovered in the Bayer refining process and the amount of silica that will react with and consume caustic soda. These quantities are referred to as available alumina ($A.Al_2O_3$) and reactive silica ($R.SiO_2$) respectively. For low temperature digestion, $A.Al_2O_3$ is largely determined by the gibbsite content and $R.SiO_2$ by the kaolin content.

Bomb digest tests are partial extraction techniques, with the results strongly dependent on the test parameters, particularly temperature and caustic concentration. The resource database contains results acquired using three different protocols, which have been performed by a number of commercial laboratories since the commencement of the project. Genalysis (Perth) is currently used as the primary laboratory.

Prior to 2001, bomb digests were performed using the American Bayer Extractable Alumina (ABEA) method. In 2001, the procedure was changed to the Worsley Design Indicated Extraction (WDIE) method in an attempt to better match the refinery operating conditions. WDIE uses a larger sample (2 g compared to 1 g), a higher temperature (175°C compared to 145°C), a stronger caustic concentration (12.6% wet weight compared to 8.0%), and a longer digestion time (30 minutes compared to 20 minutes).

As reconciliation data became available for the resources estimated using WDIE data, it was observed that the WDIE tests were possibly too aggressive and were over-reporting the $A.Al_2O_3$ and $R.SiO_2$ grades when compared to refinery performance. In 2012, a revised procedure referred to as the Worsley Laboratory Available Alumina (WLAA) method was implemented. WLAA tests a 1 g sample using the similar test conditions as for WDIE; however, a small alumina charge is added to the caustic solution to account for the fact that the recirculated refinery liquor contains a residual alumina loading.

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Inductively coupled plasma (ICP) was used to determine the alumina and silica concentrations of the digest solutions. Major oxide concentrations were determined by fused bead X-ray fluorescence (XRF), organic carbon by Leco, and extractable oxalates and sulphates by ion chromatography (IC) or Fourier transform infrared (FTIR) spectroscopy. Magnetic susceptibility tests were performed on the sample pulps.

BWAPL has examined the relationships between ABEA and WDIE results and has used a linear regression to convert the historical ABEA results to WDIE results. Since 2012, BWAPL has commenced the systematic re-assaying of pulps using WLAA. Comparisons between WDIE and WLAA indicate that WDIE reports higher concentrations of $A.Al_2O_3$ and $R.SiO_2$ compared to WLAA (2% and 0.1% absolute respectively). An independent review made recommendations that the risk of over-reporting the $A.Al_2O_3$ resource grades be mitigated by applying an adjustment to the existing WDIE grades (Coombes 2014). BWAPL is currently reviewing the recommended adjustment algorithms to confirm that they are applicable for all of the laterite horizons.

3.4.4 Density data

BWAPL does not routinely conduct bulk density determinations on bauxite samples. A nominal dry *in situ* bulk density value of 2.04 tonnes per cubic metre (t/m^3) was used for estimation of Resource and Reserves. This value has been derived from a long-term comparison between refinery production and the actual volumes mined, as well as the results from a limited number of tests conducted on PQ core samples collected in 2006. The nominal density has undergone periodic revision; it was revised to 1.9 t/m^3 in 1989 from a previous 2.0 t/m^3 in 1989. BWAPL is planning to embark upon a program in 2015 to collect density data from individual bauxite horizons. The program is expected to include core drilling, active mining face sampling, and *in situ* sand replacement testing.

3.4.5 Survey

All survey data are reported using Map Grid of Australia (GDA94), with elevations referenced to Australian Height Datum (AHD) - 1971. A variety of techniques has been used for drill collar surveying, including differential global positioning system (DGPS), global positioning system (GPS), electronic distance measuring (EDM), and theodolite. The holes were usually drilled within 5 m of the collar peg for 200 m-spaced holes and within 1 m for smaller spacings. The offset was measured if these tolerances were exceeded. The collars were not resurveyed after drilling. If no offset was recorded, the planned collar coordinates were entered into the drillhole database.

All holes are assumed to be vertical, but the rig is not levelled and minor departures from vertical may exist on steep gradients. The holes were not downhole surveyed. Any apparent thickness errors that result from the assumption that the holes are vertical when in fact many may deviate from this by several degrees are expected to be minimal given that the majority of the holes are only several metres deep.

The topographic surface was generated from 5 m contour data provided by the Department of Land Administration (DOLA) in 1995. BWAPL does not have descriptions of the source data or the derivation of the contour data. Prior to resource estimation, BWAPL apply adjustments to the drillhole collars such that they are consistent with the topography.

3.4.6 Quality Assurance data

BWAPL reports that quality assurance/ quality control (QA/QC) data are not available for the exploration data collected prior to 1993. This represents approximately 25% of the database. The following QA/QC procedures have been introduced since 1993:

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Laboratory internal QA/QC data collected from 1993 onwards includes: duplicates, repeats, standards, and blanks. Standards appear to have been prepared from primary sample rejects

Routine collection of field duplicates commenced in 2005 these were submitted at a frequency of 1:20

Relabelling and resubmission of returned pulps commenced in 2005 these samples were initially submitted at a frequency of 1:100. From 2012 onwards, frequency was increased to 1:20.

BWAPL reports that the quality assurance data are regularly monitored, with any identified issues referred back to the laboratories. BWAPL used absolute mean percent relative difference (AMPRD) as the primary tool to monitor precision, with trigger levels of 90% < 10% AMPRD for A.Al_2O_3 and 80% < 20% AMPRD for R.SiO_2.

The results presented in the BWAPL QA/QC reports indicate that, in general, results just below or around the precision targets were achieved for most programs (the target threshold is relatively onerous for field duplicates). Differences between the various laboratories are evident, but there appears to have been a slight improvement in performance for the later programs. The results presented in the reports do not show evidence of significant bias. The results highlight the relatively high level of uncertainty associated with bomb digest analysis, particularly for R.SiO_2.

3.5 Resource estimation

Separate resource modelling studies have been completed for the 10 resource regions for which resource estimates are reported in Table 3-2. Estimates and reports for the greenstone-derived bauxites (Saddleback, Marradong, and Hotham North) were completed and issued by Golder Associates Pty Ltd (**Golder**) in 2012. Estimates and reports for the granite-derived bauxites were completed and issued by BWAPL in 2014. From here on, these are described as the *Greenstone* models and *Granite* model respectively.

A similar general approach was used for all deposits, although there were some differences in the specific ways in how the approach was implemented, particularly when comparing the Greenstone and Granite studies. Unless otherwise stated, the commentary below applies to all of the individual resource estimates.

3.5.1 Geology Model

The geology models were prepared using both the geological logging data recorded by the drillers, the magnetic susceptibility data, and the geochemical data. The lateritic horizons were defined in each drillhole using the following criteria:

Gravel (GC) If present, as identified in the drill logs.

Hardcap (HC) If present, the top is as identified in the drill logs. The base is defined by a step change in magnetic susceptibility.

Bauxite Zone (BZ) The top coincides with the base of HC, and the zone includes samples where A.Al_2O_3 > 10% and R.SiO_2 < 4. Up to two consecutive samples with grades that do not meet these criteria can be included in BZ if an underlying sample meets the criteria.

Bauxitic Clay (BC) Where A.Al_2O_3 > 10% and R.SiO_2 >4<8%, and it has not been logged as GC, HC or BA.

Clay (CL) Where A.Al_2O_3 < 24% and R.SiO_2 > 8%, and it has not been logged as GR, HC or BA.

Basement (BA) As identified in the logs.

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After assigning a lithology code to each sample, each drillhole was checked to ensure the strict stratigraphic ordering shown above was retained. Missing units were added to the sequence and assigned a *zero* thickness. The 3D coordinates of the base of each horizon in each drillhole were calculated and triangulated to produce a wireframe surface. Each surface was then folded to mimic the topographic surface. A pictorial representation of the folding approach is shown in Figure 3-4. The volumes bounded by these surfaces are referred to as the lithology domains. For the Granite models, the lithology domains were used as the estimation domains.

For the Greenstone models, a similar approach was used for the definition of lithological domains. However, within each horizon, an automated approach using deposit specific criteria was applied to identify ore and waste sub-zones. This meant that each lithological unit (except basement) could notionally consist of three sub-zones; overburden waste, bauxite, and underburden waste. For the Greenstone models, the sub-zone domains were used as the estimation domains.

Figure 3-4: Stratigraphic surfaces folded to topography

Sourced from Golder (2012a)

3.5.2 Volume Model

Conventional block models oriented parallel to the GDA94 grid were prepared to represent the deposit volumes. Kriging neighbourhood analysis (KNA) studies were used to assist with the selection of the cell size for the Granite models. For the Greenstone models, the drill spacing and the expected mine planning requirements were taken into account when selecting the cell size. The following sizes were used:

Greenstone Models - Parent Cell: 25 x 25 x 3 m. Sub-cell: 5 x 5 x1 m (XYZ)

Granite Models - Parent Cell: 50 x 50 x 1 m. Sub-cell: 12.5 x 12.5 x 0.5 m (XYZ).

The domain wireframes were used to assign domain codes to each model cell. Cells located above the topographic surface were removed from the volume model.

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3.5.3 Estimation datasets

The estimation domain wireframes were used to assign domain codes to each drillhole sample. For the Granite models, the samples within each domain were composited to a nominal length of 0.5 m. The composite length was allowed to vary between 0.2 m and 0.75 m to minimise the number of residual samples. Density weighting was not used during compositing.

For the Greenstone models, the samples within each estimation domain were composited to a maximum length of 1.0 m. Residual composites with lengths of less than 0.05 m were excluded from the datasets (this represented approximately 16% of the samples). Density weighting was not used during compositing.

Grade cuts were not applied to any of the estimation datasets. For the Greenstone models, the influence of high $R.SiO_2$ composites was reduced by applying tighter search constraints (Section 3.5.5).

The estimation datasets contained grade data for $A.Al_2O_3$, $R.SiO_2$, SiO_2, K_2O, $Na_2C_2O_4$, and TOC.

3.5.4 Exploratory data analysis

Statistical analyses were conducted on the abovementioned constituent grades in each domain. This included the preparation of summary statistics tables, histograms, and cumulative frequency plots. Contact analysis and drift analysis studies were also performed to assess the suitability of the domaining and to assist with the selection of boundary constraints during estimation.

Variographic studies were conducted to assist with the selection of estimation parameters. For each constituent in each domain, downhole variograms were generated to assist with the selection of nugget values. Experimental horizontal variogram fans were prepared to assist with the identification of the directions of anisotropy. The major, intermediate, and minor directions of continuity were modelled and used to define a 3D continuity model. Omnidirectional variograms were used if well-structured directional variograms could not be obtained.

The variogram models show relatively large differences for different constituents within a given domain, as well as for the same constituent in different domains and different regions. In general, the models could be typified as exhibiting relative low nugget values (~5%), useful ranges of a few hundred metres (~80% of the sill), with total ranges exceeding 1,000 m.

3.5.5 Grade estimation

A similar general approach of using distance weighting techniques to estimate the grades of each model cell has been used for all models. Table 3-5 presents a summary of the estimation parameters used for the Greenstone and Granite models. The same parameters were used for all of the Greenstone models, whereas they were individually tailored for each of the Granite models. The search parameters for Hotham South are presented for illustrative purposes.

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Table 3-5: Summary of estimation parameters

Parameter	Greenstone Models	Granite Models (Hotham South)
Technique	Ordinary Kriging	Ordinary Kriging
		IDW where interpretable variograms could not be obtained
Parent Cell Estimation	Yes	Yes
Discretisation (xyz)	2 x 2 x 2	8 x 8 x 2
Length Weighting	Yes	No
Octant Searching	Yes	Yes
Keyfield restriction	3 samples per hole	3 samples per hole
Search Strategy	4 Pass.	1 Pass for Hotham West and South. 2 Pass for others
		Different search for Lithology and Constituent combinations
Samples, Search distances	Pass1. 8 - 40 samples, 40 x 40 x 2 m	Gravel. A.Al_2O_3: 1500 x 1100 x 100 m. R.SiO_2: 2000 x 1500 x 100 m
	Pass2. 4 - 40 samples, 80 x 80 x 5 m	Hardcap. A.Al_2O_3: 500 x 500 x 100 m. R.SiO_2: 600 x 600 x 100 m
	Pass3. 2 - 40 samples 160 x 160 x 10 m	B Zone. A.Al_2O_3: 800 x 800 x 100 m. R.SiO_2: 300 x 300 x 100 m
	Pass4. 1 - 40 samples 480, 480, 30 m	Bauxitic Clay. A.Al_2O_3: 400 x 400 x 100 m. R.SiO_2: 1500 x 900 x 100 m
		8 24 samples
Unestimated grades	Composite domain average	Not stated
Unfolding (estimation)	To topography	No
Boundary Control	Hard	A.Al_2O_3: Hard except for HC/BZ, BC/CL
		R.SiO_2: Hard except for BZ/BC, BC/CL
Additional Constraints	High R.SiO_2 nearest parent cell.	None

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3.6 Resource classification

The resource estimates have been classified in accordance with the JORC Code (2012 edition). In general, grade and geological continuity, data quality, drill coverage, and whether the material was likely to be mined were taken into consideration. Material was only included in the resource inventory if the following conditions were met. These conditions have been formulated to ensure that the material has a reasonable prospect of eventual economic extraction.

Material was located in an area with a drill coverage of 200 x 200 m or smaller

Combined thickness of the HC, BZ, and BC was at least 1 m

Gravel was only included if the combined thickness of the HC, BZ, and BC was at least 1 m

The following WDIE grade criteria were satisfied:

Greenstone: A.Al_2O_3 > 24.0% and R.SiO_2 < 4.5%

Granite: A.Al_2O_3 > 28.0% and R.SiO_2 < 4.5%

Gravel: A.Al_2O_3 > 29.5% and R.SiO_2 < 4.5%

For Greenstone models, the following drill spacing criteria were applied:

Measured: 100 x 50 m grid or smaller

Indicated: 200 x 100 m grid

Inferred: 200 x 200 m grid

For Granite models, the following drill spacing criteria were applied:

Indicated: 100 x 50 m grid or smaller

Inferred: Grid spacings between 100 x 50 m and 200 x 200 m

Blocks in areas where most drilling occurred prior to 2006 were downgraded to Inferred.

The above criteria were assigned on an individual block basis. For the Greenstone models, individual resource blocks surrounded by waste block were recoded as waste. BWAPL reports that only the $A.Al_2O_3$ and $R.SiO_2$ estimates form part of the Mineral Resource estimate.

3.7 Model validation

The model validation activities were primarily directed at assessing whether the model estimates were consistent with the input data. A summary description of the procedures conducted by BWAPL and the outcomes is presented below.

Visual validation: This entailed an on-screen comparison of the input sample grades and estimated model grades for the main variables. BWAPL reports good agreement between the datasets.

Statistical comparisons: The model and input dataset means and variances were compared on a global and regional basis. Where appropriate, declustering was performed to reduce any differences due to variable drill spacing. Scatterplots and quantile-quantile (QQ) plots were also prepared. Based on the results presented in the resource reports, there was generally good agreement for $A.Al_2O_3$, with the model estimates being within 5% (relative) of the input grades for most domains. $R.SiO_2$ generally reported poorer correlation for most domains. For the Greenstone models, the model and dataset means were generally within 10% of each other, whereas for the Granite models, the differences were usually between 10 - 20%, with some as high as 30%.

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Swath plots: These were prepared by taking regularly spaced northing, easting, and elevation slices through the deposit in each domain and calculating the average model and sample grades. The results were presented as graphs of the average grades with the slice coordinates. The swath plots were supplemented by Scatterplots and QQ plots. In general, quite good correlation was observed in the swath plots included in the resource reports, with the grade trends evident in the input data adequately reproduced in the model. Some of the Granite model R.SiO_2 biases indicated by the statistical comparisons are also evident in the swath plots. Example swath plots are presented in Figure 3-5 and Figure 3-6.

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Figure 3-5: Example Greenstone swath plot Saddleback bauxite zone (Ore zone)

Source: 117641060-003-R-Rev0-Saddleback_Resource_Estimation.pdf

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Figure 3-6: Example Granite swath plot Hotham South bauxite zone

Source: HOS_WMS_MOR_Resource_Report_2014.docx

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3.8 Audits

A list of the audits that have been performed on BWAPL 2014 resource estimates is presented below:

- BHP Billiton Group Resource and Business Optimisation: Internal Audit
- BHP Billiton Group Risk Assessment and Assurance: Internal Audit
- Xstract: Mid Central / Bannister East Resources Fatal Flaw Review
- Xstract: Hotham South / Williams South Morgan Resources Fatal Flaw Review
- Xstract: Hotham West Resources Fatal Flaw Review
- Coombes Capability: Mineral Resource Estimate Fatal Flaw Analysis, Collie.

The Xstract reviews did not identify any fatal flaws. Identified issues described as minor included the following:

- Grade-based domaining practices
- Shortcomings in QA datasets
- Possible bias between different sample preparation techniques
- Some inconsistencies with the variogram modelling and search parameters.

Coombes identified the following three issues that were deemed to warrant investigation:

- Use of WDIE data if WLAA is expected to better reflect refinery conditions
- Use of a single density value
- Limited information on sample recovery.

The recommendations from the internal reviews were primarily directed at improving the documentation and control on sample preparation and testing procedures and use of a simple density value.

BWAPL reports that the abovementioned issues are currently being investigated, or are planned to be investigated in 2015.

3.9 Reconciliations

Reconciliations were performed and reported in accordance with BHP Billiton Tenement Management, Exploration Results, Resource and Reserve Reporting procedures, which resulted in the derivation of the following reconciliation factors:

F1: Grade Control to Ore Reserve Model (*b/a*)

F2: Actual Process Plant feed to Grade Control predicted feed *(c/b*)

F3: Final product inventory to Ore Reserves predicted (*d/a*) expressed as tonnes of alumina.

Where:

a: resource and reserves model depletion (based on pit surveys)

b: grade control model depletion (based on pit surveys)

c: plant feed (based on pit survey and stockpile changes)

d: shipment (based on ship loader weights and sampling).

A summary of the reconciliation results for the past four years is presented in Table 3-6.

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Table 3-6: Reconciliation summary

Parameter	Year	Tonnes	AAl_2O_3	$R.SiO_2$
F1	CY13	110%	97%	113%
F2	CY13	110%	101%	107%
F3 Alumina	CY13	121%		
F1	CY12	104%	102%	106%
F2	CY12	99%	100%	99%
F3 Alumina	CY12	107%		
F1	CY11	107%	109%	114%
F2	CY11	109%	111%	105%
F3 Alumina	CY11	120%		
F1	CY10	101%	100%	97%
F2	CY10	111%	111%	103%
F3 Alumina	CY10	107%		

3.10 Resource potential

Based on the current resource inventory, BWAPL has a predicted LOM that extends beyond 2080. For this reason, BWAPL s main exploration focus is the systematic upgrading of the existing resources and not the identification of new deposits. Figure 3-7 shows the current resource inventory breakdown through to 2082. BWAPL has included a small amount of material that has not yet been defined as Resources.

Figure 3-7: Predicted production based on current Resource classification

Source: BWAPL (2014)

3.11 Summary comments

SRK has not identified any significant issues with the BWAPL resource estimates and considers that they provide an accurate indication of the Mineral Resource. However, some aspects of the data collection and resource estimation procedures are considered to be sub-optimal, and these are discussed below.

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Geology

Given the proximity to Perth and the long history of mining in the southwest of Western Australia, the regional geology of the Darling Ranges is well understood. The general geological hypotheses that BWAPL has used as the basis for exploration and resource delineation are consistent with those widely held in the industry. Bauxite has been mined and processed from the Worsley deposits for over 30 years, and BWAPL has a good understanding of the controls on mineralisation, and the mineralogical and physical properties of the bauxites. This understanding has been adequately incorporated into the resource modelling procedures.

Resource data

The quantity of data used to prepare the resource estimates is considered to be appropriate. The uncertainty associated with the resource estimates in areas covered by wider drill spacings is deemed to be adequately accounted for in the resource classification. The sample collection techniques are sub-optimal, but given that they appear to produce predictable results, they can be considered as being fit for purpose. Like many integrated bauxite and alumina operations, the analytical techniques are not aimed at quantifying absolute elemental concentrations, but instead at providing data that can be used to predict refinery performance. External audits highlighted some of these shortcomings with the data acquisition procedures. However, the long production history demonstrates that the implementation and periodic adjustment of these procedures can provide effective estimates of refinery performance.

Resource estimation

The current resource models have been prepared using techniques that are widely used in the industry. The validation results indicate that the models are broadly consistent with the input data. The reconciliation results indicate that the models provide an acceptable indication of production.

As indicated above, some of the data collection and resource estimation procedures are considered to be sub-optimal, and will introduce uncertainty and most likely bias into the estimates. Past reconciliation results have been used to devise adjustment factors that are applied to the resource estimates to assist with the prediction of production tonnages and grades. Given that these adjustment factors are not excessively large, the likelihood that any of data collection and estimation procedures are introducing significant errors is low, although it is likely that compensating errors exist.

Over the past several years, BWAPL has made a number of significant changes to improve the reliability of the data and estimation, with further changes planned. The acceptance and reliance on adjustment factors means that it is difficult to identify which of the data collection and estimation activities are the major sources of uncertainty. The extended timeframe between initial drilling and production, coupled with the practice of mining from 3 to 4 pits per shift and loading onto three 250 kilotonne (kt) chevron-stacked stockpiles, means that it is difficult to monitor the effects that incremental changes to the data collection and estimation activities may have on production.

The majority of the bauxite mined and processed to date has developed on greenstones. The bauxites that have developed on granites have different grade and physical characteristics to those developed on greenstone, and it is likely that the current factors that are used for production estimates will not apply when transitioning to the granite regions. This is not planned to occur until 2038, and BWAPL is confident that the differences in processing characteristics will be identified and resolved prior to then.

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Based on descriptions of the procedures and site observations, SRK considers the activities listed below are likely to be the main sources of uncertainty in the resource estimates:

Drill sample extraction: As evidenced by the excessive recoveries reported by BWAPL, the vacuum drill samples would not meet the definition of sample correctness (as defined by Gy). Given the significant amount of oversampling reported since monitoring commenced in early 2014, and the heterogeneous nature of the bauxite (hard, variably-sized pisolites in a clayey matrix), preferential sampling is quite likely, and grade bias is possible. The current QA/QC procedures do not contain any mechanism to detect whether biases were introduced during the initial sample extraction process.

Density: The use of a single *in situ* dry bulk density value appears to have enabled an acceptable prediction of the resource tonnages that will be delivered to the refinery. However, given the variation in the mineralogy and physical properties of the various horizons (particularly Fe grade and compaction/ porosity characteristics), the local tonnage estimates are likely to be unreliable. The current default value may not be appropriate for the Granite model bauxites, which have lower Fe grades and lower Hardcap: B Zone thickness ratios.

Resource modelling: BWAPL has made many incremental improvements to the modelling procedures over the past several years, including moving from a 2D approach to the current kriged 3D block model. A summary of some aspects of the modelling that may introduce bias or uncertainty is presented below:

Folding the lithologies to the topography is an improvement over a point to point linking of drill intercepts. However, it would be preferable to fold the lithologies to a surface that represents the topography at the time of bauxitisation. Given the variable thicknesses of overburden and gravel, this is unlikely to be the current topographic surface. The smoothed (pre-erosional) top of the hardcap may be a better choice.

Most of the lithological contacts are thought to be gradational, and the domain boundaries have been largely defined using cut-offs applied to sample grades. The quality assurance data indicates relatively poor precision for R.SiO_2, which could lead to uncertainty in the actual position of the boundary as well as bias in the estimated domain grades. For the Greenstone models, this issue is likely exacerbated by the use of the ore / waste sub-domains. For the Granite models, the use of large vertical search distances (in lieu of unfolding) to account for the elevation changes effectively likens it to a 2D estimate. It would be preferable to use an estimation approach that reproduces the vertical grade profile evident in the sample data, and to then use the estimated block grades and not the sample grades to define the base of the resource.

Reconciliation: The reconciliation results for the past three years indicated that the resource estimates under-call alumina production by approximately 10%. The bulk of this appears to be due to additional

material mined, and the under-call for $R.SiO_2$ indicates that this is likely a result of deeper mining.

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4 Ore Reserve

4.1 Introduction

The BWAPL Ore Reserves are limited to the PBA. The PBA is the area of the State Agreement Mining Lease 258SA (ML258SA) for which State Government environmental approvals to mine the bauxite have been received. Figure 4-1 shows the PBA area (dark blue line).

Mineral Resources inside the PBA limits only, can be converted to Ore Reserves after applying the mining and processing modifying factors, as per the JORC Code 2012 requirements.

Figure 4-1: Boddington Bauxite Mine Primary bauxite area (dark blue line)

Source: BWAPL (2014)

4.2 Optimisation parameters

Cut-off grade parameters applied during the Mineral Resource estimation (MRE) and Ore Reserve estimation process are based on achieving the acceptable alumina refinery head grade requirements for AAl_2O_3 and $RSiO_2$. The alumina commodity price, refinery recovery and overall operating costs are not used to determine the required cut-off grade parameters for the bauxite mined. The long-term target feed specification for the Worsley Alumina Refinery is 30.7% AAl_2O_3.

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Cut-off grades are applied per specific lithological units and are as follows:

Gravel horizon 29.5% AAl_2O_3 (on WDIE basis) and less than 3% $RSiO_2$ (on WLAA basis)

Hardcap horizon 24.0% AAl_2O_3 (on WDIE basis) and less than 3% $RSiO_2$ (on WLAA basis)

B zone horizon 24.0% AAl_2O_3 (on WDIE basis) and less than 3% $RSiO_2$ (on WLAA basis).

As part of the Ore Reserve declaration process, a test to determine whether the planned extraction sequence is cash flow positive is performed.

Only Measured Resource material and Indicated Resource material, satisfying the cut-off criteria and satisfying all the modifying factors, that can be mined economically are included in the Ore Reserves.

4.3 Modifying factors

The mining of bauxite within the PBA has been performed at BBM over the past 30 years. Mining typically takes place in shallow to very shallow open pits, whereby a few open pits are mined simultaneously (typically 3 to 4 pits) to ensure that the blended alumina feed grade can be obtained by mixing directly from the active mining faces. In addition, stockpiles are used to even out minor grade variations, prior to feeding the bauxite material to the alumina refinery.

The parent cell size for the Mineral Resource block model is 25 m (X) by 25 m (Y) in plan, by 3 m in the vertical direction (Z). This model is re-blocked for top and bottom surface modelling purposes into 5 m (X) by 5 m (Y) in plan, by 1 m in the vertical direction (Z).

The modelled top and floor surfaces are converted into a 2D block model with 25 m by 25 m plan view dimensions, which allows the thickness of the various units of waste, interburden and ore (above minimum cut-off grades for AAl_2O_3 and below cut-off grades for $RSiO_2$) to be determined. This model will also facilitate the determination of stripping ratios and other mining factors.

Waste hardcap material in excess of 1 m thickness will be mined separately by BBM as waste and disposed of in nearby mined-out pits. Where the waste hardcap is less than 1 m thick, it will be mined as diluting material (planned dilution), together with the bauxite profile earmarked for extraction. Interburden (lower grade material below cut-off parameters) within the bauxite profile of less than 2 m thickness is included in the bauxite profile as planned dilution.

A maximum limiting slope angle of 17° is used by BBM to determine the mineable Ore Reserves. Blocks with topography angles in excess of 17° are not included in the mineable Ore Reserves.

A selective mining unit (SMU) of 30 m in the horizontal X and Y directions is used, with a minimum of 1 m in the vertical Z direction. Grade control drilling is done on a horizontal nominal 25 m grid spacing. The vertical minimum limit of 1 m is based on the vertical selectivity of the backhoe excavator bucket (being able to mine waste and ore

selectively in the vertical direction). A minimum mining width (MMW) of 30 m is used for the operating benches.

Based on historical reconciliation figures, a mining recovery of 100% is used for the production scheduling of the Ore Reserve and for the Ore Reserve declaration of the mining inventory blocks which satisfy the selection criteria.

Prior to the Measured Resource and Indicated Resource material being converted to Ore Reserves, a list of exclusion criteria are applied to the block model, whereby blocks that are falling within the exclusion constraints are removed from the mineable inventory and therefore do not form part of the Ore Reserve.

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SRK is of the opinion that the exclusion criteria are a reasonable reflection of practical mining conditions and limitations in accessing the bauxite mineralisation.

4.4 Ore Reserve statement

Table 4-1 presents the 30 June 2014 summary of declared Ore Reserves for BWAPL. Table 4-2 presents a detailed breakdown of the 30 June 2014 Ore Reserve statement by area. The Ore Reserves numbers are restated by SRK for the expected end of December 2014 position. It should be noted that numbers have been rounded to the nearest million dry tonne (Mdt).

Table 4-1: Summary Ore Reserve statement 30 June 2014

	Proved Reserve			Probable Reserve			Total Ore Reserve		
End June 2014	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Granite derived	52	31.3	2.3	2.0	31.2	2.5	54.0	31.3	2.3
Greenstone derived	222	31	1.4	20	30.2	1.6	242	30.9	1.4
Total	**274**	**31.1**	**1.6**	**22**	**30.3**	**1.7**	**296**	**31.0**	**1.6**

Table 4-2: Ore Reserve statement 30 June 2014 (by area)

Granite derived

	Proved Reserve			Probable Reserve			Total Ore Reserve		
Area	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Saddleback	35	31.3	2.2	2	31.2	2.5	37	31.3	2.2
Marradong	8	32.7	2.3	0	29.4	3.0	8	32.7	2.3
Hotham north	9	30.3	2.6	0	27.6	2.5	9	30.3	2.6
Total	52	31.3	2.3	2	31.2	2.5	54	31.3	2.3

Greenstone derived

	Proved Reserve			Probable Reserve			Total Ore Reserve		
Area	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Saddleback	53	28.7	1.3	4	31.5	1.9	57	28.9	1.3

Marradong	46	31.5	1.2	4	29.5	1.8	50	31.3	1.3
Hotham north	123	31.8	1.5	12	30	1.5	135	31.6	1.5
Total	**222**	**31.0**	**1.4**	**20**	**30.2**	**1.6**	**242**	**30.9**	**1.4**

All Bauxite

	Proved Reserve			**Probable Reserve**			**Total Ore Reserve**		
Area	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Saddleback	88	29.7	1.7	6	31.4	2.1	94	29.8	1.7
Marradong	54	31.7	1.4	4	29.5	1.8	58	31.5	1.4
Hotham north	132	31.7	1.6	12	30	1.5	144	31.6	1.6
Total	**274**	**31.1**	**1.6**	**22**	**30.3**	**1.7**	**296**	**31.0**	**1.6**

Source: BWAPL (2014)

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SRK has independently verified the Ore Reserves for BWAPL and agrees with the BWAPL Ore Reserve statement. Mining operations are currently undertaken at the Marradong and Saddleback areas only. The Hotham North area has not been accessed for mining.

4.5 Historical Ore Reserve statements

Table 4-3 to Table 4-5 present the past three years historical Ore Reserve Summary statements for BWAPL.

Table 4-3: Ore Reserve statement - 30 June 2013

	Proved Reserve			Probable Reserve			Total Ore Reserve		
End June 2013	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Granite derived	51	31.5	2.4	2.0	31.2	2.7	53.0	31.5	2.4
Greenstone derived	200	31	1.6	48	30.5	1.8	248	30.8	1.7
Total	**251**	**31.0**	**1.8**	**50**	**30.5**	**1.8**	**301**	**30.9**	**1.8**

Table 4-4: Ore Reserve statement - 30 June 2012

	Proved Reserve			Probable Reserve			Total Ore Reserve		
End June 2012	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Granite derived	51	31.7	2.4	2.0	30.4	2.4	53.0	31.6	2.4
Greenstone derived	211	31	1.6	47	30.6	1.7	258	30.9	1.7
Total	**262**	**31.1**	**1.8**	**49**	**30.6**	**1.8**	**311**	**31.0**	**1.8**

Table 4-5: Ore Reserve statement - 30 June 2011

	Proved Reserve			Probable Reserve			Total Ore Reserve		
End June 2011	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Granite derived	40	31.0	2.3	3.0	30.9	2.1	43.0	31.0	2.3
Greenstone derived	199	31	1.7	57	30.4	1.7	256	31.0	1.7
Total	**239**	**31.1**	**1.8**	**60**	**30.4**	**1.8**	**299**	**31.0**	**1.8**

Source: BWAPL (2014)

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4.6 Ore Reserve statements (SRK Depleted)

Table 4-6 presents the Ore Reserves (SRK Depleted) as estimated for 31 December 2014. This estimate has been prepared on the basis of SRK verifying the 30 June 2014 base Ore Reserve estimate and applying Depletions up to 31 December 2014. Actual production for July to October 2014 and BWAPL provided estimates for November and December 2014 have been used.

Table 4-6: Ore Reserve statement (SRK Depleted) 31 December 2014

	Proved Reserve			Probable Reserve			Total Ore Reserve		
30 June 2014	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Granite derived	52	31.3	2.3	2.0	31.2	2.5	54.0	31.3	2.3
Greenstone derived	222	31	1.4	20	30.2	1.6	242	30.9	1.4
Total	**274**	**31.1**	**1.6**	**22**	**30.3**	**1.7**	**296**	**31.0**	**1.6**

	Proved Reserve			Probable Reserve			Total Ore Reserve		
Depletion	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
June to October 2014 (actuals)	4.6	32.1	1.2	0	0	0	4.6	32.1	1.2
November to December 2014 (estimates)	2.9	30.3	1.5	0.0	0.0	0.00	2.9	30.3	1.5
Total	**7.5**	**31.4**	**1.29**	**0.00**	**0.00**	**0.00**	**7.5**	**31.4**	**1.3**

	Proved Reserve			Probable Reserve			Total Ore Reserve		
31 December 2014	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**	**Mass Mdt**	**Grade AAl_2O_3**	**Grade $RXSiO_2$**
Granite derived	52	31.3	2.3	2	31.2	2.5	54	31.3	2.3
Greenstone derived	214.5	31.0	1.4	20	30.2	1.6	234	30.9	1.4
Total	**266.5**	**31.1**	**1.6**	**22**	**30.3**	**1.7**	**288.**	**31.0**	**1.6**

The remaining BWAPL Ore Reserves as at 31 December 2014 are 288.5 Mt, and based on a feed rate of approximately 18 Mtpa to the alumina refinery, to produce nameplate capacity of 4.66 Mtpa of alumina, represents a LOM of approximately 15.5 years for BWAPL, from 2015. SRK has independently verified the Ore Reserves for the BWAPL operation and agrees with the BWAPL Ore Reserve statement.

Note:

This report includes information on Ore Reserves as reported by G Burnham (MAusIMM). The information is extracted from the report titled BHP Billiton 2014 Annual Report and is available to view on www.bhpbilliton.com.

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All Competent Persons are full-time employees of BHP Billiton at the time of reporting and have the required qualifications and experience to qualify as Competent Persons for Mineral Resources under the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). The Competent Persons verify that the report is based on and fairly reflects the Ore Reserves information in the supporting documentation and agree with the form and context of the information presented.

BHP Billiton confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Ore Reserves that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. BHP Billiton confirms that the form and context in which the Competent Persons findings are presented have not been materially modified from the original market announcements.

The Ore Reserves breakdown by classification (100% basis) are contained in Table 4-1. All tonnes and quality information has been rounded, hence small differences may be present in the totals.

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5 Geotechnical Engineering

5.1 Settings

BWAPL s mine lies within the Saddleback Greenstone Belt, the uppermost unit of which is the Marradong Formation basalt. Overlying bedrock is a well-developed regolith profile up to 40 m in thickness. Mining occurs in the uppermost 10 - 20 m below surface.

The upper clay zone overlain by the laterite cap has the potential to generate seasonal perched groundwater levels - the Shallow Aquifer . A Lower Saprolite Aquifer is present immediately above the bedrock at depths between 15 m and 40 m (generally well below mining depth). Groundwater levels within the aquifers broadly mirror the topography.

5.2 Slope stability

The mining at BWAPL is very shallow (<10 m - 20 m depth). Batters are 9 m in vertical height separated by benches of 3 m width. Over these limited heights, the cohesive material is stable, with stand-up times exceeding decades in duration, and slope stability issues have not occurred in the past.

Limited areas of perched groundwater encountered dissipate upon blasting.

5.3 Summary comments

No significant geotechnical conditions exist at BWAPL. The shallow mining, limited batter heights, cohesive nature of the materials in which mining is taking place and absence of groundwater for material saturation have not resulted in any instability problems in the past, with batters displaying long stand-up times.

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6 Hydrology and Hydrogeology

6.1 Hydrology

6.1.1 Physical setting

The BWAPL refinery and mining area are situated in a typical Mediterranean climatic region, comprising cool wet winters and hot dry summers.

Annual rainfalls in the mining area lie in the range 800 to 900 mm. The driest month is January, with most precipitation falling between May and August. Evapotranspiration (comprising canopy interception, plant transpiration and soil evaporation) can account for up to 97% of the incident rainfall.

The average annual rainfall for the refinery over the monitoring period (1980 to 2013) is 1,070 mm, and the average annual evaporation rate of 1,422 mm.

The mining area lies within the following river catchments; Murray River, Serpentine River, Canning River, Lower Swan, and Main Avon catchments. These catchments, all in the Darling Plateau, are characterised by sharply incised, dense drainage networks in the west (higher rainfall area) and by flat-floored valleys in the east (lower rainfall area). The Darling Plateau is naturally forested, and the runoff in the area is generally correlated with rainfall, varying from 15 - 25% of rainfall in the highest rainfall area to less than 1% of rainfall in the lowest.

The refinery lease area is located in the headwaters of the Augustus River system, a sub-catchment of the Brunswick River.

6.1.2 Water supply

Mine

The current annual operational demand of the bauxite mine is ~450 megalitres (ML). This is met predominantly through groundwater extraction, with opportunistic use made of surface water collection for augmentation of supplies to meet dust suppression requirements. This is restricted to collection of runoff from compacted areas such as workshop facilities within the mining operation. Approximately 340 ML/a of the total mine demand is used in dust suppression on haul roads and plant site.

All workshop wastewater is recovered and released to the Karafil Dam, from where it is used for dust suppression on haul roads. A sump collects recycled water from the crusher and reclaim area; this water is also used for haul road dust suppression.

The use of surface water for supply to the Mine has been impacted by an extended period of low flows in the Saddleback Timber Reserve mine operational area over the past decade. This is due to the characteristically low yields in the area, in combination with a below average rainfall period.

However, as the mine expands, alternative options to augment supply would include consideration of surface water sources. The general options for developing surface water supplies that are to be considered include the following:

Upgrading of existing mine site dams and sumps (with an emphasis on minimising losses)

Construction of new mine site dams and sumps

Construction of pipehead dams on streams to divert stream flow to a separate storage facility

Construction of large dams and storage reservoirs on creeks or streams.

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Preferred future options for the sourcing of surface waters will depend on the local situation and factors such as prevailing topography, stream flow and stream water quality characteristics, etc. The specific options are as follows:

Hotham River: The Hotham River represents a large water resource in close proximity to the existing mining operations in the Saddleback and Marradong areas. Flows are strongly seasonal (winter dominated) with considerable variation both seasonally and year on year, requiring off-stream storage. Water quality could also be an issue even if the water is used in dust suppression.

Newmont Boddington Gold Mine: Planned mining operations at the Boddington Gold Mine by Newmont will generate large volumes of water, from pit dewatering and runoff from waste and mine areas, that is normally discharged to the Hotham River. Options to integrate operational strategies of BWAPL mine and the Boddington Gold Mine to mutual benefit is an option for consideration.

Integrated Water Supply System: The Water Corporation has indicated a supply in the order of 120 kL/day (43 ML/a) could be provided to the BWAPL mine from the Integrated Water Supply System. It is likely that water would be of potable quality and its preferred use would be as a potable supply for the offices and ancillary works rather than for haul road dust suppression.

It should be noted that surface water is opportunistically collected at the mine and that groundwater is the primary source of process water.

Refinery

The current fresh water demand of the BWAPL Refinery is between 2.3 and 2.5 gigalitres (GL)/a, having risen from ~1.8 GL/a in 2004. The major requirements are for the powerhouse cooling tower, demineralisation plant, Bayer firewater and domestic water systems, and the bauxite residue disposal area (BRDA) for construction and dust suppression.

The Refinery water management system separates the Refinery Lease Area into two catchments in order to control the quality of groundwater and surface water systems and ensure that Refinery activities and associated processes do not influence water quality detrimentally:

A clean water catchment in which non-contaminated surface water runoff is directed to the Freshwater Lake (FWL). The FWL discharges to the Brunswick River system via the Augustus River.

A closed system high-contamination risk catchment to contain process liquors and other contaminated waters into the Refinery Catchment Lake (RCL).

The FWL is used to supply potable water, water for Bayer process activities, powerhouse cooling water and make-up water to the RCL. Discharge from the Refinery lease area is uncontaminated and released to the Augustus River, subject to seasonal conditions and the FWL inventory. There is also a downstream ecological water requirement

which is released to the Augustus River with the discharge determined by the environmental management plan.

The RCL is used for cooling purposes at the BWAPL Refinery and Powerhouses and as make-up liquor for the Bayer process. The RCL collects runoff from the Refinery, seepage decant water and runoff from the bauxite residue disposal areas. Any water that enters this system is assumed to be contaminated and therefore not released from the system. Pipehead dams which receive underdrainage and decant water from the BRDAs are also components of this closed system and discharge to the RCL.

There are also independent solar evaporation ponds that are part of the water management system. These are used to contain spent sulphuric and hydrochloric acids.

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6.1.3 Water balance

Given the physical context of both the Refinery and Mining areas, BWAPL has noted and included on the Material Risk Register, the potential for the incidence of both extremes of water balance both positive and negative to occur over the LOM. With a positive water balance, the risk arises of uncontrolled release of contaminated water, and with a negative water balance, severe water shortage can be a possibility. This arises from a combination of increased rainfall variability, long-term annual rainfall decline and larger BRDA surface areas, affecting catchments and the associated runoff behaviour. Each of these situations has been identified as a material risk to the business, and active steps are under way to address these risks. Plans to manage the Material Risk and provide support to long-term BRDA planning by addressing these water balance risks include the following:

- Work to investigate possible use of solar evaporation ponds for additional storage
- Construction of a second emergency storage facility (RCL 2)
- Increase the capacity of the Refinery FWL
- Dry cooling for condensing turbines
- Dry (air) condensers for process flash vapour
- Volume trimming and condensate usage to supplement cooling tower and firewater operations
- Investigate viability of water discharge off-site to address water excess.

6.1.4 Surface water supply licences

A surface water licence was issued with effect from 19 April 2013 [SWL68041(4)] for the Refinery FWL. The licence allows BWAPL to take 2.6 GL annually over the period 26 April 2013 to 8 October 2018, subject to the following:

- Average annual draw not to exceed 2.6 GL
- Maximum take of 5.4 GL in any one year.

The licence stipulates requirements for BWAPL to report on monthly usage and annual volumes, surface water monitoring details (including laboratory testing, flow and water levels) at Hamilton River Gauging Station, FWL Pump Station, Augustus River Gauging Station, at specified recording intervals). BWAPL is also committed to a

transitional release strategy to protect the biodiversity downstream of the FWL Dam.

6.1.5 Data monitoring - Surface water

Compliance

Compliance obligations related to the use of surface water by the Mine and Refinery are addressed by the Environmental Management Plan for Water Resources . This management plan has been prepared in accordance with the requirements of Proponent Commitment 1 of Ministerial Statement No. 719 relating to the approval of the expansion of BWAPL s bauxite mining operations.

Compliance reporting is required at the end of every fiscal year covering the preceding 12-month period in the Annual Environmental Report. This management plan is also audited and reviewed every three years and a performance assessment conducted every five years in accordance with Condition 5 of Statement No. 719.

Mine

Baseline surface water assessment is carried out through a sampling program designed to measure water quality and quantity. Other ongoing surface water monitoring in line with licence compliance includes water quality monitoring of streams of interest in the vicinity of new mining and bauxite transport areas.

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Where any monitoring indicates adverse or unexpected environmental impacts, BWAPL will advise Department of Environment Regulation (DER) of the matter and the measures which have been taken and are intended to be taken to ameliorate any adverse environmental consequences.

Refinery

Collection of surface water data at the Refinery includes:

Meteorological data

Surface water monitoring commenced within the Worsley Lease Area in 1980, four years prior to the commencement of refining operations to provide baseline data that has been used to evaluate seasonal trends in water quality

Baseline and ongoing annual monitoring of hydrological data is underway as part of the environmental management of the transition to a modified flow regime for the Augustus River.

6.1.6 Surface water - Emergency response plans

Management and emergency response plans are in place to address drainage, spills management and hazardous materials. These plans are reviewed against monitored data and where relevant, emergency plans are initiated in response to exceedance of specified trigger levels.

6.1.7 Summary comments

The following observations are made with respect to surface water management at the Refinery and Mine sites:

The physical setting, particularly the low rainfall, high evaporation and forested catchments, present some substantial challenges to water management.

The potential for mining activity (forest clearing and rehabilitation) to alter runoff behaviour is high; this can affect both the operational supply and the local environment.

Sound responses and management approaches are in place to address these challenges.

Existing supplies are secure and sound planning is in place with ongoing review of alternative supply options based on both historical usage records and long term demand forecasts. Water supply alternatives at the mine for future expansion include possible options to develop surface water sources to augment existing supplies, based mainly on groundwater.

The surface water data monitoring program and associated reporting systems to comply with statutory obligations are mature and run efficiently.

6.2 Hydrogeology

6.2.1 Hydrogeological environment

The hydrogeology of the BBM mine and Worsley Refinery areas is similar. Three groundwater systems (aquifers) occur beneath these areas as follows:

1 A shallow weathered zone aquifer (shallow aquifer)

2 A deep weathered zone aquifer (lower saprolite)

3 A bedrock aquifer.

The shallow aquifer is a perched water table that only forms during relatively wetter conditions, but drains rapidly. The lower saprolite is the principal aquifer that rests on the bedrock. The bedrock aquifer occurs at depth. Groundwater in the bedrock aquifer occurs in fractures.

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6.2.2 Dewatering status

There is no dewatering of groundwater at the BBM as the more substantial occurrences of groundwater are well below the depth of mining.

6.2.3 Water management

Five borefields, comprising 25 groundwater production bores that exploit two aquifer systems, provide groundwater for dust suppression and potable drinking purposes at the BWAPL Mine. The estimated volume of water required for dust suppression and potable drinking purposes is 450 megalitres per year (ML/a), with 340 ML/a being for dust suppression. All production bores are located within the BWAPL mining lease boundary.

As the existing and proposed mining areas are not located within a groundwater area proclaimed under the Rights in Water and Irrigation Act 1914, a Groundwater Well Licence (GWL) from the Department of Water (DoW) is not required. If a groundwater management area was proclaimed over an area that included a borefield(s), a GWL would need to be obtained from the DoW.

A Water Resources Management Plan Mining (the Plan) has been prepared to ensure the protection of groundwater resources from adverse effects of its mining operations. The Plan includes a number of monitoring commitments. Every three years, an external review of the monitoring data collected over that period is conducted to assess compliance against the Plan and to assess trends and/or impacts on the groundwater resources due to extraction of groundwater. The last external review was conducted by Groundwater Resource Management in 2012 (GRM, 2012).

A substantial groundwater monitoring network and program has been established at the Collie Refinery to meet the conditions of the refinery s surface water licence. External hydrological reviews are conducted annually in accordance with the Alumina Refinery (Worsley) Act 1973 (as amended) and the conditions of the refinery s surface water licence.

The most recent external hydrological review (GRM, 2014) concluded that water quality and groundwater levels had not changed significantly since the commencement of refining operations, other than in a few areas. A technical internal audit conducted in late 2013 (BHP Billiton, 2014) found that the risk of groundwater contamination extending beyond the refinery operational boundary was considered low, although the effectiveness of the groundwater monitoring network, program and associated controls was being compromised by a lack of action taken to address recommendations from hydrological studies and contamination reports.

6.2.4 Operating and capital expenditure

Current annual groundwater maintenance and monitoring operational costs are shown in Table 6-1.

Table 6-1: Current annual maintenance and monitoring operational costs

Site	Item	Cost (A$M)
Boddington Bauxite Mine (borefields)	Maintenance	0.7

	Monitoring	0.15
Collie Refinery (groundwater monitoring network and program)	Maintenance	0.17
	Monitoring	0.04
Total		**1.06**

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6.3 Summary comments

The BBM and Worsley Refinery have established management systems and monitoring programs that regularly review the following:

- Security, availability and sustainability of local groundwater resources to meet site water demands.
- Potential adverse impacts from refining operations in order to assess the efficacy of control measures to ensure the protection of groundwater resources from the sites operations.

No substantial risks to groundwater security, availability and sustainability, or adverse impacts to groundwater resources have been identified from these regular reviews.

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7 Mining Engineering

7.1 Introduction

Construction of the BBM, as part of the BWAPL integrated operations, started in 1980. The first alumina was produced in 1984.

The BBM is located in the south west of Western Australia (WA). Bauxite mining takes place in the State Forest on the eastern edge of the Darling Range, near Boddington, using shallow open pit mining methods, from a number of open pits, over extended areas.

The main tenement lease areas are the State Agreement Mining Lease 258SA (ML258SA) and a sublease area from Alcoa of Australia Ltd (Alcoa) of a portion of State Agreement Mining Lease 1SA (ML1SA). Figure 7-1 shows the PBA inside the ML258SA in purple and the ML1SA sub-lease in a dotted red line. The PBA is the area where State Government environmental approval to mine bauxite has been granted. Currently all the BBM mining operations take place inside the PBA limits. The majority of the FY2014 BBM operations are in the Marradong and Saddleback areas. All Ore Reserves listed in this CPR are inside the PBA.

SRK visited the mining operations at BBM, on 22 and 23 October 2014, in the Marradong and Saddleback areas.

There are currently two mining areas at BBM, the Saddleback Mining Envelope (SME) and the Marradong Mining Envelope (MME).

Figure 7-1: Boddington Bauxite Mine tenement areas

Source: BWAPL (2014)

Note: PBA indicated in purple; ML1SA sublease Alcoa in dotted red line

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7.2 Mine design and Mining method

7.2.1 Mining method

BBM mines the bauxite by shallow open pit mining methods from a number of open pits. The bauxite occurs in pods, close to the surface, with an ore thickness of up to 5 m.

The typical sequence of mining operations inside the PBA is as follows:

- The State Forest Products Commission removes commercial timber and firewood from the planned mining areas
- Removal of remaining trees and shrubs
- Pre-stripping of topsoil
- Stripping of gravel overburden, typically with scrapers or a backhoe (excavator) and truck combination for thicker overburden areas
- Removal of secondary overburden (where required) by small 30 t backhoe
- Drilling and blasting of the hardcap material or ripping by track dozer. Hardcap is a cemented clastic laterite with a higher proportion of dehydrated minerals, typically with a higher iron content
- Loading of the bauxite by either front end loader (FEL) or backhoe excavators
- Hauling of the bauxite to the primary crushers or to the Run of Mine (ROM) stockpiles by 145 tonne payload capacity trucks
- Backfill mined out areas with gravel overburden from neighbouring pits
- Replace topsoil on top of backfilled mined out areas
- Revegetate the mined out area as part of reclamation.

The bauxite mining is a continuing process of excavation and subsequent rehabilitation of the mined out area. Figure 7-2 displays the sequence of the mining and rehabilitation operations at BBM.

Figure 7-2: Boddington Bauxite Mine sequence of mining operations

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Figure 7-3 to Figure 7-7 show the logical progression from the original forest area to the final reclaimed and reforested area, with all the intermediate mining steps and provide a good overview of typical bauxite mining operations at BBM. This series of photos was taken in the Saddleback area.

Figure 7-3: Edge of original State Forest area adjacent to an active bauxite mining block Saddleback area

Figure 7-4: Secondary Overburden removal by small backhoe excavators Saddleback area

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Figure 7-5: Loading ore into a 145 tonne haul truck Saddleback area

Figure 7-6: Backfilled mined out area with topsoil and reclamation area in background Saddleback area

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Figure 7-7: Rehabilitated and reforested area in background Saddleback area

Typically mining operations will be from 3 to 4 active open pits simultaneously, in order to be able to blend the required Al_2O_3 feed grade for the Worsley Refinery.

The crushed bauxite product, after primary crushing (at Marradong or Saddleback) and secondary crushing at the Saddleback area, is transported to the Worsley Refinery near Collie, via a 2-flight cable belt overland bauxite conveyor (OBC) with a total length of 51 km. The bauxite is stockpiled at the refinery.

7.2.2 Mine design

The majority of the open pits at BBM are shallow to very shallow, typically less than 10 to 15 m deep. Mining of around 18 Mtpa of (wet) bauxite feed to the Alumina refinery requires large areas to be mined on an annual basis, given the limited thickness (between 1 m and 10 m thick) of the bauxite mineralisation. Typically, an area of around 200 ha is mined on an annual basis. A minimum mining thickness of 1 m of bauxite ore is used for Ore Reserve reporting purposes.

7.2.3 Waste dumps

There are very few external waste dumps at the BBM operations. Most of the waste material is deposited back into mined out areas.

Small specific waste dumps are in use for box-cut area where excavations were required for crushing and conveying infrastructure. The Marradong primary crusher box-cut waste material was dumped onto an external waste dump.

7.2.4 Ore stockpiles

Interim stockpiles are used where required for blending purposes close to the active mining operations.

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Additional ore stockpiles are available near the Marradong primary crusher (mineral sizer) and at the Saddleback crushing installations. The Marradong crushed ore is transported to the Saddleback crushing areas by a 10 km long conventional conveyor belt.

7.2.5 Mining fleet

The primary mining fleet consist out of backhoe excavators, front end loaders, rigid body haul trucks, wheel dozers and track dozers. Table 7-1 lists the BBM primary mining fleet.

Initial overburden is removed by scrapers and secondary overburden is removed by small 30 t backhoe excavators, when it is impractical for the scrapers to remove the remaining overburden.

Drilling and blasting of the hardcap is performed on special prepared drill track roadways.

After drilling and blasting the bauxite is excavated by larger backhoe excavators and loaded into 145 tonne payload capacity rigid haul trucks (CAT 785 trucks).

Ancillary equipment consisting of scrapers (for overburden removal), water carts (for haulroad dust suppression), graders (for haulroad maintenance) and track dozers (for ripping of hardcap material and general maintenance work around mining areas), supplement the primary mining fleet for the various support services.

Table 7-1: Boddington Bauxite Mine primary mining fleet

Equipment type	Manufacturer	Manufacturer type	Number
Hydraulic Excavator	Hitachi	EX1800	1
Hydraulic Excavator	Hitachi	EX2500	2
Hydraulic Excavator	Komatsu	PC2000	1
Front End Loader	Caterpillar	CAT 993K	4
Haul trucks	Caterpillar	CAT 785C	15
Wheel dozer	Caterpillar	CAT 844K	2
Track dozer	Caterpillar	CAT D11R	1
Track dozer	Komatsu	475	2
Track dozers	Komatsu	575	1

7.2.6 Mining owner/contractor

The majority of the mining equipment is owned by BBM. Contractors provide additional equipment on an as required basis. Development and rehabilitation activities are provided primarily by a contract mining fleet.

7.2.7 Marradong Mining Envelope infrastructure

Marradong has primary and secondary crushing facilities. MMD Mineral Sizers are used for the first and second stage crushing of the bauxite ore. Secondary crushing is done using two SBM impact crushers. A 10 km conventional conveyor system with a 3,500 wet tph capacity delivers the crushed ore from Marradong to a stockpile with a 100,000 t capacity at the Saddleback crushing area. The live capacity of the Marradong stockpile at Saddleback is 20,000 t.

7.2.8 Saddleback Mining Envelope infrastructure

Saddleback has primary and secondary crushing facilities. A Weserhütte jaw crusher is used as the primary crusher at Saddleback. Three SBM impact crushers are used for secondary crushing at Saddleback.

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7.2.9 Overland Bauxite Conveyor

The secondary crushed bauxite is stacked onto crushed ore stockpile at Saddleback. From there, the bauxite is delivered to the alumina refinery by the OBC. The OBC is a 2-flight cable conveyor belt with a combined length of 51 km. The first leg of the OBC is 30 km long and the second leg of the OBC has a length of 21 km. The OBC has a conveying capacity of 3,400 wet tph of bauxite.

At the alumina refinery, the OBC discharges the bauxite onto stockpiles, from where the bauxite is reclaimed, when the feedstock is required for the refinery.

7.3 Life of Mine schedule

The BBM LOM production schedule, based on Ore Reserves of 288 Mt of bauxite, covers a period of around 16 years from 1 January 2015.

Table 7-2 details the BBM LOM production schedule. Bauxite tonnages mined and processed and available alumina grades are shown.

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Table 7-2: Boddington Bauxite Mine life of mine bauxite production profile (as per valuation model)

ne 15	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	June 2022	June 2034	June 2024	June 2025	June 2026	June 2027	Ju 20
.54	17.34	17.15	17.28	17.53	17.51	17.65	17.67	17.67	17.67	17.67	17.67	17.67	1
.68	3.70	3.63	3.63	3.65	3.65	3.68	3.68	3.68	3.68	3.68	3.68	3.68	
0.9%	30.9%	30.9%	30.9%	30.7%	30.8%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	30.5%	
0.0	262.6	245.5	228.2	210.7	193.1	175.5	157.8	140.1	122.5	104.8	87.1	69.5	

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7.4 Historical operating performance

The historical mining physicals for the last four financial years (ending 30 June, each year) are listed in Table 7-3. The units are in wet kilotonnes (wkt) and include a moisture component.

Approximately 4 t of bauxite feed are required per tonne of produced alumina, based on the historical performance.

Table 7-3: Boddington Bauxite Mine historical mining physicals

Activity	Description	Unit	FY11	FY12	FY13	FY14	FY15 (forecast)
Topsoil	movement	wkt	855	486	527	1 254	798
Gravel	movement	wkt	1 354	1 758	1 551	5 947	3 956
Waste	movement	wkt	3 295	3 165	3 130	2 382	3 714
Ore	movement	wkt	10 339	13 895	14 056	18 958	22 818
Drilling	holes	000 s	102	103	78	146	144
Blasting	holes	000 s	115	100	75	137	145
Bauxite Ore Ex-pit	mined	wkt	14 379	12 848	15 445	17 261	18 582
Bauxite Ore Conveyed	conveyed	wkt	14 461	13 585	15 741	17 372	18 289
Bauxite Ore Reclaimed	processed	wkt	13 777	13 926	15 749	17 484	18 271
Calcined Alumina	produced	wkt	3 359	3 393	3 808	4 552	4 609
Tonne bauxite / tonne calcined alumina		t bauxite / t alumina	4.10	4.10	4.14	3.84	3.96
Stripping Ratio (including topsoil, including gravel)	t waste movement /t ore movement (ex-pit)	t waste / t ore	0.53	0.39	0.37	0.51	0.37

7.5 5-year plan FY2015 FY2019

Over time, mining operations will move further away from the historical Saddleback crushing facilities hub. For FY2015, it is estimated that 73% of the bauxite produced will be from the Marradong area, to the north of Saddleback. Primary crushing facilities were established at Marradong in 2012. The crushed bauxite is transported from Marradong to Saddleback by conveyor belt.

In the LOMP, mining operations will gradually move further north, to the northern part of the Marradong area, and even further north, up to Hotham North area.

The 5-year plan (5YP) for FY2015 up to and including FY2019 maximises the use of the currently available infrastructure at Saddleback and Marradong, for as long as possible, prior to investing capital expenditure in the development of future large-scale bauxite transport and associated mining infrastructure. Maximising of the current infrastructure will include mining of remnant Ore Reserves.

In general, the bauxite haulage distances will increase over time with a concurrent increase in operating costs, due to the larger haulage. Isolated remnant mining areas will also have higher development costs.

The 5YP will require additional crossings of public roads, building of required infrastructure and increased interaction with the local community.

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It is expected that the Marradong area, representing 58 Mt of Ore Reserve, as at end June 2014, will be mined out in FY2020. It is expected that the Hotham River will require to be crossed in FY2020 to access mining areas in the Hotham North areas, referred to at BBM as the Hotham North Envelope (HNE).

Table 7-4 lists the 5YP tonnages for FY2015 to FY2019. Annually, an area of around 200 ha will be mined according to the 5YP.

Table 7-5 lists the indicative 5YP unit operating costs for the bauxite mining and transportation.

The 5YP does not require any major capital expenditure, but does require sustaining capital expenditure for additional haulroad preparation, relocation of existing infrastructure and replacement of mining equipment. The estimated capital expenditure for FY2015 is around A$17.6M.

Table 7-4: BBM 5YP FY2015 to FY2019 (inclusive) (Interim 5YP July 2014)

Year	Ore (Mdt)	Gr Waste (Mdt)	Hc/Bz Waste (Mdt)	AAWDIE Mine (%)	RSWDIE Mine (%)	Area (ha)	Granite (%)	Saddleback (%)	Haul dist (km)	Haul truck Prod (wtph)
FY15	16.9	5.7	3.7	30.7	1.50	196	15%	31%	3.6	446
FY16	17.0	6.3	3.2	30.4	1.50	200	30%	43%	4.7	370
FY17	16.9	5.7	3.7	30.4	1.58	200	23%	42%	4.4	352
FY18	17.0	6.1	3.2	30.4	1.50	200	10%	40%	4.1	370
FY19	17.0	6.6	2.6	30.4	1.50	200	29%	63%	4.4	367
FY20	17.1	7.2	3.1	30.1	1.66	220	29%	77%	5.5	337
FY21	17.0	7.6	3.4	30.1	1.68	220	22%	100%	6.2	283

Notes: Gr Gravel; Hc/Bz Hardcap, B Zone

Summary table of mining physicals, including indicated years FY20 and FY21 (Based on Reserve Data).

Table 7-5: BBM Indicative 5YP unit operating cost

Year	Saddleback contribution	Average cost (A$/dt)	Saddleback costs (A$/dt)	Marradong costs (A$/dt)
FY16	43%	13.3	15.2	11.8
FY17	42%	13.1	14.2	12.3
FY18	40%	13.1	14.8	11.9
FY19	63%	13.6.	14.5	12.0
FY20	77%	14.8	15.7	12.0
FY21	100%	15.8	15.8	

Note: FY15 5YP indicated forecast operating cost for delivered bauxite. These numbers are relative and not budget figures (including indicated years FY20 and FY21).

7.6 Operating expenditure

The historical unit operating costs for FY2013 and FY2014 are listed in Table 7-6. The average mining cost per tonne of bauxite conveyed to the Worsley Refinery was A$7.95/t bauxite conveyed in 2013 and A$9.96/t bauxite conveyed in 2014. Approximately 30% to 34% of the operating costs are labour charges.

Table 7-6: Annual unit operating costs for the Boddington Bauxite Mine

Unit Operating Costs	Units	FY13 Actual	FY14 Actual	FY15 Budget
Total	**A$ /t conveyed**	**7.95**	**9.96**	**10.39**
Labour charges	%	35%	29%	26%

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Forecasted average mining cost per tonne of bauxite conveyed for FY2015 is expected to be A$10.39/t bauxite conveyed, of which 26% is for labour charges.

7.7 Capital expenditure

Mining capital expenditure actuals for FY2012, FY2013 and FY2014 and forecasted mining capital expenditure for FY2015 onwards is listed in Table 7-7.

Table 7-7: BBM Mining capital expenditure

Units	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY2021 onwards
A$M	104.9	10.3	4.6	17.6	22.5	25.3	17.4	19.2	6.9	3.0

The mining capital expenditure for FY2012 includes A$93.4M for the Marradong Mine Envelope development, including the crushing and conveying installations.

7.8 Summary comments

BBM has been mining bauxite at the Boddington area for 30 years. SRK is of the opinion that the BBM operations are well managed and well understood.

SRK is of the opinion that the current required infrastructure and mining fleet are in place to ensure the required feed is provided by BBM to the Worsley Refinery, as specified in the LOMP. As the mining operations move further away from the two existing mining envelopes, additional transport infrastructure and capital expenditure will be required.

Where additional infrastructure is required for future crushing and conveying hubs, closer to the planned mining areas, further to the north near Hotham North, the required capital expenditure has been taken into account in the financial model. The installation of future crushing and conveying hubs would be similar to the Marradong mine development, which was finalised is 2012, so this process is well understood.

SRK confirms agreement with the build-up of unit operating costs and sustaining capital.

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8 Worsley Alumina Refinery

Worsley Refinery has been operating since 1984. In the 30 years since operations commenced, the capacity has increased from the original 1 million tonnes per annum (Mtpa) of alumina production to the current nameplate capacity of 4.6 Mtpa through a series of expansions. The most recent expansion in 2012 makes it one of the largest bauxite mining and alumina refinery operations in the world.

8.1 Process description

Bauxite is refined to alumina using the Bayer process. This process relies on the principal that aluminium is an element with a high solubility in alkaline solution, whereas most of the other elements in bauxite ore (except silica) are not. The process uses sodium hydroxide to digest (leach) alumina from the bauxite. The liquor containing dissolved alumina is separated (clarified) from residual solids before being precipitated as hydrated alumina before being calcined at high temperature to drive off chemically bound waters of hydration to produce the final alumina product.

As with all alumina refineries, the Bayer process has been modified to suit the specific ore types being processed from the BBM. The process is considered to be conventional and the industry standard. It is well suited to processing the BBM ores. The same process is used at Alcoa s three neighbouring refineries and there is no technical risk associated with the processing route used. This is further demonstrated by the 30 years of operation since first being commissioned.

There are four major steps in the alumina refining process digestion, clarification, precipitation and calcination with a number of other supporting processes associated with each main operating area. The final alumina product is railed to the Port of Bunbury before being shipped to BWAPL s customers.

A summary description of the main processing steps is provided below.

Figure 8-1: Worsley Alumina Refinery

Source: BHP Billiton

8.1.1 Digestion

Mined bauxite is fed through primary and secondary crushers at the Boddington and Marradong mine sites before it is transferred by overland conveyor to the refinery. The 51 km conveyor from Boddington to the refinery is the longest of its kind in Australia. An additional spur line transfers the Marradong ore to this main overland conveyor at Saddleback.

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A bauxite product specification is met by blending through the mining of multiple pits. In summary, grades above minimum available alumina and below maximum reactive silica levels (28.5% and 1.35% respectively) are targeted. Several other secondary impurity components are also controlled such as the oxalate and sulphate levels, as both of these impurities are removed from the circuit to improve liquor yield. The blended bauxite feed is sampled at the refinery and the mining schedule is adjusted as required based on the analysis.

The bauxite is stockpiled at the refinery in four ~200 kt stockpiles ready for processing. Sufficient bauxite is stockpiled to provide approximately two weeks of surge capacity at typical consumption rates enough to cover any major delay to mining or repairs to the overland conveyors.

The stockpiled bauxite ore is reclaimed by two bucket wheel reclaimers and ground in a two-stage grinding circuit using rod and ball mills. Milling uses caustic liquor to form a bauxite slurry. The slurry is heated with steam and more caustic is added to remove contaminants, specifically the reactive silica (kaolinite) in the ore in desilication tanks. The alumina is then dissolved into the slurry in digestion vessels through a combination of pressure and temperature at around 175°C in a series of digester pressure vessels. Bauxite residue, which is predominantly iron residues, is left as a solid residue in the digestion discharge slurry when it is flashed to atmospheric pressure. The liquor now contains dissolved alumina at supersaturated levels and at near boiling point temperatures. Flashed steam is recovered and used to heat the incoming slurry.

Figure 8-2: Bauxite stockpiles at Worsley Alumina Refinery

Source: BHP Billiton

8.1.2 Clarification

The alumina dissolved during digestion is separated from the red mud residue in large settling tanks using a settling agent (flocculant). The residue is washed and residual liquor is recovered through a series of washers. Final washed solids are removed and pumped to the bauxite residue disposal facility at approximately 55-58% solids. The remaining liquor containing the dissolved alumina, termed green (or pregnant) liquor is then filtered to remove any residual solids which would contaminate the final product, and sent to precipitation tanks. Lime is added to part of the washed liquor stream under temperature to convert some of the carbonate present back to hydroxide which improves alumina yield. This process is called causticisation.

A simplified process flow diagram for the digestion and clarification is shown in Figure 8-3.

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Figure 8-3: Digestion and clarification summary process flow diagram

Source: BHP Billiton

8.1.3 Precipitation

The alumina-rich supersaturated solution, the green liquor, is now clean of the red mud and is at saturated levels. Precipitation is a complex process involving the steps of agglomeration, nucleation and growth. This is a continuous process undertaken through a series of agitated tanks. The conditions of seed charge, particularly surface area, slurry density and temperature are selected carefully to accommodate these steps. Maintenance of seed stocks is critical.

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The hydrated alumina (alumina with chemically bound waters of hydration) slowly precipitates from tank to tank, as the temperature decreases and seed crystals are added to agglomerate fine crystals and then precipitate alumina over the agglomerated seed. There are several other yield drivers used to maximise the alumina yield from the liquor (i.e. the difference in the green liquor alumina concentration and the precipitation discharge barren liquor alumina concentration). Final precipitation solids are classified (separated on the basis of size). The coarse particles are thickened and pumped to calcination; the finer material is recirculated back to precipitation as seed.

The precipitation area also takes in the oxalate and sulphate impurity removal areas. Oxalate, produced as part of the digestion from a portion of the organic carbon, is a key impurity due to its low solubility in Bayer liquors. It is removed in a side stream of liquor to maximise liquor yield and to ensure it does not co-precipitate with the alumina. At Worsley, the oxalate is removed from the main liquor circuit by co-precipitating it with gibbsite in a controlled way and then washing the gibbsite to dissolve the oxalate. To do this, a solution side-stream is sent to crystallisers, thickeners and filters, producing an oxalate cake that is trucked to landfill within the BRDAs.

Of the filtered oxalate cake produced, 70% can be fed to a liquor burner where the temperature is increased to around 700°C using natural gas at which point the oxalate cake and alumina dust react to convert to a stable sodium aluminate and carbon dioxide. Volatile compounds and particulates are removed through an electrostatic precipitator and passed through a catalyst bed to destroy the volatiles. The remaining 30% is disposed of to a dedicated oxalate residue storage facility. When the liquor burner is not available, all oxalate cake is stored in this facility.

8.1.4 Calcination

Thickened solids from the precipitation circuit is filtered and washed with clean condensate to remove any soluble impurities in the residual liquor. The hydrate is then dried in hot air at 600°C before being passed into a fluidised bed gas furnace (calciner) where it is heated to 900°C 1000°C to remove chemically bound water in the hydrated alumina crystals. Calcined alumina, often referred to as smelter grade alumina (SGA) is cooled, stored and loaded onto trains for transport to the Port of Bunbury.

A simplified process flow diagram for the precipitation and calcination areas is shown in Figure 8-4.

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Figure 8-4: Precipitation and calcination summary process flow diagram

Source: BHP Billiton

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8.2 Metallurgical testwork

BBM ore has been processed at the Worsley Alumina Refinery for over 30 years and as a result are comprehensively understood. There is a relatively small amount of variability in the feed blend and the metallurgical processing characteristics are predictable and manageable within the existing refinery. Whilst there is extensive optimisation work undertaken at the refinery, there is no need to undertake metallurgical testwork on these similar ore types. This is typical of the Darling Range alumina refineries and in SRK s opinion is considered to be an appropriate practice.

The bauxite ores currently processed at Worsley are from greenstone ores. A change to a granitic feed is schedule in approximately 2032. This material is more physically competent than the current feed, has marginally high levels of residue minerals (i.e. higher residue load) and higher levels of impurities such as oxalate, as well as trace elements.

8.3 Product quality

A SGA product is produced at the Alumina refinery with a single product specification. Target product specification is typical of SGA products with an alumina grade of over 99%, Na2O under 0.5% with the remaining impurities of SiO_2, Fe_2O_3, CaO, ZnO, TiO_2, P_2O_5, V_2O_5 all at trace levels. Vanadium is notably low compared to some other alumina producers.

The Darling Range bauxite contains relatively low levels of impurities and the product specification is met without exception when measured monthly and by shipload. Contained soda has increased marginally after the 2012 expansion, but remains under target. It is reported that this is primarily associated with sub-optimal alumina seeding control resulting in increased occluded soda. This claim is supported by a small increase in the coarser size fractions over the same period (but still within specification). A project is in place to optimise seeding through modifications to the seed cyclone cut sizes. This is aimed at improving yield, but is also expected to reduce product soda levels to recover caustic and reduce costs.

8.4 Historical production

The Worsley Refinery has been expanded several times, with the most recent Efficiency & Growth (E&G) project being a major expansion to increase the plant nameplate capacity to the current 4.6 Mtpa of alumina. This project was completed in mid-2012 and since mid-2013, throughput has been equivalent to ~4.5 Mtpa on an annualised basis. Production for FY2014 was 4.52 Mt of alumina. On a monthly basis this has crept up and there have been several months in excess of an annualised 4.6 Mtpa of production. The general trend is an increase in production.

This expanded nameplate capacity has been achieved but there is potential for further incremental increases in capacity utilising the existing refinery with negligible to low capital costs.

The following production data graphs and explanatory notes are taken from the Worsley Quarterly Production Report for the first quarter of the FY2015. They illustrate the ramp-up of alumina production since the E&G expansion commissioned in mid-2012 and demonstrates the plant s capacity to meet forecast throughput. The use of historical operating data to forecast future production is complicated by the fact the operation is still effectively in ramp-up mode. It is expected there will continue to be a further production creep in upcoming quarters through continued

improvement and optimisation of the refinery in its current state.

8.4.1 Alumina production

Input production is determined by the amount of clear flow multiplied by the yield or recovery of alumina from the liquor through the precipitation circuit. Quarterly Input production was 1.140 Mt.

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This is the equivalent of 4.525 Mtpa compared to design of 4.6 Mtpa and budget of 4.64 Mtpa. Causes of the lower than budget Input production for the last quarter, rather than an increasing trend included a double digestion outage instead of the planned single digester outage, other digestion trips, high hydrate inventory due to the unplanned calciner outages, a mill gearbox failure and marginally lower bauxite grade. This is considered to be an anomaly in the trend. In SRK s opinion the Input production capacity should meet the current and future LOM production plan with the ongoing throughput and yield creep. Input production is shown in Figure 8-5.

Figure 8-5: Worsley input production

Source: Worsley Quarterly Production Report Q1 FY2015

8.4.2 Available alumina grade

Due to the change in the analytical tests there has been a drop in the available alumina grade (as per the mine plan) in the bauxite feed. This complicates any comparison of numbers pre-and post-2014. The drop is due to a change in the analytical technique used to measure available alumina, from the WDIE method to the WLAA method to better represent plant conditions. By adding some alumina to the test digestion liquor, the alumina loading in the barren liquor stream is better simulated, in turn enables improved estimation of actual leach extraction of alumina from the bauxite. This decreases the measured available alumina, but the input recovery has increased. This also marginally drops the reactive silica analysis.

8.5 Forecast production

The LOMP forecasts annual production of 4.6 Mtpa of alumina in FY2015 with a gradual increase to 4.8 Mtpa by 2019. The FY2015 forecast is the nameplate production capacity of the plant after the most recent E&G expansion. Forecast production is shown in Table 8-1.

Worsley Refinery has a Production Roadmap that details the specific projects, incremental yield improvement of each project, implementation schedule, budgets, resources and project leaders, risks and mitigants. This Production Roadmap exceeds the LOM forecast throughput, providing some contingency in the forecast.

Based on historical production, the historical trends of the key production drivers and the expectation of ongoing production creep from the relatively recently commissioned expansion, in SRK s opinion, the forecast production throughput is achievable.

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Table 8-1: Forecast production

	FY2015	FY2016	FY2017	FY2018	FY2019+
Total production (MtpaA)	4.64	4.68	4.72	4.76	4.80

Source: Worsley Alumina Valuation model

Production for what is considered a perfect day under the present plant operating conditions is used as a benchmark for the refinery. It focuses on throughput (7,950 m^3/h), utilisation (95%), yield (74.3 g/L), production (13,286 tpd alumina) and cost. These current perfect day conditions produce an annualised production rate of 4.7 Mtpa.

During the last expansion, not all aspects of the plant were debottlenecked. As a result there are new capacity pinch points. Each area has a production limitation but this has not inhibited the plant achieving the current throughput target and will not limit the creep production target by 2019. There is sufficient scope to increase flow and yield to increase the current refineries capacity past the forecast target. It is not considered to be an aggressive target.

8.6 Raw materials

The major raw materials used in the refinery process are bauxite, caustic soda, energy and lime. All are closely monitored in order to manage and minimise their cost; particular emphasis is placed on energy and caustic.

Caustic usage is the measure of the amount of caustic soda used during the process of making one tonne of alumina. It consists of chemical soda loss which is determined by the amount of reactive silica in the bauxite and net physical soda loss which occurs through the washing circuit and the amount of soda in the final product. Average caustic usage during the quarter was 100.8 kilograms per tonne alumina (kg/tA) against a design of 85 kg/tA and budget 98 kg/tA. Chemical soda loss of 68.5 kg/tA was above design of 54 kg/tA due to elevated bauxite reactive silica levels during August and September and a period of only two Deep Cone Washer operation resulting in less efficient washing of residue. Caustic loss is also elevated due to losses to product due to a marginal increase in occluded soda, marginal increase in total organic carbon (TOC) and some other minor losses. Caustic consumption in the FY2014 was below budget and target.

In the longer term LOM, target caustic consumption is being reduced by a drop in reactive silica, improved evaporation efficiency, feedwell design improvements (flocculant dosing points) and an improved flocculant. There are a number of other initiatives in place to reduce this consumption in the long term and it remains a key focus for the plant. In SRK s opinion, the target and budgeted consumption are both realistic, achievable and can be further improved during the LOM.

Figure 8-6: Caustic usage

Source: Worsley Quarterly Production Report Q1 FY2015

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Energy usage during refining is a key raw material input. Worsley Refinery enjoys one of the lowest energy input costs for any alumina plant in the world. The main contributors are relatively low cost coal from Collie, domestic natural gas from WA s North West Shelf and an efficient refinery.

Since the latest upgrade, energy consumption remains below design, close to budget and should continue to improve with several energy improvement projects underway. Energy supply considerations have historically been around cost, availability and reliability of supply as well as emissions. The position for Worsley Refinery is to continue with coal as the primary source of energy production during the 5-year horizon as it is the most likely and cost-effective option.

Figure 8-7: Energy usage

Source: Worsley Quarterly Production Report Q1 FY2015

8.7 Operating expenditure

The Worsley Alumina Refinery is a low cost alumina producer. Historical and forecast operating costs from FY2011 to 2019 are shown in Table 8-2. It shows the C1 cash costs remaining steady ranging between A$215/tA (t Alumina) A$220/tA both historically and for the 5YP to decreasing from FY2011 of A$278/tA to A$221/tA per year by 2019. The spike in 2012 is considered to be a partial anomaly associated with the E&G expansion resulting in some consumables, maintenance, materials and contractor costs being elevated as part of the project execution, with not all of it assigned to the capital cost of the expansion.

Table 8-2: Historical & forecast cash costs of the Refinery

Refinery Operating Cost	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Plan 2015	Plan 2016	Plan 2017	Plan 2018	Plan 2019
Refinery Only Operating Cost (A$M)	662	731	832	987	1,014	1,007	1,029	1,049	1,042
Total Production (MtpaA)	3.37	3.39	4.27	4.55	4.64	4.68	4.72	4.76	4.80
Refinery Only Operating Cost (A$/tA)	196	216	195	217	219	215	218	220	217

Source: Worsley 2 Year Budget and 5 Year Plan

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The 5-year plan has a focus on reducing the overall cost of production even though the refining cost is relatively stable. This is through:

- Increasing production (as per the forecast to leverage fixed costs)
- Reduced waste and removal of non-value adding activity for cost savings
- Labour cost optimisation.

More specifically, forecast operating costs reductions are through the current focus on improved productivity in several areas including maintenance, capital management and operating cost management. The forecast drop in operating costs is a function of several main cost drivers:

- Caustic soda reduction due to a drop in reactive silica which drives around 78% of the caustic consumption (2 kg/t) as well as increased evaporation through the plant, better thickener feedwell flocculant addition points (feedwell design), and a new flocculant
- Labour reduction associated with efficiency improvements
- Improved consumables consumption and lower maintenance costs through improved efficiencies
- Increased production rates driving down unit processing costs as a function of similar fixed costs but an expanding production base
- Raw materials, particularly coal cost is forecast to increase through the purchase of an increasing portion coal from a second supplier to reduce supply risk and increasing gas price.

The confirmed cessation of the SWCJV past 2016, results in an increased reliance on coal as an energy source. The BWAPL marketing group is moving to determine the long-term price assumption for coal sources. Worsley Refinery has been one of the lowest energy cost alumina refineries in the world and relatively low cost coal from Collie has contributed to this position. Ownership changes and the current financial position of Worsley Refinery s major coal supplier remains a risk to the low-cost position.

In SRK s opinion, the forecast costs are supported by historical costs, the reduction of those costs associated with the E&G expansion, the current focus on cost reduction and the enablers budgeted.

8.8 Capital expenditure

The Worsley Alumina Refinery has recently undergone a large expansion to the current capacity. There are no further significant expansions or growth projects planned at this stage. However, there is an extensive resource available that would allow for potential future expansions or a second refinery. These are not factored into the current LOMP.

The next significant development project cost is forecast in 2032 in expectation of granitic ores being fed to the refinery. This is outside the current reserve LOMP and is not considered as part of the valuation (provided for information only). An amount of A$88M (in current dollar terms) has been assigned to these expansions to allow for the harder ores and marginal increases in reactive silica, residue load and oxalate levels. This allowance also provides for a production increase to 5 Mtpa if not already achieved. Detailed costings are not available given the project is still 18 years from implementation, but estimates are based around any additional; crushing (high pressure grinding rolls), desilication capacity, digestion pumping, impurity removal and mud washing/filtration capacity, heating and precipitation requirements as well as a review of utilities.

The historical capital costs from 2011 to 2014 are shown in Table 8-3.

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Table 8-3: Historical & forecast Refinery sustaining & major projects capital costs

Refinery Capex	Actual	Actual	Actual	Actual	Plan	Plan	Plan	Plan	Plan
(100% A$M)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total (including Major Projects)	1,234.2	905.4	181.9	137.4	165.3	107.9	134.9	113.4	79.4

Source: Worsley 2 Year Budget and 5 Year Plan

The forecast capital costs for the 5-year LOMP are also shown in Table 8-3. The average cost is A$103.7M per year, with a peak of A$134.9M spent in 2017 associated with the expansion of the RCL and oxalate removal studies and projects. These costs for the first five years are based on a detailed engineering capital cost plan, maintenance regime and current equipment condition and life. These sustaining capital costs reflect historical costs and in SRK s opinion are well supported. The minor drop in cost is based on a focus on minimising capital expenditure after the major expansion. The long term sustaining capital cost used for LoM modelling is A$107M per year (A$121M per year). This appears to be appropriate given it is in line with the 5-year plan estimated capital costs and there are no correlating production increases or Major Projects planned.

8.9 Costs summary

As a result of the multiple JV partners of the operation and to meet their requirements, Worsley Refinery capital and operating costs are heavily audited, with four audits undertaken annually. Their different compliance requirements ensure a high level of rigour in all aspects of capital and operating cost control. This extends to the budgeting process and approvals for sustaining and major development capital. Although BHP Billiton owns 86% of the operation and manages the day to day operations, the combined JV partners have equal voting rights and the JV partners sign off on the budgets and capital expenditure. This ensures rigid, well controlled and audited cost control.

8.10 Risks and opportunities

Worsley Refinery has a strong focus on risk. Any risks considered material are addressed and mitigated. The following are key processing risks, identified as part of the current 5-year plan:

Water management due to climate changes, Worsley faces periods of low rainfall and potential high rainfall events

Electrical power total energy supply cost, fuel supply security and emissions

Oxalate control	long-term sustainable solution required, particularly with introduction of granitic ores scheduled in 20 years time.

Measures to manage all of these risks are in place. The review concurs with the identified risks, acknowledges that suitable risk mitigants are in place and has not identified any additional major risks to the ongoing operation.

The key opportunity is for ongoing production creep using low or no capital cost production increase projects. The refinery is currently operating at or close to nameplate capacity of 4.6 Mtpa, and has capacity to creep to 4.8 Mtpa.

SRK agrees with the identified opportunities and the low capital cost strategy required to realise a continued production increase.

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8.11 Summary comments

The Worsley Refinery uses the conventional Bayer process to extract alumina from bauxite ores. SRK considers that the current refinery remains appropriate to execute the LOM processing plan, is well managed, well operated and well maintained, with limited technical risks associated with the ongoing operation.

Minor modifications to the refinery will be required with the introduction of granitic style bauxite ores. These ores are not scheduled for 20 years. An appropriate allowance has been made to cover any debottlenecking costs associated with the introduction of this ore. These ores do not present a technical risk; they are processed by the three nearby Alcoa alumina refineries.

The refinery capacity is capable of meeting the scheduled LOMP. SRK considers the minor production creep of around 4% via the projects identified to be well supported and achievable in the timeframe.

Furthermore, there is scope to increase production above the forecast LOM production rate. This is supported by an existing project pipeline that allows production to creep to 5 Mtpa.

Forecast sustaining capital has been benchmarked against historical costs and is supported with a 5-year capital project list. Sustaining capital from 2020 is an allowance based on historical expenditure. It is considered conservative, given it is higher than actual historical costs.

SRK considers that BWAPL takes a very proactive approach to risk management. Material risks are appropriately identified, mitigants developed and if appropriate, implemented or are planned to be mitigated. Major risks identified are coal supply for power generation, water supply and oxalate management. They are all being adequately addressed with differing cost implications depending upon mitigation strategy.

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9 Infrastructure

9.1 Access

The port, refinery and bauxite mine are all readily accessed through the sealed south west regional road network and the port and refinery are connected to the public rail network. Bunbury is serviced by the Bunbury Airport. The integrated operation is also close to Western Australia s capital city of Perth. The main access to the refinery from Bunbury is via the Coalfields Highway which has been considered as a regional infrastructure priority and the upgrade is funded and ongoing. The road network is well maintained and fit for the current mining and refinery capacity and for any future expansions.

Figure 9-1: Worsley Alumina location

Source: BWAPL (2014)

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9.2 Rail

The South West Rail Network is a single track narrow gauge network used for freight and passenger services in the south west of Western Australia.

This rail network is used to transport alumina product to the Port of Bunbury for shipment; and caustic soda (sodium hydroxide), coal and lime is railed back to site to use in the refinery process. The distance from the refinery to port is 55 km using a site specific spur line connecting to a state owned freight railway running from Collie, around 20 km east of the refinery, to Bunbury. The railway is available to multiple users, the other major one being Alcoa for their alumina and caustic transport. There is also a public rail service operating on part of the line.

A rail haulage contract is in place to provide locomotives, and rolling stock is owned by BWAPL. Currently, around four trains per day are operated. Typically, dedicated alumina and caustic trains are run, but mixed cargo trains have also been used at times. Generally, trains are made up of 44 alumina wagons or 10 caustic wagons although this configuration can be changed to mix loads to meet logistical requirements. BWAPL has been assigned the rail passes that they need to move the required alumina and caustic, having relinquished passes that are not currently required.

Rail capacity is not considered to be a material risk to the ongoing BWAPL operation. The operation can currently meet the 4.6 Mtpa production target and has demonstrated capacity on a monthly basis in excess of the long-term production target of 4.8 Mtpa. The rail loading operation is currently at around 70% of capacity and is not considered a bottleneck for the current operation.

There are no envisaged significant risks that future capacity increases on the rail line, or increased usage by other users, will impact on the LOM production rate, given it can already currently be met. Appropriate rail access agreements are in place to secure tenure. The simplest and cheapest option available to increase capacity is to obtain additional rail passes.

9.3 Power and natural gas

Electrical power and natural gas is available and secured in the medium term for the forecast production schedule. There is a management plan in place and mitigants to manage any risks to electrical and power security.

Alumina refineries have complex heat and steam balances, high electrical power requirements and natural gas demand for calcination and liquor burning duties. The electrical power and steam arrangement is elaborate and relies on a number of electrical and steam generator types as a result of the many expansions through the operation s life. These include three older generation pulverised coal boilers (Boilers 1, 2 & 3) which are coming to the end of their design life but are still operable, two package boilers (7 & 8) used for shutdowns and a co-generator gas turbine operated as the South West Cogeneration Joint Venture (SWCJV), which supplies power into the Synergy operated South West Integrated System (SWIS) and steam to the refinery. This JV reaches the end of its contract life in March 2016. BWAPL and SWCJV have decided not to continue with this contract, however optionality will be maintained, should gas become a lower cost.

As part of the latest expansion, two new multi-fuel cogeneration plants (5 & 6) were installed. They operate on coal but can also be operated on diesel and biomass and provide the bulk of the electrical power and steam. Without the SWCJV gas turbine operating, steam will be limited. The existing package boilers are available, but unreliable and have relatively high maintenance requirements. Alternative options are being considered for steam supplies during

outages of the primary supplies for maintenance.

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The Synergy-operated SWIS is used as a balancing load, but the plant can operate islanded . Excess power is fed into the grid as required, requested or when available. With this elaborate series of power supply options, it is expected that the Worsley Refinery will remain a net exporter of power into the SWIS even if production increases to 5 Mtpa of alumina, especially if future production is met by yield increases.

As the domestic gas price continues to increase, the use of Collie coal becomes increasingly the most cost-effective energy source. Historically, coal was supplied solely by Griffin coal on a long term, but aggressively priced, contract. There have been recent financial concerns given the primary coal supplier has been experiencing financial difficulties. The mostly likely case is that there are marginal increases in coal cost over time to ensure the operations remain viable. The most pessimistic case is that the coal supplier becomes bankrupt and the state takes priority supply of coal driving the price of energy and steam up as the mix of energy sources required for the refinery changes.

Around 100,000 t of coal per month are consumed as part of the current power and steam supply mix. BWAPL has moved to protect this power and steam source by improving the coal supply balance. Premier coal now supplies approximately 30% of the coal demand. Furthermore, a large 400,000 t stockpile of coal is located on site that, with maximum gas supply could allow for a year s power supply. There are further power supply options in the form of partial diesel and biomass firing of the multi-fuel co-generators.

In summary, the risk of coal supply is a known risk, is well understood, there are multiple strategies in place to manage the risk and BWAPL is confident that Griffin Coal will stay in business. The Griffin coal tonnages are long term contracts and even if sold, the Collie coal assets are considered stranded energy sources given their relatively low calorific energy value in comparison to typical export grade coal. Appropriate energy supply contracts are in place to secure power, steam and natural gas requirements for the ongoing operation.

9.4 Water

Water supply is secure and planning is in place, with ongoing review of alternative supply options.

9.5 Communications

The BWAPL operations are long established and located in a developed area of Western Australia. As a result, modern communications systems and infrastructure are well embedded and do not pose a risk to the ongoing operation. Communications (voice, data, email, fax) to and from the sites is through a PABX system. The telecommunications services are deregulated in Australia and there are multiple carriers available. Within sites, an internal short-wave radio communications system is used. Local service providers also provide generally good mobile telephone network coverage across most areas of all sites.

9.6 Infrastructure buildings

There is extensive existing infrastructure buildings including administration buildings, operations buildings, fitted workshops, warehouses, heavy and light vehicle workshops, amenities, personnel, mine maintenance. Employees and contractors are based residentially and therefore there are no accommodation facilities on site. Existing infrastructure buildings are adequate to support the ongoing plant operation now and into the future.

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9.7 Port

The Port of Bunbury is the major commercial deep water port for Western Australia s South West region. It provides safe anchorage and does not require significant amounts of dredging. Alumina product is shipped out of the Port of Bunbury which is operated by the Bunbury Port Authority (recently consolidated into the Southern Ports Authority). The port is a multi-user facility and is recognised as the ninth largest port in Australia, handling in excess of 14 Mtpa. The major commodities imported and exported through the port include alumina, mineral sands, woodchips, caustic soda, silica sand and grain.

Overall tonnages moved through the port continue to increase, and the Port Authority has just released its Inner Harbour Structure Plan which it will use to guide development and expansion to 2031 and beyond. The Department of Transport also has a plan to double the capacity of the Port to more than 30 Mtpa with a proposed business case in place including additional dredging to service Panamax ships and the addition of up to five new berths. The transport corridors that service the port have been identified and protected. Road and rail infrastructure along the service corridor for the port is being upgraded and will ensure high quality access now and into the future. However, the adequacy of the transport networks will be the subject of ongoing monitoring to ensure that peak capacity will be maintained.

The Worsley Berth is located on the north side of the inner harbour and is well protected from ocean swells. The berthing and surrounding land is leased from the Bunbury Port Authority, but the actual wharf, shiploader, storage bins, conveyors, train loading, caustic storage and caustic loading and associated buildings, sheds and infrastructure are owned by BWAPL. Some infrastructure, such as the caustic storage tanks and train loading system, is shared with Alcoa. BWAPL makes ongoing cost contributions to the Port of Bunbury infrastructure. Appropriate lease and access agreements are in place to secure the port s tenure.

The key facilities are the berth capable of loading ships from Handymax ships of around 22,000 t up to Supramax and Panamax ships up to around 64,000 t (restricted by the loaded ship s draught), three alumina storage bins cable of storing 45,000 t each, a shiploader with a loading capacity of 2000 tonnes per hour (tph) and three caustic tanks capable of storing up to 100,000 t of caustic soda.

At the port, alumina is unloaded from the trains via a bottom dumping system and pneumatic transfer onto an enclosed conveyor belt system and transported into three storage tanks, each with a capacity of 45,000 t. Alumina is then loaded onto ships using a Cleveland cascade loading chute which minimises dust and noise. These are key environmental considerations of the port operation.

BWAPL alumina is exported to aluminium smelters throughout the world with the majority destined for the Republic of South Africa, the United Arab Emirates, China, Mozambique and New Zealand.

Figure 9-2: Worsley Alumina port facility (right side)

Source: BWAPL (2014)

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The Worsley port facility is capable of meeting the forecast LOM ship loading requirements of the current 4.6 Mtpa increasing to 4.8 Mtpa by 2019. Capacity above 4.8 Mtpa has been demonstrated in four separate months since the E&G Expansion and peak monthly shipping was 5.2 Mt on an annualised basis. It is a relatively simple, well maintained facility carrying the appropriate critical spares and operating within its capacity. It has a berth utilisation of around 50% and has a typical loading rate of around 1250 tph, servicing around 10 to 12 ships per month. Therefore, even accounting for weather restricted loading (mainly rain and wind) and tides, the ship loading facility should be capable of loading up to 9 Mtpa of alumina. If shiploading rates exceed the rates in the shipping contracts then there is potential to be paid dispatch. In SRK s opinion, the shiploading capacity and port facilities do not pose a risk to the LOMP production rate.

No major capital costs have been forecast at the port as it does not need to be expanded; however, if there were to be a major expansion above 5 Mtpa, there would need to be an allowance for some port facility upgrades (none required for the actual shiploader), including additional alumina storage capacity (the conveyor configuration and space allows for this), as well as some other minor expansion works.

9.8 Operating expenditure

Operating expenditure is covered in Section 8.7 Operating expenditure.

9.9 Capital expenditure

Capital expenditure is covered in Section 8.8 Capital expenditure.

9.10 Summary comments

The infrastructure associated with the BWAPL including power, water, rail, port, access, communications and site roads, is considered to be long established, extensive, fit for purpose, proven in operation and capable of meeting the current LOM production plan. It currently meets the nameplate capacity of the upgraded refinery and for sustained periods of several months has met the future LOM production forecast. It adequately supports the execution of the current and forecast LOM production.

The Bunbury Port Authority has plans to significantly increase the size of its operation. This is likely to increase dust emission, noise and traffic movements into the port. Although BWAPL impact at the port will remain unchanged over the next five years, the community response to increased port activity will need to be addressed by all port users. This is an external factor considered as a risk to BWAPL. It is being addressed through detailed baseline data collection and through the continued review and update of the Stakeholder Engagement Strategy, including other port users. This requires a continued focus on integrity, transparency and a consistent approach to stakeholder engagement. BWAPL is considered to be well positioned to manage these risks.

Some access to raw materials, specifically fuel sources for electrical power and steam, as well as the long-term reliability of rainwater for water supply have been identified as risks, and suitable mitigants are in place or in progress to address these risks.

The bulk of the infrastructure has demonstrated capability to exceed the maximum capacity of 4.8 Mtpa. This is considered a potential future opportunity if production is expanded further.

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10 Tailings Storage Facilities

10.1 Introduction

BWAPL currently operates five bauxite residue disposal areas (BRDAs) at its refinery site that are classed a High B category dam per ANCOLD guidelines (Guideline on Tailings Dams) BRDA 1, BRDA 2, BRDA 4, BRDA 4X (located in the northern valley area) and BRDA 5 (located in the southern valley area) as shown on Figure 10-1.

Figure 10-1: Plan of BRDAs and dams

Source: BWAPL (2014)

BWAPL currently produces ~4.6 Mtpa of alumina and as a result produces ~2.24 t of bauxite residue for each ton of alumina i.e. ~10.1 Mt bauxite residue is produced annually.

BRDA1 was filled to capacity in 1993, decommissioned and capped in 2009. BRDA 3 merged with BRDA 4 after part of it was used as general landfill. BWAPL also operates several other dams that are essential to the operation of the refinery. These include two seepage collection ponds, solar evaporation ponds, a fresh water lake and a catchment lake upstream of the refinery.

The tailings from the alumina production process is washed and filtered prior to deposition in the BRDAs. This is done to minimise caustic losses to tailings.

10.2 Tailings storage facilities design and construction

The BRDAs are clay lined with a network of drainage pipes above and below the clay liner layer. The drainage pipes above the clay manage the residue seepage water, while those below the clay manage the natural groundwater. The system is designed to maintain separation of water seeping from the bauxite residue and the natural groundwater.

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BRDA 1 through 4 have gravity penstock decants while BRDA 5 has a pumped decant. The pumped decant has gravity decants with internal pipes to a central concrete pump shaft, from where it is pumped back for re-use.

The BRDAs have an initial starter embankment and are then raised by the upstream methodology as shown in Figure 10-2. The upstream raises are also constructed with clay.

There is a required design strength of the residue beach that needs to be achieved to facilitate this raising, especially with a decreasing upper surface area associated with upstream raising. To assist in achieving this design strength, BWAPL employs amphirols to assist with water removal from the deposited residue to improve solar drying, consolidation and strength gain. Once sufficient strength has been achieved for safe dozer access, the density of the residue is then further increased by dozer ploughing to promote further drying.

Figure 10-2: Typical embankment cross-section

Source: BWAPL (2014)

The ultimate design heights (RLs) for the various BRDAs have been set at RL 316 based on stability and landform aesthetics criteria. The current BRDA Main Wall RLs and remaining heights are as follows:

BRDA 2 308.5 (7.5 m)

BRDA 4 294.2 (21.8 m)

BRDA 4X 294.2 (21.8 m)

BRDA 5 275.7 (40.3 m).

This indicates that there is still capacity in most of the BRDAs with respect to the permitted heights until BRDA 6 is required in 2038.

10.3 Tailings storage facilities construction and operation

The operation of the facility requires the active management of the bauxite residue disposal. The active residue disposal requires enough surface area and cells to ensure a rotation of >42 days between deposition events. Mud farming of bauxite residue using amphirols accelerates residue de-liquoring.

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Amphirols are amphibious machines that propel themselves using a screw mechanism that also lifts up or scrolls the wet tailings into low banks. Amphirolling normally commences within 72 hours after deposition. The amphirol travels along straight lines down the beach to promote drainage along the swales towards the decant pond. The tailings in the raised banks dries more rapidly than it would if no scrolling occurred, because water drains from the low banks into the shallow swales. Repeated scrolling also lifts underlying wet tailings to the surface and also breaks up surface crusting that reduces evaporation. It also prevents crust formation and subsequent liquor entrapment, whilst maximising the available benefits of natural evaporation and drainage properties.

The active management of the bauxite disposal results in consolidation rates suitable to allow upstream Embankment construction. The areas of new BRDAs developed to meet the raise requirements has to be balanced with areas of BRDAs closed, such that the water management facilities can operate as designed. If too much area is opened and not enough closed, then this could result in unmanageable quantities of contaminated water during periods of high rainfall.

It is currently assumed that the entire bauxite Mineral Resource will be processed at the current Worsley Refinery. The sequence of commencement and closure of future BRDAs has been calculated using the residue deposition rates.

SRK understands that a concept design has been completed for BRDA 6 which will be located on the current refinery lease. SRK further understands that this facility is only required in approximately 2038 with the approvals and detailed planning process starting in around 2033.

The storage capacity of a BRDA 7 with similar capacity to BRDA 6 will possibly be required to accommodate the remaining bauxite Mineral Resource. SRK understands that the location of this facility has not been selected. There is no available space on the current refinery lease and a new site will need to be selected.

Two recent audits and reviews of the BRDAs have been undertaken (in November 2013 and March 2014) by two separate parties. The BRDAs have been designed to a recognised guideline (ANCOLD) and the Western Australian tailings regulatory (DMP) framework is being applied to the design and operation of dams. SRK considers the BRDAs design and management to be leading practice .

The audits found some discrepancies between operations (reliance on small number of staff and contractors) and operations manuals, and these have been/are being rectified. The facility design also needs to be upgraded to meet the latest ANCOLD (2012) guidelines with respect to liquefaction.

10.4 Oxalate storage

Sodium oxalate is a common contaminant in almost all alumina refineries. Its low solubility in Bayer liquors causes it to interfere with most of the unit processes of the refinery and it must be continuously removed. At Worsley Refinery, the oxalate is removed from the main liquor circuit by co-precipitating it with gibbsite in a controlled way and then washing the gibbsite to dissolve the oxalate. The oxalate solution is sent to a side-stream crystalliser, producing an oxalate cake that is trucked to landfill within the BRDAs.

The current design calls for approximately 80% of the sodium oxalate produced daily to be sent to the liquor burner, but ongoing reliability issues have resulted in the liquor burner only operating at around 70% of the daily input. This impacts oxalate storage in the BRDAs, with current estimates suggesting that existing disposal capacity will be

consumed by March 2015.

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SRK understands that plans are being implemented to resurrect the disposal capability to a lined pond (SEP3) that will provide four years storage capacity for all oxalate produced (and significantly longer in reality when the portion sent to the liquor burner is taken into account). Beyond SEP3, SEP 2A is also available if needed and will provide a further minimum of seven years storage capacity.

10.5 Capital and Operating expenditure

BWAPL budgeted operating and capital costs for the BRDAs for the next five financial years as shown in Table 10-1.

Table 10-1: Budgeted capital

Costs (A$)	FY15	FY16	FY17	FY18	FY19
Operating Costs - BRDA ($M)	9	9	10	10	10
Capital Costs - BRDA Construction ($M)	37	37	38	37	37

The capital costs range from approximately $3.65/t to $3.75/t. Based on the upstream raising methodology, this is not unreasonable. This assumes that the operating budget is spent to ensure that the bauxite reside is sufficiently consolidated to support upstream raising.

From Year 5 onwards, i.e. outside the immediate 5-year planning, BWAPL has allowed a budget amount of $40M for sustaining capital for the BRDAs. These costs may increase when a new BRDA is required in approximately 2038.

The operating costs range from approximately A$0.90 to A$1.00/t of tailings. These costs are considered relatively high, and are based on historic actual costs incurred and likely reflect the level of effort required to meet the upstream raising criteria.

10.6 Summary comments

The site has designed tailings capacity through 2038 and has a conceptual plan that may take them to LOM (2070) depending on deposited densities achieved. The BRDAs are built using the upstream methodology, and requires the site to manage cyclic deposition and the tailings beach to be consolidated prior to each raise construction. Consolidation of the beach requires the removal of excess water, which is achieved by using amphirols, followed by ripping and desiccation drying.

BWAPL has planned a desk top study into the best business option for oxalate disposal or destruction for FY2015 in order to set the provide direction for future oxalate disposal treatment in the refinery.

The facility is monitored by the facility designers and audited by two additional external parties on a regular basis. SRK considers the BRDAs design and management to be leading practice .

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11 Human Resources

11.1 Introduction

BWAPL is a major economic driver for the South West and Peel regions of Western Australia. It provides a wide range of professional and trades employment opportunities and has long-term relationships with local contractors, suppliers and service providers. The BWAPL workforce is made up of both direct employees and contractors. The total number of costed employees was over 2,450 as at 30 June 2014, of which around 650 are contractors. Over A$300M was contributed towards wages and superannuation in FY2014 with additional expenditure on local businesses, State royalties and taxes and community investment. There is currently a companywide efficiency drive to increase productivity and to reduce the number of full time employees and contractors. The most recent initiative has seen around 120 positions become redundant in both operations and administrative support functions. This focus has now moved to reducing contractors and contractor rates.

11.2 Operating structure

BWAPL is a continuous operation, operating on a seven-day week, 24 hours a day basis. The workforce is made up of employees, agency contractors and service contractors. There is an ongoing head count reduction initiative in place. The 5-year plan data (actual and forecast) is provided in Table 11-1. Progress towards the FY2015 plan head count reduction is well advanced with total numbers at end of the first quarter of FY2015 being 2,491 comprising 1,854 employees, 46 agency contractors and 591 service contractors and a reduction to target seems likely.

Table 11-1: Worsley Alumina historical & forecast headcount

Headcount (#)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Employees	1,883	1,806	1,941	1,872	1,834	1,834	1,834	1,834
Agency Contractors	84	95	109	31	31	31	31	31
Service Contractors	649	732	553	516	479	479	479	479
Total Headcount	**2,616**	**2,633**	**2,603**	**2,419**	**2,344**	**2,344**	**2,344**	**2,344**

Source: Worsley 5 Year Plan

11.3 Recruitment

BWAPL is one of the largest private employers in the South West of Western Australia and is considered to be an employer of choice. BWAPL is considered to be a good corporate citizen with high levels of wider stakeholder engagement and support. The bulk of employees are employed from the regional hub of Bunbury and regional towns proximate to the respective operations such as Collie and Boddington. The mine site is also close enough to the South East Perth suburbs to allow for commuting.

BWAPL has adopted a non-discrimination, equal opportunity and diversification policy. Employment is on the basis of merit. The company employs more than 100 trainees and apprentices and offers a variety of other work programs.

Operations enjoy a very stable and experienced workforce with a long average employee length of service. Overall turnover is between 5% and 7%. This high level of stability is unusual in the resource sector, particularly when compared with fly-in / fly-out operations. It is an important competitive advantage promoted by the good work conditions, remuneration, development and training and lifestyle choice of many to live in the South West. Because of the stability of the workforce, it is aging and does carry some risks.

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There are no issues recruiting and maintaining a highly skilled workforce even during upturns in the resource sector on account of the above.

11.4 Industrial relations

BWAPL is a relatively non-unionised site with over 1840 employees working on a staff contract out of the total of 1,841. Employees work on an individual workplace contracts. They exceed national legal standards and meet local industry benchmarks. Historical industrial relations with the workforce are reputed to be good with no notable unrest in recent history as evidenced by the extremely stable work force and low levels of turnover.

Making up the remaining head count are contractors. There are a number of unionised service and agency contractors on site. BWAPL has adopted an open attitude towards the legitimate activities of trade unions. Worker s representatives are allowed to carry out their legitimate representative functions in the workplace and are not discriminated against. Trade unions are provided with entitled access to the operating sites and have regularly used this access, particularly during award renegotiations where authorised visits have exceeded 200 in a year (2013), but this has not resulted in any significant recruitment of BWAPL employees. Conversely, in comparison, FY2014 saw the lowest volume of union right of entry visitation since the inception of the Act, with 28 visits conducted at BWAPL operations, only four of which were to hold discussions with BWAPL employees. In FY2015, visitation has dropped further and has been focused on service contractors.

In SRK s opinion, BWAPL s exposure to industrial relations risk is considered low, based on the current employee staff contracts, work conditions, recognition/reward, leadership, employee engagement, development, rosters and general employer/employee relationship.

11.5 Summary comments

The human resource characteristics of the BWAPL are not considered a risk to the ongoing operation or the forecast LOMP. BWAPL is a relatively non-unionised employer of choice with a stable, highly skilled regional workforce and a good relationship with employees, contractors and wider stakeholders.

There is an ongoing efficiency drive that will see a reduction in labour costs over the coming years and overall head count will drop. This will need to be managed carefully to ensure the existing relationship with employees is maintained.

Contracting companies provide a number of services and have been an integral component of the Worsley business. Plans to bring more work in-house will impact on the workforce, contractors and contracting companies.

Salary expectations are subject to the relative health of the resource sector in Western Australia and are subject to fluctuations typical of this sector. BWAPL is better protected than most due to the stability of, and existing relations with, the workforce.

BWAPL s exposure to industrial relations risk is considered low.

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12 Occupational Health and Safety

12.1 OHS management

Occupational Health and Safety (OHS) falls under the BHP Billiton Global Group level Health Policy. The OHS framework is structured, rigid, managed with expertise, audited and compliant. Over and above this, BWAPL has its own Health, Safety, Environment and Community (HSEC) Management Standard that defines the minimum performance requirements and accountabilities for the management of HSEC programs and risks.

BWAPL s OHS management standards include: commitment and policy; planning; implementation and operation; measurement and evaluation; review and improvement. Performance is well reported and internally audited.

12.2 Occupational health and major exposures

BWAPL is currently focused on a number of key exposures, primarily dust, noise and heat. Furthermore, BWAPL, through BHP Billiton, has a fatal risk control in place to identify, assess and mitigate the major risks associated with:

Vehicles and mobile equipment

Explosives and blasting

Ground controls

Hazardous materials

Isolations and permits to work

Working at height

Lifting operations.

There are specific policies, strategies, procedures, and the normal hierarchy of safety in place addressing these major exposures but not to the exclusion of all others. There is a continual process of risk assessment undertaken, crisis and emergency management plans in place, security and emergency management.

12.3 OHS performance

BWAPL continues to set the target number of recordable injuries, illnesses and significant events to zero. Their position is that they do not accept or plan for them. The philosophy used to achieve this is to embed the company philosophy to manage HSEC outcomes rather than the outcomes themselves. This strategy is currently being implemented (better design, planned and executed work), with significant improvement in some discreet areas of the business. The expectation is that OHS performance will continue to improve as a result.

Worsley has an elaborate, extensive and well resourced OHS system to ensure the various OHS policies, site guidelines, training, procedures and equipment provide for the best opportunity to meet their zero target.

Historical safety statistics as at the end of September 2014 are summarised in Table 12-1. Injury rates are per million hours worked.

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Table 12-1: Historical & forecast summary safety statistics (including E&G Expansion)

	FY12	FY13	FY14	FY15 YTD**
Total Recordable Injury Frequency (TRIF)	5.99	9.45	8.66	9.09
Total Recordable Injuries (TRI)	61	47	43	11
Fatality	0	0	0	1
Total Recordable Illnesses Frequency (TRILF)*	1.57	6.84	5.23	4.96
Total Recordable Illnesses	16	34	26	6
First Aid Cases (FAC)	657	296	284	63
Significant Events	59	42	61	8

* Frequency rate is per million hours
** 2015 Year to date as at 30 September 2014
BWAPL has generally improved performance for TRIF and illnesses; however, a fatality has recently occurred and is under investigation. Significant effort is being placed on OHS to ensure continuous improvement towards BWAPL s stated aims.

12.4 Summary comments

BWAPL adequately addresses the OHS of its employees, contractors and other stakeholders at its operations. There is appropriate formal structure and framework, policy, processes, planning, resourcing, performance standards and reporting, compliance assessment and auditing in place to ensure that BWAPL OHS aims are met, as well as all legal and regulatory requirements.

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13 Environmental

13.1 Introduction

This environmental review describes and provides comment on the documented significant environmental aspects and the associated compliance strategies and/or practices in respect to state/national environmental legislative requirements in relation to the BWAPL which comprises:

Boddington Bauxite Mine (Mine)

Worsley Alumina Refinery (Refinery)

Overland Conveyor from the Mine to the Refinery (Overland Conveyor)

Port of Bunbury Stockpile and Shiploader Facilities (Port Facilities).

13.2 Basis of Environmental Review

The principal environmental documents reviewed were:

Alumina Refinery (Worsley) Agreement Act 1973 (Agreement Act).

Worsley Alumina Project Expansion Environmental Review and Management Programme (ERMP), prepared by Strategen in May 2005.

EP Act Part IV approval for the ERMP Ministerial Statement 719 (MS719), issued 13 April 2006.

EPBC Act approval, issued 6 June 2007.

EP Act Part V current Works Approvals, Environmental Licences and Native Vegetation Clearing Permits.

Annual Environmental Reports (AERs) for AER FY2013 and AER FY2014.

BHP Billiton Worsley Alumina Pty Ltd (BWAPL) response to Environmental Management Liaison Group (EMLG) comments on the Worsley Alumina AER FY2013 (6 January 2014).

WA Minster of State Development statement on AER compliance (2 December 2013).

Worsley Technical Audit - Internal Audit Report, 2013.

MRF Act 2014 rehabilitation liability submissions and rehabilitation levy payments.

RIWI Act current licence to take surface water (Refinery) and associated annual hydrological report.

Worsley Alumina Refinery Hydrological Monitoring Review, July 2013 June 2014 (September 2014).

Current operational environmental monitoring and management plans and reports.

Conceptual Closure Plan 2014 and closure estimation model and closure plan valuation report.

Contaminated Sites Assessment Strategy.

Stakeholder engagement plans, reports and records.

In addition to a desktop review of the above documents, SRK undertook a site visit of the Refinery and the Mine on 22 and 23 October 2014.

13.3 Environmental Setting

The Worsley Alumina Project is located on the Darling Plateau in the south west of Western Australia. The mining operations lie within the Hotham and Williams river catchments, while the Refinery is situated within the Brunswick River and Augustus River Catchments. Existing and proposed mining areas are not located in any proclaimed groundwater areas.

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The Worsley Alumina Project lies within three regional development areas that incorporate eight local governments:

South West Region, which incorporates the Shires of Collie and Harvey and the City of Bunbury

Peel Region, which incorporates the Shire of Boddington

Wheatbelt Region, which incorporates the Shires of Brookton, Williams, Wandering and Beverley.

The major project components are located near to the towns of Boddington (Mine), Collie (Refinery) and Bunbury (Port Facilities). The predominant land uses surrounding the general project areas are forestry, mining, power generation and agriculture (Mine and Refinery), and urban/industrial (Port Facilities). The Mine and the Refinery are also situated within and/or surrounded by State Forest areas and privately owned agricultural land.

The project area vegetation lies within the general classification of Eucalyptus woodland, and mainly comprising Jarrah (*Eucalyptus marginata)* and Marri (*Corymbia calophylla)* forest in the west and Wandoo (*Eucalyptus wandoo)* and Marri woodlands in the east. The project ERMP states the Northern Jarrah Forest has moderate species richness and that several species of threatened flora and threatened or vulnerable fauna species have been recorded in existing and proposed mining areas and the Refinery Lease Area. However, no Declared Rare Flora or Threatened Ecological Communities were known to occur in the project areas at the time that the ERMP was prepared.

13.4 Environmental Management

BWAPL has a range of operational environmental management plans which have been developed to address the key environmental issues identified through the project s environmental assessment and approvals (Section 13.5). BWAPL has developed and is currently implementing the following environmental management plans to address these issues:

Biodiversity and Forest Management Plan (i.e. includes dieback management and site rehabilitation planning)

Noise Management Plan - Bauxite Transport

Noise Management Plan - Mining and Blasting

Water Resource Management Plan Mining

Dust Management Plan - Bauxite Mining and Transport

Refinery Air Quality Management Plan

Refinery Water Management Plan

Energy and Greenhouse Gas Management Plan

Waste Management Plan.

The AER FY2014 states that during the reporting period (i.e. 1 July 2013 to 30 June 2014) an internal audit of the Greenhouse Gas Management Plan, Refinery Air Quality Management Plan, Refinery Water Management Plan and the Noise Management Plan Mining and Blasting was conducted by BWAPL to assess compliance with MS719 conditions. Generally, the operations were found to be compliant in regards to implementing the requirements of these Management Plans.

BWAPL has a dedicated environmental and community/external affairs department that cover the project s environmental monitoring and auditing and the environmental improvements and approvals. Each of the project s main technical departments has environmental management responsibilities and programs that are specific to their technical areas. For example, the rehabilitation of the mined areas is undertaken through the Mining Department.

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13.5 Environmental Issues

The key environmental issues for the project vary according to the nature of the operations being undertaken, as outlined below.

13.5.1 Mine and Overland Conveyor

The key environmental issues associated with the Mine and Overland Conveyor are identified in the documents reviewed as:

Land disturbance and rehabilitation: Mining and rehabilitation are conducted progressively. The AER FY2014 notes that 68.75 ha of mined land were rehabilitated during the reporting period, with 61.58% of topsoil being directly returned from mine pit to rehabilitation area. The AER states that land clearing and rehabilitation practices are generally considered to be satisfactory, but it is noted that there was one incident of clearing outside of the approved boundary during the FY2014 reporting period. This incident was reported to the DER.

Noise impacts: There is potential for noise from the Mine and Overland Conveyor to adversely affect nearby residences and it is noted that 21 noise complaints were lodged by stakeholders during the FY2014 reporting period. The Mine uses a Noise Sentinel system (real time noise monitoring and control system) and attributes the use of this system to a 74% decrease in noise complaints the FY2014 reporting period compared with FY2013. BWAPL implements Noise Management Plans for mining and blasting as well as bauxite transport. The AER FY2014 state that these plans are generally being implemented in a satisfactory manner.

Surface water impacts: The key aspects related to surface water are drainage within progressive mining areas and also general wastewater drainage from ore handling and industrial areas. Mining surface water drainage is collected in sumps and dams, treated then reused for site dust suppression. BWAPL has developed and implements a Water Resource Management Plan Mining. The AER FY2014 notes that this plan is generally being implemented in a satisfactory manner.

Flora and fauna impacts: There is potential for direct and indirect impacts on flora and fauna due to the operation of the Mine and Overland Conveyor. Of particular concern is the potential for impact on forest areas, and protected conservation areas and the risk of dieback spread. BWAPL has developed and implements a Biodiversity and Forest Management Plan that includes dieback management and site rehabilitation planning. The AER FY2014 notes that the Biodiversity and Forest Management Plan is generally being implemented in a satisfactory manner.

Dust impacts: BWAPL has developed and implements a Dust Management Plan for bauxite mining and transport. Dust management practices are generally considered to be satisfactory, but it is noted that one

incident of visible dust emissions was reported to the DER and two stakeholder complaints relating to dust emissions were received by BWAPL during the FY2014 reporting period. The AER FY2014 notes that the Dust Management Plan is generally being implemented in a satisfactory manner.

Contaminated sites: BWAPL has reported known and/or suspected contaminated sites at the Mine (workshop, magazine and landfarm) to the DER in accordance with its obligations under the CS Act.

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Stakeholder engagement: Based on the summary information in the AER for FY2014 on community complaints received during the reporting period, the key stakeholder issues associated with the Mine and Overland Conveyor are primarily in response to surrounding ambient residential noise impacts, airblast overpressure and dust emissions. BWAPL also implements a Stakeholder Engagement Management Plan for the Worsley Project on annual basis. The current FY2015 Stakeholder Engagement Management Plan was provided for review. The Stakeholder Engagement Management Plan addresses the consultation for each key stakeholder group on both operational matters and also project development proposals. In addition, there is also a current Community Engagement Plan that focuses on the consultation with private land owners that will be impacted by future mining plans. BWAPL also maintains a Stakeholder Engagement Register that records the consultation undertaken for the implementation of the engagement plans, as well any public complaints received in respect to project s operations.

13.5.2 Refinery

The following key environmental issues associated with the Refinery are identified in the documents reviewed:

Land disturbance and rehabilitation: BRDAs will require covering and revegetation. The project s Closure Plan identifies a lack of cover material for the BRDAs as a key closure risk, with no proposed remedial actions developed to date. The 2013 Worsley Technical Audit identifies catastrophic failure of BRDA embankments as a key material risk for the project, but considered the risk to be Well Controlled .

Air emissions: Dust emissions from the BRDAs and dust and sulphur dioxide emissions from processing are the key air quality issues for the Refinery. Environmental monitoring at the Refinery is undertaken in accordance with the site s DER licence number with any stack emission testing results in excess of the licence targets reported to the DER as per the licence conditions. BWAPL has developed and implements a Refinery Air Quality Management Plan. The AER FY2014 notes that this plan is generally being implemented in a satisfactory manner.

Surface water impacts: The key issues associated with surface hydrology identified during this review were water extraction from a fresh water lake, plant/BRDA drainage management and process water management. The 2013 Worsley Technical Audit identifies contaminated water released from site containment as a key material risk for the project, but considered the risk to be Well Controlled . BWAPL has developed and implements a Refinery Water Management Plan that addresses surface water and groundwater management. The AER FY2014 notes that this plan is generally being implemented in a satisfactory manner. However, the AER FY2014 does note that there was an incident involving a liquor spill into a freshwater catchment area occurred during the FY2014 reporting period (with no environmental impact). This incident was reported to the DER.

Groundwater impacts: The main groundwater contamination risk relates to contamination from BRDA seepage (including from oxalate storage within the BRDAs). The 2013 Worsley Technical Audit identifies insufficient site water inventory to sustain production as a key material risk for the project, but considered the risk to be Well Controlled . Groundwater management is covered under the Refinery Water Management Plan. The AER FY2014 notes that this plan is generally being implemented in a satisfactory manner.

Contaminated sites: BWAPL has reported known and/or suspected contaminated sites at the Refinery to the DER in accordance with its obligations under the CS Act.

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13.5.3 Port facilities

The key environmental issues associated with the Port facilities are identified in the documents reviewed as:

Dust emissions: Dust emissions at the Port occur mainly in association with ship loading. The alumina storage and conveyors are enclosed (including the ship loading conveyor). Significant dust emissions can occur from the discharge into the ship hold, particularly when the ship hold is close to being filled. Current management strategies include reducing the ship loading rate to reduce emissions and halting ship loading when conditions are windy (i.e. wind monitors are utilised). A closed hatch system is also currently being trialled. Site perimeter ambient dust monitoring is also undertaken and public complaints are recorded. The AER FY2014 states that no public complaints were recorded for the Port during the reporting period.

Contaminated sites: BWAPL has reported known and/or suspected contaminated sites at the Port to the DER in accordance with its obligations under the CS Act.

13.6 Environmental compliance

BWAPL undertakes annual environmental compliance reporting on a financial year basis. This reporting is in accordance with environmental reporting commitments and obligations specified within:

Worsley Agreement Act

EPBC Act approval (EPBC 2004/1566)

EP Act Part IV approval Worsley Alumina Expansion Project ERMP and MS719

EP Act Part V licences and permits

RIWI Act Hydrological Monitoring Review for surface water licence No.SWL68041(4).

The WA Minster of State Development has stated that *the EMLG is satisfied that the AER fulfils BWAPL s requirements under the State Agreement and the Environmental Protection Act 1986* in relation to the AER for FY2013.

It is understood that the AER FY2014 has been submitted to the EMLG. The AER FY2014 makes the following statements in respect to the project s current environmental compliance during the reporting period (from 1 July 2013 to 30 June 2014):

During the reporting period, three environmental incidents were reported to the DER. These were clearing outside of the approved boundary at the Mine, visible dust emissions at the Mine, and a liquor spill into the freshwater catchment area at the Refinery. These incidents were subsequently investigated and corrective measures were actioned.

An internal audit of the Greenhouse Gas Management Plan, Refinery Air Quality Management Plan, Refinery Water Management Plan and the Noise Management Plan Mining and Blasting was conducted to assess compliance with MS719 conditions. Generally, the operations were found to be compliant in regards to the requirements of the Management Plans.

The EPBC Act compliance report was prepared by BWAPL and submitted to the DEH on 16 September 2013. The Action Implementation Status for the EPBC Approval (prepared by BWAPL and presented in the AER FY2014), describes the current status as *satisfactory during this period* .

Environmental monitoring at the Refinery was undertaken in accordance with Licence number L4504/1981/16. Stack emission testing results in excess of the Licence targets were reported to the DER as per the licence conditions.

Twenty eight community complaints were received during the reporting period in relation to mining and conveying activities. Of these, 21 complaints were related to noise, five were related to airblast overpressure and two related to dust emissions.

Flora and fauna conservation measures have included designation of protected areas, pre-clearance surveys, designation of protected areas and research studies into improvements for rehabilitation.

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BWAPL has stated that it expects to receive and respond to the EMLG comments / recommendations on the AER FY2014 during November and December 2014. Note: BWAPL reports that feedback from the Environmental Management Liaison Group (EMLG) confirms there are no outstanding issues.

BWAPL has developed a Contaminated Sites Reporting Strategy to meet its obligation to report known and/or suspected contaminated sites to the DER in accordance with the CS Act. In 2007, BWAPL completed a Preliminary Site Investigation and fulfilled its obligation to report its known and/or suspected contaminated sites to the DER. The reported sites comprises the Refinery, the Port facilities, sites within the Mine (workshop, magazine and, landfarm) and sites on JV properties (e.g. agricultural land with private landfills, cattle yards etc.). In 2010, BWAPL developed a Contaminated Site Assessment (CSA) strategy for the project (Section 14.11). This CSA strategy has been incorporated into the project s Closure Plan (Section 14.7).

BWAPL has stated that no recent external third party environmental audits of the project have been undertaken. The outcomes of the 2013 Worsley Technical Audit (an internal audit) are outlined in Section 13.5.

During the SRK site visit conducted in October 2014, it was considered that the BWAPL site environmental practices and facilities observed at the Refinery and the Mine were generally in line with:

Site environmental management measures specified in the project environmental documentation reviewed.

Australian Federal and WA State environmental legislative requirements and guidelines.

Recognised international industry environmental standards.

13.7 Closure Plan

The current 2014 (Final Draft) BWAPL Conceptual Closure Plan (Closure Plan) is being produced to satisfy the internal requirements of the BHP Billiton Group. There are no conditions within the Agreement Act or M70/258SA that require the submission of a Mine Closure Plan prepared in accordance with the 2011 DMP and Environmental Protection Authority (EPA) Guidelines for Preparing Mine Closure Plans. However, BWAPL used these DMP/EPA Guidelines for reference and guidance in the preparation of the Closure Plan.

It should be noted that the tenement conditions for mining leases subleased by the Boddington Gold Mine require the submission of a Mine Closure Plan to the DMP, but BWAPL has advised that these pertain only to the Boddington Gold Mine.

The 2014 final draft Conceptual Closure Plan states that BWAPL conducted an initial review of legislative and technical site closure obligations and commitments in 2001 and then updated this in 2005 and 2012. These site closure obligations and commitments have been incorporated into the Closure Plan (including establishing technical completion criteria).

The Closure Plan states that under the Agreement Act, BWAPL has *Bauxite Mining Mine Rehabilitation Agreed Arrangements* between BWAPL and Department of Parks and Wildlife (DPaW) for State Forest areas. This agreement provides a general rehabilitation prescription and associated criteria, which are incorporated into location-specific mining rehabilitation proposals. In addition, BWAPL is also required, when operations are situated on private land, to enter into a Consent, Compensation and Restoration (CCR) Agreement with the owner prior to conducting bauxite mining or related operations. These CCR agreements specify the purpose for which the land use will be used at completion of restoration (i.e. generally based on pre-existing land-use), and the types and quantities of vegetation that will be planted on the owner s land. SRK notes that Closure Plan provides an example of a CCR Agreement, but does not provide details and/or copies of the actual CCR Agreements.

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The Closure Plan identifies current key closure risks and the associated proposed remedial actions for the project components (Mine and Overland Conveyor, Refinery and Port), and utilises the CSA strategy for the identification of potential closure liabilities associated with site contamination (Section 13.11). While the Closure Plan addresses unplanned closure, the risk of unplanned closure (i.e. within the next five years) is defined as unlikely .

Closure cost estimates have been developed for all of the proposed closure risk mitigation controls, strategies and actions (Section 13.8).

The Closure Plan describes the project s proposed post closure maintenance and monitoring program and states that post-closure monitoring for the Mine and Overland Conveyor will need to continue for a period of 20-30 years; and for the Refinery for a period of 40-50 years.

13.8 Closure Cost estimate

BWAPL developed a conceptual closure plan based on a risk based methodology which considers risks related to closure, controls to eliminate / reduce these risks and residual risks. The closure cost model prepared is Excel based with deterministic and probabilistic components and based on the current project definition is classified as a Class 4 estimate, defined as (-25% to +35%).

The scope of the closure cost estimate is determined according to the cost to control risk and includes a contingency to cover residual risks. Current closure costs do not include HR costs (redundancies), sale and salvage of plant and infrastructure and sale of land or other assets.

As part of BHP Billiton reporting requirements the closure cost model is reviewed bi-annually and updated according to published price indices (Australian Bureau of Statistics). During 2012, the closure cost estimate was updated to include E&G expansion, demolition, and removal of port facilities and revised rehabilitation costs. The total closure cost as at June 2012 was estimated to be A$2,378M.

In 2014, the Closure Plan was revised and the cost model updated as part of the biannual update. The current closure cost (June 2014) has an undiscounted closure cost of A$2,094M (100%) with the accounting provision estimated at US$218M (Table 13-1).

Table 13-1: Summary of 2014 closure cost estimate (Draft conceptual closure plan, 2014)

Last closure review performed	2014 (report)
Next scheduled review	Annual
Current cost of estimate	Class 4
Planned Closure date	2079 (Reserves & Resources)
Relinquished Date	Undetermined
Currency Exposure	100%
Undiscounted Closure Costs (4 June 2014) 100%	A$2,094M
Accounting Provision (4 June 2014)	US$218M (100% BHPB)
Likelihood of unplanned closure	Unlikely

Notwithstanding the stated scope, the cost estimate is based on a risk based methodology developed by URS. Whilst this approach provides a Class 4 closure cost estimate which is adequate for this stage of the project, SRK considers that to develop a Class 3 estimate (10 years before closure), further work will be required. This work would be the development of a site specific closure plan with specific completion criteria that can be used for a more definitive Class 3 cost estimate.

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13.9 Operating expenditure

BWAPL has stated that operating expenditure for the environmental and community/external affairs department comprises BWAPL staff and technical consultant/contractor costs, and essentially covers environmental studies, monitoring and reporting costs.

BWAPL has also stated that the costs of implementing the project environmental management plans are incorporated into the relevant technical department operating expenditure budgets. For example, costs for the Mine rehabilitation program are within the mining budget and the costs for the BRDA rehabilitation program are within the Refinery processing operating budget.

13.10 Capital expenditure

BWAPL has stated that there is no specific environmental capital expenditure. However, there are environmental related capital expenditure items that are within relevant technical department capital expenditure budgets. For example, capital costs associated the BRDAs and air emission controls are within the Refinery processing capital budget. These technical department capital budgets and expenditure are discussed in detail within the relevant sections of this report.

13.11 Environmental liabilities

The CSA strategy developed for the project by BWAPL has identified the potential groundwater and surface water contamination (and the associated soil contamination) from waste and water storage and management facilities as being the key priority site contamination risk. The proposed overall management approach is:

Management of contamination sources (e.g. surface drainage systems, spill containment etc.)

Assessment, monitoring and modelling of groundwater

Sufficient soil assessments to characterise the extent of contamination.

The CSA strategy is also incorporated into the Closure Plan, such that site contamination risk issues are identified and managed up to decommissioning and closure (i.e. with the objective to rehabilitate the contaminated sites upon closure). The Closure Plan states that the *full extent of site contamination cannot be determined for most of the Worsley Alumina Project until the final removal of infrastructure such as pads and associated structure in the Mine and Bayer plant area*. However, monitoring and assessment through the life of the project will assist in gaining an understanding of potential site contamination.

The Closure Plan states that BWAPL will, as a 2014 closure planning action item, *create a formal contaminated sites register and process for including newly identified sites*. This will be based on the details reported in the CSA.

There are no conditions within the Agreement Act or M70/258SA that require the submission of a Mine Closure Plan prepared in accordance with the 2011 DMP and EPA Guidelines for Preparing Mine Closure Plans. However, BWAPL has used these DMP/EPA Guidelines for reference and guidance in the preparation of the Closure Plan. The Closure Plan states that the current 2014 estimated closure cost liability is A$2,094M, and also that there is a significant requirement for post-closure monitoring (i.e. 20-30 years for the Mine and Overland Conveyor and 40-50 years for the Refinery).

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13.12 Summary comments

The key environmental issues, risks and liabilities for the Worsley Alumina Project are commensurate with the size and complexity of the project. The location of the project within and adjacent to State forest areas, surface water catchment areas and privately owned agricultural land, has resulted in significant site-specific environmental issues, risks and liabilities. SRK confirms that the project s environmental management has been tailored to address these site specific environmental issues, risks and liabilities (i.e. through the production and implementation of appropriate environmental management plans).

The key closure risks and the associated proposed remedial actions have been identified within the project Closure Plan, including the requirement for post-closure monitoring for the Mine and Overland Conveyor for 20-30 years, and for the Refinery for 40-50 years. The current 2014 estimated closure cost liability is A$2,094M.

Based on the documentation reviewed and observations made during the site visit, it is SRK s opinion that the environmental management of the Worsley Alumina Project is currently generally in line with Australian Federal and WA State environmental legislative requirements and guidelines, and also with recognised international industry environmental standards (such as the World Bank/International Finance Corporation Environmental and Social Performance Standards and Guidelines).

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14 Valuation Methodology

14.1 Introduction

SRK has undertaken an economic analysis and valuation of the Worsley Alumina Project. SRK has adopted the discounted cash flow (DCF) valuation method to determine the Project s net present value (NPV), and subsequently, a range of values for this project.

14.2 Reporting standard

This section of the Report has been prepared to the standard of, and is considered by SRK to be a Valuation Report under the guidelines of the VALMIN Code.

The VALMIN Code is the code adopted by The Australasian Institute of Mining and Metallurgy (AusIMM) and the standard is binding upon all AusIMM members. The VALMIN Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

The effective date of this Technical Value of Ore Reserves is deemed to be 31 December 2014.

SRK has valued the Project on the basis of Technical Value of the Ore Reserve. The Technical Value is defined in the VALMIN Code (2005) as shown below:

Clause D36 of the VALMIN (2005) Code: *Technical Value is an assessment of a Mineral or Petroleum Asset s future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by an Expert or Specialist, excluding any premium or discount to account for such factors as market or strategic considerations.*

14.3 Valuation method

Most mineral assets can be classified as either:

Exploration Property: properties where mineralisation may or may not have been identified, but where a Mineral Resource has not been identified:

Advanced Exploration Property: properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A Mineral Resource estimate may or may not have been made, but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category;

Pre-Development Property: properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken;

Development Property: properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels; and

Operating Mines: mineral properties, particularly mines and processing plants that have been commissioned and are in production.

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SRK considers the property development status to be that of an Operating Mine level. Accordingly SRK has decided on the Income Based Approach and specifically, the DCF methodology, as the valuation method. The project has declared Reserves, therefore, SRK believes that DCF is the appropriate methodology with which to undertake the valuation, as DCF takes into account the information unique to the deposit.

14.4 Materiality

Consideration of materiality as defined within the Valmin Code 2005 refers to: (a) the contents and conclusions of the Valuation; (b) any contributing assessment, calculation or the like; and (c) data and information; are of such importance that their inclusion or omission from a technical assessment or valuation may result in a reader of the Valuation reaching a different conclusion than would otherwise be the case.

The determination of what is material depends on both qualitative and quantitative factors. Something may be material in the qualitative sense because of its very nature, such as, for example, country risk. In the case of quantitative issues in this Valuation, the materiality of data has been assessed in terms of the extent to which the omission or inclusion of an item could lead to changes in total value of: less than five per cent where the item is generally not material; between five and ten per cent where the item may be material; and more than ten percent where the item is definitely material.

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15 Valuation - Value

15.1 Commodity Prices & Macro Economics

15.1.1 Introduction

The following section includes historical and forecast statistics to support the principal assumptions regarding commodity prices and macro-economic inputs into the Technical Value of the Ore Reserve for BWAPL. The information as presented has been sourced from various public domain information databases including internet sources.

The following section is presented for information only and should not be considered a substitute for a detailed historical and forecast demand-supply-price analysis in respect of commodity prices and economic analysis nor that analysis typically required to support forecast assumptions with respect to exchange rates and consumer price inflation.

15.1.2 Commodity price

The Company has not specifically commissioned an independent commodity market specialist to provide a detailed demand-supply-price analysis for Alumina. Accordingly, SRK has relied upon consensus market forecasts (CMF) for the short term (less than five years) annual and LTP projections. These are derived from the median of brokers equity research forecasts and are reported in real terms as at 15 October 2014.

The CMF databases accessed by SRK provide price forecasts for the next three calendar years and a LTP for all periods beyond Year 5. In this instance and where appropriate, SRK has made adjustments to the CMF, specifically when extrapolating the 3-year forecast to the LTP.

Table 15-1 shows the consensus market forecasts used in this valuation. Figure 15-1 shows the range of current consensus forecasts.

Table 15-1: Consensus market forecasts

Commodity	Units	2015	2016	2017	2018	2019	LTP
Aluminium	US$/t	2,000	2,050	2,050	2,000	2,050	2,150
	USc/lb	91	93	93	91	93	98
Alumina	US$/t	340	335	330	340	335	350

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Figure 15-1: Consensus Alumina price forecast

15.2 Macro-economics

15.2.1 Recent and current market conditions

After the downturn of the global financial crisis (GFC), alumina prices and production increased markedly in 2010. Some idled operations were restarted, and major refinery and smelter expansions began planning and construction in Brazil, Australia, and Canada. New pricing indices for alumina began trials, aiming to de-couple the price of alumina from the price of primary aluminium metal, and to better reflect the specific costs of the alumina industry.

In 2011, alumina prices and production continued to increase early in the year; however, began to decline towards 2012. Different factors influenced each of the major global producers, but commonalities negatively influencing the price of alumina included the Fukushima nuclear incident in Japan, developing conflict in the Middle East and North Africa, and the continuing weakness of the US dollar (and particularly the high Australian dollar, relative to the US$) impacting margins and increasing production costs. Heavy rains in Queensland also impacted alumina production; however, the disruption to production was partially offset by the commissioning of the Rio Tinto Yarwun refinery expansion.

Difficult conditions persisted into 2012, with significant decrease in alumina prices. Despite the price decreases, production increases have continued into 2013 and 2014, attributable to the completion of large expansions by major producers, such as the Alumar refinery in Brazil (BHP and Alcoa), Rio Tinto s Yarwun refinery, and BHP s integrated bauxite mine and refinery at Worsley, Western Australia. Independent alumina producers are also increasing capacity, particularly in China and India. A supply surplus has continued up to early 2014, although prices and profits have decreased due to unfavourable foreign exchange rates, and some supply disruptions in Australia due to cyclone Oswald in 2013.

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Sales of alumina using new pricing indices are becoming more widespread. From 2013 onwards, major producers such as Alumina Ltd aim to sell the majority of their production using the new spot pricing method, de-linking the price of alumina from that of LME aluminium. Although the new pricing methods are expected to improve alumina prices relative to production costs, overall alumina prices have remained low, and high production costs have impacted producers outside China.

In 2014, major operations have been subject to significant write-downs, including BHP s Worsley in Western Australia, or partially suspended operations, as at the Alumar Refinery in Brazil. Other major producers have closed or divested higher cost alumina operations, such as Rio Tinto s Gove Refinery in Australia, and others in Europe and elsewhere. This may cause a supply deficit to occur after late 2014 or early 2015, which could last for several years.

Despite the decreasing profitability of major producers with integrated mining-refinery-smelting operations, commissioning of independent refineries and smelters is increasing, particularly in China. Major producers have indicated that they expect further de-coupling of the bauxite-alumina-aluminium supply chain, and typically show reluctance to commit to any significant additional investment into alumina production in the near term.

15.2.2 Supply issues

Indonesia was the largest exporter of bauxite to China, prior to implementing the ban on exports of unprocessed ore in January. The loss of bauxite from Indonesia, combined with the reduced alumina production or closures of high cost refineries globally, is expected to cause an alumina supply deficit from late 2014. Rio Tinto has already reported that the alumina market outside China is now in deficit.

Refineries which are currently suspended, or operating at reduced capacity, such as Alumar, should be able to respond rapidly to increases in alumina price, and could be returned to full capacity. However, integrated mining-refining-smelting operators such as Alumina Ltd and Rio Tinto have indicated that current operations are focused on bauxite production, with expected reductions in alumina refinery production.

15.2.3 Demand issues

Demand for alumina is driven by demand for primary aluminium, which in turn is linked to growth in the construction and transport industries, especially in China. Divestment and closure of major smelting operations has decreased demand for alumina in the European Union (EU), and power supply issues at smelters in South Africa have limited aluminium production capacity, restricting the demand.

London Metal Exchange (LME) warehouse stock levels of aluminium have significantly decreased during 2014, suggesting that the demand for alumina will increase in 2015. The switch to spot pricing or index based pricing of alumina will decrease the sensitivity of alumina prices to LME aluminium demand, but most alumina producers report that spot pricing has had a positive, upward impact on prices.

15.2.4 Supply/ demand balance effect on price

Although the alumina market outside China is now in deficit, the upward impact on alumina prices may not be significant in 2015. As stockpiles of bauxite from Indonesia are depleted, a deficit of alumina in China may occur in 2015, unless the Indonesian export ban is relaxed. Alumina prices remain low, and most major producers, including BHP, Rio Tinto, and Alumina Ltd have indicated that current conditions do not warrant additional investment in production capacity outside of China.

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Figure 15-2: Historical Alumina price

15.3 Financial model structure and Inputs

15.3.1 Introduction

SRK has used the Income Based Approach and DCF methodology to determine the Technical Value of the Ore Reserves of BWAPL. SRK has developed a financial model (the **Financial Model)** based on the base case financial model developed by BHP Billiton and where appropriate including various adjustments to the forecasted production, operating expenditure and capital expenditure line items.

The model has been prepared on the basis of BHP Billiton s 86% ownership stake in BWAPL and as such, represents this value only.

SRK has relied upon certain financial information provided by BHP Billiton inclusive of that included in public domain reporting as well as management accounts. Furthermore, in preparing the Financial Model, and consequently deriving the Technical Value of the Ore Reserve for BWAPL, SRK has relied on various inputs, the nature of and underlying rationale for which is discussed below.

15.3.2 Model assumptions

The Working Capital assumptions included in the model are 30 days for both debtors and creditors

Depreciation has been calculated using a diminishing value method of tax depreciation

Royalty revenue has been calculated using 1.65% of the value per tonne

A Corporate Tax Rate of 30% was used in after tax cash flow (ATCF) calculations

A flat foreign exchange rate of 0.88c (A$:US$) has been used

Table 15-2 shows the calculations used to determine the Real Discount Rate of 7.7% used in the valuation.

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Table 15-2: Discount rate calculation

Risk Free Rate	3.50%
Market Risk Premium	6.28%
Beta	1.5
Cost of Equity	12.92%
Debt Margin	3.00%
Cost of Debt	6.50%
Project Tax Rate	30.00%
Pre-tax cost of debt	4.55%
Target Debt Equity Ratio [D/(D+E)]	30.00%
WACC Nominal	**10.41%**
Australia Inflation Rate	2.50%
WACC in real terms	**7.72%**

15.4 Financial model results

Table 15-3 outlines the inputs and outputs of the Financial Model. Figure 15-3 to Figure 15-8 presents the Financial Model input and output profiles. It should be noted that 2015 is a half year (ie January June 2015).

Table 15-3: Valuation model (inputs and outputs)

	2015	2016	2017	2018	2019	2020	2021-2031 LOM average
Physicals (Mt)							
Production Alumina (BHP 86%)	2.00	4.02	4.06	4.09	4.13	4.13	4.13
Operating Costs (US$M)							
C1 Cost	483.5	1,007.3	968.1	964.3	966.0	1,007.1	1,007.7
C2 Cost	633.5	1,291.8	1,237.6	1,218.5	1,203.8	1,232.9	1,188.1
C3 Cost	673.1	1,369.4	1,309.9	1,289.5	1,274.0	1,303.4	1,258.6
Cash Cost Summary (US$/tAa)							
C1 Cash Cost	242.3	250.3	238.5	235.6	234.0	244.0	244.1
C2 Cash Cost	317.5	321.0	304.9	297.7	291.6	298.7	287.8
C3 Cash Cost	337.3	340.2	322.7	315.0	308.6	315.7	304.9
Capital Costs (US$M)							
Total Capital	67.0	127.3	138.2	114.9	77.1	122.6	132.0
Revenue (US$M)							
Revenue	744.2	1,303.4	1,354.1	1,379.3	1,387.9	1,450.2	1,455.7
Taxes & Royalties (US$M)							
Taxes & Royalties	14.2	28.8	29.3	29.6	30.0	40.2	83.3
After Tax Cash Flow (US$M)							
ATCF	92.8	109.1	144.2	200.8	246.4	214.8	167.1

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Figure 15-3: Alumina production profile

Figure 15-4: Operating cost estimate

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Figure 15-5: Capital cost estimate

Figure 15-6: Taxes & royalties estimate

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Figure 15-7: Revenue estimate

Figure 15-8: ATCF estimate

15.5 Benchmarking

15.5.1 Introduction

The following section includes the results of a cost benchmarking analysis for global Alumina producers. The purpose of the analysis is to ascertain where the 2015 C1 cash cost falls with respect to the various quartiles representing the Alumina mining industry.

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15.5.2 Definitions

Cash costs as defined in this report are generally based on the C1 basis which includes all operating costs required to receive the sales revenue as projected. Accordingly the numerator is the summation of the following operating costs: mining (waste+ore), processing, site overheads, transportation costs, treatment charges, refining charges, realisation charges and mineral royalties but will exclude corporate taxation, corporate overheads, environmental closure costs, terminal benefits liabilities, financing charges and all non-cash items such as depreciation and amortization charges. The denominator in the determination of the unit C1 costs is based on the payable unit of metal. With respect to reporting convention, two principal methods are applied:

By-product reporting - whereby the sales revenue from defined by-products are recorded as a deduction against operating expenses and the resulting numerator is divided by the principal payable product.

Co-product reporting - whereby the denominator is determined by the summation of equivalent principal payable product. In this case the by-products are converted to equivalent principal payable products based on the ratio of total sales revenue to principal product unit sales revenue.

C2 and C3 costs are typically defined as:

C2 Cash Cost is the sum of the C1 Cash Cost and depreciation, depletion and amortisation.

C3 Cash Cost is the sum of the C2 cash cost, indirect costs and net interest charges. The indirect costs include corporate costs, royalties and front-end taxes and extraordinary costs such as strikes and unexpected shutdowns.

15.5.3 2015 Cash cost comparison

Figure 15-9 shows the current LOM C1, C2 & C3 Cash Cost profile for BWAPL, also plotted are the Consensus Alumina forecasts used by SRK in this valuation. The forecast C1 Cash Cost for 2015 is US$242/tA. Figure 15-10 shows the Global C1 Alumina Cash Cost Curve. It can be seen that with a C1 Cash Cost of US$242/tA, BWAPL is a First Quartile producer on the Global Alumina Cost Curve.

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Figure 15-9: LOM cash cost profile

Figure 15-10: C1 Alumina cash costs

Source: Metalytics (2014)

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15.6 Discounted cash flow result

Table 15-4 presents the result of SRK s Technical Value of the Ore Reserve for BWALP, based on BHP Billiton s 86% ownership.

SRK values BWALP within the range of US$1,091M to US$1,406M, with a preferred value of US$1,245M (at a real discount rate of 7.7%).

Table 15-4: Valuation summary

SRK Scenario	Discount rate	NPV US$M
SRK Valuation Downside	10.7%	1,091.0
SRK Valuation Preferred	7.7%	1,245.0
SRK Valuation Upside	4.7%	1,406.9
Internal rate of return	NA	NA

This valuation is reflective of BWAPL, based on SRK s view in relation to Ore Reserves only. It is important to emphasise that this value does not represent the value of the Ore Reserves in the ground in isolation, but rather, incorporates the value of all net assets contributing to the project based on a Reserves production profile. For example, at BWAPL, this includes the value of the mine, truck fleet, conveyors, refinery and port infrastructure.

15.7 Sensitivity analysis

Table 15-5 and Figure 15-11 show the result of SRK s sensitivity analysis based on a Discount Rate of 7.7%. SRK has found the project s NPV to be most sensitive to changes in the operating cost and Alumina price.

Figure 15-12 shows the sensitivity of NPV to changes in Discount Rate.

Table 15-5: Sensitivity analysis

Variance	OPEX	CAPEX	Alumina Price	Ex Rate
25%	($ 1,172)	$ 972	$ 2,774	($ 521)
20%	($ 689)	$ 1,026	$ 2,471	($ 119)
15%	($ 205)	$ 1,081	$ 2,168	$ 261
10%	$ 278	$ 1,136	$ 1,863	$ 602
5%	$ 762	$ 1,190	$ 1,557	$ 928
0%	$ 1,245	$ 1,245	$ 1,245	$ 1,245
-5%	$ 1,728	$ 1,300	$ 924	$ 1,555
-10%	$ 2,212	$ 1,354	$ 585	$ 1,862
-15%	$ 2,695	$ 1,409	$ 207	$ 2,167

-20%	$ 3,179	$ 1,464	($ 220)	$ 2,470
-25%	$ 3,662	$ 1,518	($ 648)	$ 2,768

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Figure 15-11: Sensitivity analysis

Figure 15-12: NPV versus discount rate

15.8 Comparable transaction analysis

SRK has carried out research into global data bases in order to source data that can be evaluated for comparative transactions as an alternative means of valuing BWAPL. On the basis of this research, there is no comparable set of market transactions such that an equitable comparison could be made.

Accordingly, SRK confirms that on this basis, the DCF methodology is most suitable to provide a valuation for BWAPL due to the fact that BWAPL is a long standing and stable operation with a long life ahead.

15.9 Risks and opportunities

Risks and Opportunities that impact the Technical Value of BWAPL can be defined as:

Exchange Rate: BWAPL s NPV is sensitive to fluctuations in the Australian dollar versus United States dollar exchange rate. A 20% increase in the A$/US$ exchange rate over the long term will result in a negative NPV for the project.

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Alumina Prices: BWAPL s NPV is sensitive to fluctuations in the price of Alumina. A 20% fall in the Alumina price from current consensus levels will result in a negative NPV.

Sovereign Risk: There is a risk that a future Australian Government may introduce some form of carbon tax or a revised form of Mining Tax. The introduction of such taxes could negatively affect the projects valuation.

Industry Competition: Alumina is a competitive industry with little product differentiation. There is a risk that other producers increase production in an attempt to gain market share. This could negatively affect the Alumina price and BWAPL s NPV. A competitive advantage Worsley has is that it is a producer in the first quartile of the cost curve.

Global Economy: A slowdown in the global economy could affect demand for BWAPL s product.

Operating Costs: BWAPL is sensitive to changes in Operating Cost, a 12% increase in operating costs will result in a negative NPV. The Australian mining industry is currently experiencing cost deflation as the result reduced development activity in the mining sector. An increase in operating costs is unlikely, and there may be opportunity for Worsley to reduce some operating costs which would have a positive impact on NPV.

15.10 Summary comments

SRK has undertaken a Technical Valuation of the Ore Reserves of BWAPL. SRK s valuation has excluded the valuation of Measured and Indicated Resources (excluding the Ore Reserve) and any Inferred Resources.

SRK values BWAPL within the range of US$1,091M to US$1,406M, with a preferred value of US$1,245M at a real discount rate of 7.7% as at 31 December 2014.

Investors in this company should be aware that the current Technical Valuation of ore reserves is valid at the date of issue. However, future changes in circumstances may affect the valuation either positively or negatively moving forward. Valuations conducted at a future date based on changed circumstances may result in a different result that that obtained by SRK at this valuation date.

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16 Concluding Remarks

16.1 Introduction

The following section presents a summary of SRK s opinion in respect of BWAPL, with reference to the 2014 Statements (SRK Depleted) and the Valuation of BWAPL (86% holding). SRK has carried out a comprehensive review and technical assessment of all material issues likely to influence future operations based on the current Ore Reserves.

SRK concludes that the Mineral Resources and Ore Reserves as stated herein are reported in accordance with the terms and definitions of the JORC Code (2012). Mineral Resources are reported inclusive of Ore Reserves.

16.2 Mineral Resources and Ore Reserves

Table 16-1 and Table 16-2 present the Mineral Resources and Ore Reserves (SRK Depleted).

Table 16-1: Mineral Resource as at 31 December 2014 (inclusive of Reserves)

Ore type	Measured Resource			Indicated Resource			Inferred Resource			Total Resource			BHPB interest
	Mdt	$A.Al_2O_3$	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	Mdt	$A.Al_2O_3$ (1)	$RxSiO_2$ (2)	
Laterite	358	31.1	1.5	355	32	2.3	418	31.2	2.6	1,131	31.4	2.2	86%

Table 16-2: Ore Reserves as at 31 December 2014

31 December 2014	Proved Reserve			Probable Reserve			Total Ore Reserve		
	Mass Mdt	Grade AAl_2O_3	Grade $RXSiO_2$	Mass Mdt	Grade AAl_2O_3	Grade $RXSiO_2$	Mass Mdt	Grade AAl_2O_3	Grade $RXSiO_2$
Granite derived	52	31.3	2.3	2	31.2	2.5	54	31.3	2.3
Greenstone derived	214.	31.0	1.4	20	30.2	1.6	234	30.9	1.4
Total	**266.**	**31.1**	**1.6**	**22**	**30.3**	**1.7**	**288**	**31.0**	**1.6**

16.3 Valuation

The preferred Technical Value based on BWAPL s Ore Reserves is US$1.245 billion (86% holding).

This value is derived from the net present value of the after tax cash flows as determined in the financial model, assuming consensus market forecasts and a long term Alumina price of US$350/t.

16.4 Principal issues

SRK has carried out a detailed technical review of the BWAPL operations and does not find any significant risks that would impact the operational continuity, except for what would be classed as ongoing typical operational risks for this type of operation.

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Project Code: BHP151

Report Title: A Competent Person s Report and Valuation on the Boddington Bauxite Mine and Worsley Alumina Refinery, Western Australia

For and on behalf of SRK Consulting (Australasia) Pty Ltd

Competent Person Mineral Resource

Rodney Brown

Principal Consultant

Competent Person Ore Reserve

Sjoerd Duim

Principal Consultant

Competent Person Valuation

Anthony Stepcich

Principal Consultant

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List of Abbreviations

Abbreviation	Meaning
5YP	5-year plan
A$	Australia dollars
A.Al_2O_3	available alumina
ABEA	American Bayer Extractable Alumina
AER(s)	Annual Environmental Report(s)
AH (Act)	Aboriginal Heritage (Act)
Al_2O_3	Aluminium oxide
Alcoa	Alcoa of Australia Ltd
AMPRD	absolute mean percent relative difference
ATCF	after tax cash flow
AusIMM	Australasian Institute of Mining and Metallurgy
BA	Basement
BBM	Boddington Bauxite Mine
BC	Bauxitic Clay
BHPB	BHP Billiton
BRDA(s)	Bauxite Residue Disposal Area(s)
BWAPL	BHP Billiton Worsley Alumina Pty Ltd
BZ	Bauxite Zone
CCCR	Consent, Compensation and Restoration
CL	Crown Leases
CL	Clay
CMF	consensus market forecasts
CP	Chartered Professional
CPR	Competent Person s Report
CS (Act)	Contaminated Sites (Act)
CSA	Contaminated Site Assessment
DCF	discounted cash flow
DER	Department of Environment Regulation
DGPS	differential global positioning system
DGS (Act)	Dangerous Goods Safety (Act)
DMP	Department of Mines and Petroleum
DOLA	Department of Land Administration
DoW	Department of Water
DPaW	Department of Parks and Wildlife
E&G	Efficiency & Growth
EDM	electronic distance measuring
EMLG	Environmental Management Liaison Group
EP (Act)	Environment Protection (Act)
EPA	Environmental Protection Authority
EPBC (Act)	Environment Protection and Biodiversity Conservation (Act)

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Abbreviation	Meaning
ERMP	Environmental Review and Management Programme
ESMA	European Securities and Markets Authority
FAC	First Aid Cases
FEL	front end loader
FTIR	Fourier transform infrared
FWL	Freshwater Lake
G	Gravel
GDA94	Map Grid of Australia
GFC	global financial crisis
GL	gigalitres
GPS	global positioning system
GRM	Groundwater Resource Management
GWL	Groundwater Well Licence
ha	hectares
HC	Hardcap
HNE	Hotham North Envelope
HSEC	Health, Safety, Environment and Community
IC	ion chromatography
ICP	Inductively coupled plasma
JORC Code	The 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as published by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australi*a*
JSE	Johannesburg Stock Exchange
kg/t	kilograms per tonne
kg/tA	kilograms per tonne alumina
kL	kilolitres
KNA	Kriging neighbourhood analysis
kt	kilotonnes
LOMP(s)	Life of Mine Plan(s)
LSE	London Stock Exchange
LTP	long-term price
Mdt	million dry tonnes
Mdt	million dry tonnes
ML	Mining Lease
ML	megalitres
ML/a	million litres per year
MME	Marradong Mining Envelope
MMW	minimum mining width
MRE	Mineral Resource estimation
MRF (Act)	Mining Rehabilitation Fund (Act)
Mt	million tonnes
Mtpa	million tonnes per annum

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Abbreviation	Meaning
MtpaA	million tonnes per annum alumina
NPV	net present value
NYSE	New York Stock Exchange
OBC	overland bauxite conveyor
OHS	Occupational health and safety
PBA	Primary Bauxite Area
PP & E	plant, property and equipment
QA/QC	quality assurance/ quality control
QQ	quantile-quantile
$R.SiO_2$	reactive silica
RCL	Refinery Catchment Lake
RIWI (Act)	Rights in Water and Irrigation (Act)
ROM	Run of Mine
SGA	smelter grade alumina
SME	Saddleback Mining Envelope
SMU	selective mining unit
SRK	SRK Consulting (Australasia) Pty Ltd
SWCJV	South West Cogeneration Joint Venture
SWIS	South West Integrated System
t/m^3	tonnes per cubic metre
TEP	technical and economic parameter
TOC	total organic carbon
tonnes alumina	tA
tph	tonnes per hour
TRIF	Total Recordable Injury Frequency Rate
TSF	tailings storage facility
UKLA	United Kingdom Listing Authority
US$	United States dollars
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports: The VALMIN Code (2005 Edition)
WA	Western Australia
WAR	Worsley Alumina Refinery
WDIE	Worsley Design Indicated Extraction
WJV	Worsley Joint Venture
wkt	wet kilotonnes
WLAA	Worsley Laboratory Available Alumina
XRF	X-ray fluorescence

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ANNEXURE 6

INDEPENDENT COMPETENT PERSONS REPORTS

2. South Africa Energy Coal Xstract Mining Consultants

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11 March 2015

The Directors
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Australia

The Directors
BHP Billiton Limited
BHP Billiton Centre
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MELBOURNE VIC 3000
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The Directors
BHP Billiton Plc
Neathouse Place
London WS1V 1LH
United Kingdom

Dear Sirs

Re: Competent Persons Report

At the request of South32 Limited (South32), Xstract Mining Consultants Pty Ltd (Xstract) has prepared this Competent Persons Report on the coal assets of South Africa Energy Coal (SAEC), currently held within BHP Billiton Energy Coal South Africa Pty Ltd (BECSA).

Xstract understands that this report is to be included in documentation relating to the demerger from BHP Billiton Limited and BHP Billiton Plc (BHP Billiton), and subsequent listing of South32 on the Australian Securities Exchange (ASX), the Johannesburg Stock Exchange (JSE), and on the Official List of the United Kingdom Listing Authority (UKLA) (collectively, the Relevant Listing Authorities).

Furthermore, Xstract understands this documentation comprises an ASX Information Memorandum, a JSE pre-listing statement and a UK prospectus (the Listing Documentation).

The purpose of this report is to provide a technical opinion as to the reasonableness of the information supporting SAEC s coal assets. The focus of the review is on the technical aspects of SAEC s assets: including tenure, geology, Coal Resource/Coal Reserve statements, mine plans, production rates, infrastructure, environment, social, capital/ operating cost estimates, risks, opportunities and uncertainties. It includes a valuation of SAEC s currently defined Coal Reserves.

This Competent Persons Report summarises the findings of Xstract s review and has been prepared in order to satisfy the rules and requirements of the Relevant Listing Authorities, including, in the case of a UKLA listing; the European Securities and Market Authority s (ESMA) Recommendations on consistent implementation of Commission Regulation (EC) No 809/2004, implementing the Prospectus Directive (the ESMA Recommendations , as revised in March 2013).

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Competent Persons Report | South Africa Energy Coal (SAEC)

This report has been prepared in compliance with internationally accepted mineral reporting codes, these being:

- The 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)
- The 2005 Edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the VALMIN Code)

In addition, this report recognises the 2009 Edition of *The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves* (the SAMREC Code) and Edition 1 of the *South African guide to the systematic evaluation of coal resources and coal reserves, South African National Standard SANS 10320:2004* (the Coal Guidelines).

The Coal Guidelines together with the JORC and SAMREC Codes establish the nature of evidence required to report Exploration Results, Coal Resources and Coal Reserves in a public document, while the VALMIN Code outlines the key elements to be considered in evaluating and valuing mineral assets and securities.

The principal assets held by SAEC reside in the Witbank, Highveld and Ermelo Coalfields of South Africa and comprise the Wolvekrans-Middelburg, Klipspruit and Khutala thermal coal mining and processing operations, in addition to the Klipspruit Extension, Leandra North, Leandra South and Naudesbank thermal coal development projects and various other exploration projects. These projects are discussed in this Competent Persons Report.

Xstract is an independent mining consultancy offering expertise in a wide range of resource and engineering disciplines. Xstract has a demonstrated track-record in undertaking independent assessments of resources/reserves, due diligence, capital raising reports, and independent feasibility evaluations on behalf of exploration/mining companies and financial institutions worldwide.

This Competent Persons Report has been prepared based on a technical and economic review by a team of consultants sourced from Xstract s staff and associate network over a three-month period. These consultants are specialists in the fields of geology, resource/reserve estimation, open pit mining, rock engineering, mineral processing, hydrogeology/ hydrology, tailings management, infrastructure, environmental management and mineral asset valuation.

The individuals listed below have provided input to the Competent Persons Report. Each has extensive experience in the mining industry and is a member in good standing of appropriate professional institutions:

- Kevin Irving, MBA, BSc, FAusIMM(CP), FIMMM(CEng), MAICD, is General Manager - Mining with Xstract and has practised his profession as a mining engineer for over 35 years, predominantly in coal, with extensive experience in due diligence, technical reviews and mine design/planning.

Jeames McKibben, MBA, BSc (Hons), MAusIMM(CP), MAIG, is General Manager Corporate Advisory with Xstract and has over 20 years international experience in the mining industry, with significant experience in technical reviews, due diligence assessments and valuation of mineral assets.

Ian de Klerk, MSc (Expl Geol), GradDipEng (Mining), MAusIMM is a Principal Consultant Geology with Xstract and has over 24 years coal experience specialising in due diligence, technical reviews, exploration advice and coal resource estimation and reporting under international mineral reporting codes.

Donald Elder, NHD Mineral Resource Management, GDE Mining Engineering, MAusIMM is a Principal Consultant Mining with Xstract and has over 20 years experience in the field of Mineral Resource Management, with significant experience in mining operations, feasibility studies and due diligence assessments.

Mat Longworth, BSc (Hons), MAusIMM, MAICD is General Manager Corporate Advisory with Xstract and has over 25 years experience across exploration, project evaluation/development, operations and corporate management.

Richard Marshall MBA, BE (Minerals Process), MAusIMM(CP) is a Principal Consultant with over 18 years in coal processing with extensive experience in due diligence, study management, process design, construction , commissioning and operations.

Shaun Barry, BSc (Hons), MSc(MinEcon), MAusIMM is an Associate Consultant Project Evaluations and has over 24 years international experience in the minerals industry that includes mining business evaluation, sales, marketing, strategy development and geology.

Mark Bowater, BE(Civil), BBus is an Associate Consultant with over 25 years experience in the open cut mining industry, primarily in coal, with significant mining engineering experience in design, scheduling, financial analysis and technical and operational studies.

Michael Creech, BSc, MSc, PhD, MAusIMM(CP) is an Associate Consultant Geology and has over 30 years experience in the mining industry with over 25 years in the coal industry.

Graham Trusler, MSc (Eng), BComm, Registered Professional Engineer, MSAIChE, MWISA, MASMR, is CEO and Consultant Environment with Digby Wells and has over 21 years experience as an environmental specialist to the mining industry and previously in metallurgical production.

Bradly Thornton, BSc (Hons) is Divisional Manager: Human Sciences with Digby Wells Environmental and has over 7 years international experience as an environmental specialist.

The Listing Documentation contains an appropriate summary of each of the assets, and Xstract is satisfied with the integrity of the information contained in the Listing Documentation based on our experience and the limited validation work performed by Xstract.

Drafts of this report were provided to SAEC, but only for the purposes of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Xstract has given and not withdrawn its written consent to issue the Listing Documentation with its name included within and to the inclusion of this report and references to this report and the Listing Documentation. Xstract accepts responsibility for the information contained within this report as set out in this section, in the form and context in which the report is included, of the Listing Documentation and those parts of the Listing Documentation which include references to this report.

Jeames McKibben qualifies as a Representative Expert under the VALMIN Code and as a Competent Person under the JORC Code. He has supervised the preparation of this report and accepts overall responsibility for it under Section 37 of the VALMIN Code. Mr McKibben has relied on Mr Ian de Klerk (Coal Resources) and Mr Kevin Irving (Coal Reserves) as Xstract s Competent Persons, who accept responsibility for the Coal Resources and Coal Reserves sections of this report as required under Section 4 of the JORC Code. Xstract notes that the Coal Resource and Reserve estimates and statements have been prepared and publicly disclosed previously in BHP Billiton s 2014 Annual Report and signed off by BHP Billiton s Competent Persons as noted elsewhere in this report.

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Xstract accepts responsibility for this letter and the Competent Persons Report and, to the best of Xstract s knowledge, having taken all reasonable care to ensure the information contained in its report is in accordance with the facts and contains no omission likely to affect its import.

Yours sincerely

Jeames McKibben

General Manager & Principal Consultant Corporate Advisory

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South Africa Energy Coal

(SAEC)

Competent Persons Report

Prepared for:

South32 Limited

Effective Date: March 2015

FINAL

XstractGroup.com

Xstract Excellence from the outset

GEOLOGY | GEOTECHNICAL | MINING | PROCESSING | VALUATION/RISK | TECHNOLOGIES | ENVIRONMENT | TRAINING

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Key abbreviations

°	Degrees of angle
°C	Degrees Celsius
ABI (YGP)	Abrasive Index (Yancey, Geer and Price)
adb	Air-dried basis
AIG	Australian Institute of Geoscientists
AMD	Acid Mine Drainage
amsl	Above mean sea level
Anglo Inyosi	Anglo American Inyosi Coal (Pty) Ltd, a subsidiary company of Anglo American Plc
Ash%	Ash Content
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUD	Australian dollars
AusIMM	Australasian Institute of Mining and Metallurgy
B-BBEE	Broad-based black economic empowerment
BCM	Bank Cubic Metre
BCP	SAEC Coal Processing, an operating unit of SAEC
BEE	Black Economic Empowerment
BECSA	BHP Billiton Energy Coal South Africa Pty Ltd. For the purposes of this report, known as South Africa Energy Coal (SAEC) to signify the potential demerger from BHP Billiton.

Benchmark product	The primary thermal coal product targeting 6,000 kcal/kg (NAR).
BHP Billiton	BHP Billiton Plc and/or BHP Billiton Limited
BHPB SA	BHP Billiton SA Holdings Limited
Billiton	Billiton Plc, a predecessor company to BHP Billiton
Bn	Billion(s)
BP	British Petroleum

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CESR	The Committee of European Securities Regulators
CIMVAL	The Canadian 2003 Edition of the Standards and Guidelines for Valuation of Mineral Properties
Coal Assets	A collective term meaning all the Mining Assets, Development Assets and Exploration Assets
Coal Guidelines	South African Guide to the systematic evaluation of coal resources and coal reserves, South African National Standard SANS 10320:2004
Company	South Africa Energy Coal
CP	Chartered Professional, designation of the AusIMM
CPR	Competent Persons Report
CV	Raw Calorific Value expressed in Mega Joules per kilogram
DAFV%	Dry, ash-free volatile content
DCF	Discounted cash flow
Development Assets	A collective term comprising all SAEC s material development projects, namely Klipspruit Extension, Leandra North, Leandra South and Naudesbank.
DMO	Douglas Middelburg Optimisation
DMR	South African Department of Mineral Resources
DTM	Digital Terrain Model
DWS	South African Department of Water and Sanitation (previously the Department of Water Affairs)
EMP	Environmental Management Plan
EMPr	Environmental Management Plan report
Eskom	Electricity Supply Commission of South Africa
ESMA	European Securities and Market Authority
ESOP	Employee Share Ownership Programme
Exploration Assets	A collective term comprising SAEC s exploration projects, namely Waterberg, Union, Pegasus and Witbank South.
FCA	Financial Conduct Authority
Fm	Formation, as in geological formation
FMV	Fair market value
FTE	Full time equivalent
Gencor	Gencor Limited
GHG	Green house gas
Gp	Group, as in geological group, stratigraphic grouping

GTIS	Gross Tonnes In-situ
ha	Hectare
HGI	Hargrove Grindability Index
ICC	Ingwe Coal Corporation Limited, a predecessor company to Ingwe and SAEC
IM%	Inherent Moisture
Ingwe	Ingwe Collieries Limited, a predecessor company to SAEC
IP	Intellectual property
IPS	Identification Phase Study

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IWULA	Integrated Water Use Licence Application
IWWMP	Integrated Water and Waste Management Plan
JORC Code	The 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
JSE	Johannesburg Stock Exchange
JV	Joint Venture
kcal/kg	Kilocalories per kilogram of coal, a measure of energy content
KPSX	Klipspruit Extension, which incorporates the techno-economic studies associated with the Weltevreden Coal Resource and Klipspruit South areas
kt	Thousand tonnes
Kuyasa Mining	Kuyasa Mining (Pty) Limited, a BEE mining company
LED	Local Economic Development
LOA	Life-of-Asset
LOM	Life-of-Mine
LOW	Limit of weathering described as depth from topography surface
LSE	London Stock Exchange
M	Million(s)
m	Metres
m^3	Cubic metre(s)
Ma	Million years ago
MA	Mining Area
MCCM	Mine Closure Closed Mines, a business unit within SAEC
MDEDET	Mpumalanga Department of Economic Development, Environment and Tourism
Mining Assets	A collective term for SAEC s material mining assets, namely the Wolvekrans- Middelburg Complex, Klipspruit and Khutala
MJ/kg	Megajoules per kilogram, a unit expressing energy content
mm	Millimetre(s)
Mm^3	Million cubic metres
MPRDA	South African Mineral and Petroleum Resources Development Act (Act 28 of 2002)
Mt	Million metric tonnes
Mtpa	Million metric tonnes per annum
MW	Megawatts
NAR	Net as received basis

NEMA	South African National Environmental Management Act (Act 107 of 1998)
NEMLA	South African National Environmental Laws Amendment Act (Act 25 of 2014)
South32	South32 Limited, the new entity to be demerged from BHP Billiton
NGO	Non-governmental organisation
NOMR	New Order Mining Right
NOPR	New Order Prospecting Right
NPV	Net present value
NWA	South African National Water Act (Act 36 of 1998)
Ptn	Portion

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Rand Barlow	Rand Barlow Group
RBCT	Richards Bay Coal Terminal
RBRL	Richards Bay Rail Line
RD	Relative density
RE	Remaining Extent
RoD	Record of Decision
ROM	Run-of-Mine
RPO	Recognised Professional Organisations
SAEC	South Africa Energy Coal
SAIMM	South African Institute of Mining and Metallurgy
SAMREC Code	The 2009 Edition of the South African Code for the Reporting of Exploration Results, Mineral Resoruces and Mineral Reserves
SAMVAL	The South African Code for the Reporting of Mineral Asset Valuation
SANAS	South African National Accreditation System
SAPS	South African Police Service
Shell	Royal Dutch Shell Plc
SLP	Social and Labour Plan
Strip ratio	Ratio of mining waste in bank cubic metres to the coal tonnes mined
t	Tonne(s)
Tavistock	Tavistock Collieries (Pty) Ltd, an affiliated company of Xstrata South Africa (Pty) Ltd
TCM	Total cubic metres
TFR	Transnet Freight Rail, the State owned rail authority
TS%	Raw Total Sulphur Content
UKLA	United Kingdom Listing Authority
USD	United States Dollars
VALMIN Code	The 2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
VDD	Vandyksdrift, an area within the Wolvekrans Mine
VM%	Volatile Matter content
WitCol	Witbank Mine Limited, a predecessor to RandCoal
WMC	Wolvekrans-Middelburg Complex
WUL	Water Use Licence
WULA	Water Use Licence Application
Xstract	Xstract Mining Consultants Pty Ltd
Xstrata	Xstrata South Africa (Pty) Ltd, a subsidiary of Glencore Plc
ZAR	South African Rand

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1 Covering letter

Please refer to the covering letter at the beginning of this document.

2 Executive summary

The directors of South32 Limited (South32), have commissioned Xstract Mining Consultants Pty Ltd (Xstract) to prepare a Competent Persons Report on the coal assets of South Africa Energy Coal (SAEC or the Company), currently held within BHP Billiton Energy Coal South Africa Pty Ltd (BECSA).

It is understood that SAEC is to be demerged from BHP Billiton, along with certain other aluminium, coal, manganese, nickel and silver assets, into a new corporate entity, South32. Simultaneously, South32 will seek a listing on the Australian Securities Exchange, the Johannesburg Stock Exchange, and on the Official List of the United Kingdom Listing Authority, in order to trade on the Main Board of the London Stock Exchange.

This report provides a technical account of SAEC s Mining, Development and Exploration Assets. It compiles currently available and material information to assist potential investors in South32 make a reasoned judgement regarding the techno-economic merits of SAEC s Assets. The focus of this report is on the technical aspects of these assets: including tenure, geology, Coal Resource and Coal Reserve statements, mine plans, production rates, infrastructure, environment and social, capital and operating cost estimates, and principal risks, opportunities and uncertainties. It includes a valuation of SAEC s currently defined Coal Reserves.

This report has been prepared by Competent Persons in accordance to the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) and 2005 Code for the Technical Assessment and Valuation of Mineral Assets and Securities in Independent Expert Reports (VALMIN Code) to comply with the rules and requirements of the European Securities and Markets Authority s Recommendations on consistent implementation of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive (the ESMA Recommendations).

This Competent Persons Report is dated 11 March 2015, with an effective date of 31 December 2014. All monetary values outlined in this report are expressed in United States Dollars (USD) or South African Rands (ZAR), unless otherwise stated.

This report assesses the Coal Assets from SAEC s perspective, not that of BHP Billiton.

2.1 SAEC

SAEC is a Johannesburg based subsidiary company of BHP Billiton. Following a recent empowerment transaction, SAEC is now 90 per cent owned by BHP Billiton, with the residual interest held by a BEE consortium (8 per cent) and SAEC employees (2 per cent). SAEC s principal activities include exploration, development and operation of coal mines and coal processing facilities, which produce energy coal products for the South African domestic and export markets.

SAEC s assets comprise a significant land package mainly located near the towns of Witbank (eMalahleni) and Middelburg in the coalfields of Mpumalanga and Gauteng Provinces, South Africa (Figure 2.1). Further Exploration Assets are held in the Limpopo and Kwazulu Natal Provinces.

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Figure 2.1: Location of SAEC s South African Mineral interests as at 31 December 2014

Source: SAEC

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SAEC s Material Coal Assets are summarised in Table 2.1 and form the basis for this Competent Persons Report. Whilst Xstract acknowledge SAEC holds additional mineral interests over and above those outlined in Table 2.1, these are not considered material for the purposes of this report.

Table 2.1: Summary of SAEC s Material Assets as at 31 December 2014

Asset	No. of Farms	Status	New Order Licence	Area (ha)	SAEC s interest	Resource (2012 JORC)	Reserve (2012 JORC)
Mining Assets							
Wolvekrans	15	Operating mine	Mining	15,101.97	100%	M+I+I	P+P
Middelburg	14	Operating mine	Mining	18,938.06	100%	M+Inf	Prv
Klipspruit	5	Operating mine	Mining	2,165.31	100%	M+Inf	Prv
Khutala	6	Operating mine	Mining	9,321.15	100%	M	Prv
Development Assets							