

APPENDIX 4D

SOUTH32 LIMITED

(ABN 84 093 732 597)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This page and the accompanying 52 pages comprise the half year end financial information given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A. This statement includes consolidated results of the South32 Group for the half year ended 31 December 2016 compared with the half year ended 31 December 2015 on a statutory basis.

The half year report should be read in conjunction with the Annual Financial Report 2016.

US\$M	H1 FY17	H1 FY16	%
Revenue from continuing operations	3,221	2,981	up 8%
Profit/(loss) after tax from continuing operations	620	(1,749)	N/A
Underlying earnings from continuing operations	479	26	up 1,742%

Net tangible assets per share

Net tangible assets per ordinary share were US\$1.83 as at 31 December 2016 (US\$1.72 as at 30 June 2016).

Dividends

The Board has resolved to pay an interim dividend of US 3.6 cents per share (unfranked) for the half year ended 31 December 2016 (record date 10 March 2017; payment date 6 April 2017).

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FINANCIAL RESULTS AND OUTLOOK HALF YEAR ENDED 31 DECEMBER 2016



16 February 2017

ASX / LSE / JSE: S32

South32 delivers strong financial results and announces first interim dividend

"The disciplined application of our strategy and stronger commodity prices underpinned a significant improvement in financial performance. We generated free cash flow of US\$626M for a net cash position of US\$859M as we further optimised our operations and benefitted from our operating leverage.

"We continue to unlock value through the accelerated development of La Esmeralda, the progression of the Klipspruit Life Extension project towards a final investment decision, the completion of the West Marradong mining access agreement and the commencement of exploration in the Southern Areas at GEMCO.

"The proposed US\$200M acquisition of the Metropolitan Colliery is expected to create additional value and realise unique synergies with Illawarra Metallurgical Coal.

"Our strong balance sheet and simple capital management framework is designed to reward shareholders as financial performance improves. We have declared our first interim dividend of US\$192M and will continue to manage our financial position to ensure we retain the right balance of flexibility and efficiency."

Graham Kerr, South32 CEO

Financial highlights			
US\$M	H1 FY17	H1 FY16	% Change
Revenue ⁽¹⁾	3,221	2,981	8%
Profit/(loss) from continuing operations	857	(1,587)	N/A
Profit/(loss) after taxation	620	(1,749)	N/A
Basic earnings per share (US cents) ⁽²⁾	11.7	(32.9)	N/A
Ordinary dividend per share (US cents) ⁽³⁾	3.6	-	N/A
Other financial measures			
Underlying EBITDA ⁽⁴⁾	1,064	542	96%
Underlying EBITDA margin ⁽⁵⁾	36.7%	20.1%	83%
Underlying EBIT ⁽⁴⁾	691	141	390%
Underlying EBIT margin ⁽⁶⁾	23.7%	5.2%	356%
Underlying earnings ⁽⁴⁾	479	26	1,742%
Basic Underlying earnings per share (US cents) ⁽²⁾	9.0	0.5	1,699%
ROIC ⁽⁷⁾	9.2%	1.4%	557%

DECEMBER 2016 HALF YEAR SUMMARY

SAFETY

Our vision is to create a safe working environment where we can guarantee that everyone goes home safe and well every day. Tragically, we lost a colleague at work in the Africa Region in the half year. We are committed to investing time, energy and leadership to make a sustainable and lasting change to our safety performance. Through the implementation of our Care Strategy, we are building an inclusive workplace with a strong culture of care and accountability, where work is well-designed and we continuously improve and learn. Our Total Recordable Injury Frequency (TRIF) declined from 7.9 to 5.3 per million hours worked in the period.

PERFORMANCE HIGHLIGHTS

The disciplined application of our strategy and stronger commodity prices underpinned a significant improvement in financial performance. Specific highlights included:

- Our response to favourable market conditions as we restarted 22 pots at South Africa Aluminium and opportunistically increased manganese ore production;
- A substantial 197% improvement in free cash flow to US\$626M, including distributions from equity accounted investments, as we continued to optimise our operations and benefit from our operating leverage;
- The further strengthening of our Balance Sheet with an increase in our net cash position to US\$859M, despite a temporary build in working capital;
- The unlocking of additional value with the accelerated development of La Esmeralda (Cerro Matoso), the progression of the Klipspruit Life Extension project towards a final investment decision, the completion of the access agreement for the West Marradong mining area (Worsley Alumina), and the commencement of exploration for high grade manganese ore in the Southern Areas at GEMCO and Cu-Ni-PGE mineralisation at Huckleberry in Canada;
- The creation of value beyond our existing portfolio with the proposed acquisition of the Metropolitan Colliery⁽⁸⁾ and potential realisation of unique synergies with Illawarra Metallurgical Coal; and
- Our first interim dividend of US 3.6 cents per share to shareholders (US\$192M).

Production guidance for FY17 is unchanged for all operations and is predicated on a strong finish to the financial year. We continue to pursue our cost saving targets, which have been revised to reflect changes in foreign exchange rates and price-linked royalties.

EARNINGS

The Group's statutory profit was US\$620M in H1 FY17. The corresponding period's loss was impacted by the recognition of impairment charges totalling US\$1.7B (post-tax US\$1.7B).

Consistent with our accounting policy, various items are excluded from the Group's statutory profit result to derive Underlying earnings including: exchange rate losses associated with the restatement of monetary items (US\$20M pre-tax); fair value gains on derivative instruments (US\$189M pre-tax); exchange rate gains associated with the Group's non US dollar denominated net debt (US\$11M pre-tax); exchange rate gains on tax balances (US\$13M) and the tax expense for all pre-tax earnings adjustments (US\$49M). Further information on these earnings adjustments is included on page 13.

Underlying EBITDA increased by US\$522M to US\$1.1B in H1 FY17 as higher prices for the majority of our commodities offset lower volumes, giving rise to an increase in sales revenue of US\$240M. This, combined with our continued focus on costs, resulted in an increase in our operating margin from 20% to 37%.

Underlying EBIT increased by US\$550M to US\$691M, benefitting from a reduction in depreciation and amortisation following the recognition of non-cash impairment charges in H1 FY16. The half year run-rate for depreciation and amortisation did, however, exceed annual guidance which is revised on page 11. Detailed earnings analysis is included on pages 14 through 15.

Profit/(loss) from continuing operations to Underlying EBITDA reconciliation		
US\$M	H1 FY17	H1 FY16
Profit/(loss) from continuing operations	857	(1,587)
Earnings adjustments to derive Underlying EBIT	(166)	1,728
Underlying EBIT	691	141
Depreciation and amortisation	373	401
Underlying EBITDA	1,064	542

Profit/(loss) after taxation to Underlying earnings reconciliation		
US\$M	H1 FY17	H1 FY16
Profit/(loss) after taxation	620	(1,749)
Earnings adjustments to derive Underlying EBIT	(166)	1,728
Earnings adjustments to derive Underlying net finance cost	(11)	(26)
Earnings adjustments to derive Underlying income tax expense	36	73
Underlying earnings	479	26

CASH FLOW

An increase in the average realised price of our commodities and the continued optimisation of our operations generated a 155% increase in free cash flow from operations, excluding equity accounted investments, to US\$489M. The significant increase in free cash flow was achieved despite a temporary build in working capital as a number of shipments rolled into January and trade and other receivables increased as a result of rising commodity prices.

Capital expenditure, excluding equity accounted investments, declined by 37% to US\$150M and included:

- Sustaining capital expenditure, comprising Stay-in-business, Minor discretionary and Deferred stripping (including underground development) of US\$142M; and
- Major project capital expenditure of US\$8M.

Major project capital expenditure includes study costs associated with the Klipspruit Life Extension project, which remains subject to approval and is currently the Group's only major capital project. The purchase of intangibles and the capitalisation of exploration accounted for a further US\$2M of expenditure.

Capital expenditure associated with equity accounted investments of US\$19M included the second phase of the Central Block development project at the Wessels underground mine (South Africa Manganese). This will enable mining activity to relocate closer to critical infrastructure, thereby reducing cycle times. Commissioning is expected in the March 2017 quarter. A further US\$1M in capitalised exploration expenditure was spent in H1 FY17 in equity accounted investments (GEMCO).

Total capital expenditure⁽⁹⁾, including equity accounted investments, was US\$172M in H1 FY17.

Free cash flow of operations, excluding equity accounted investments		
US\$M	H1 FY17	H1 FY16
Profit/(loss) from continuing operations	857	(1,587)
Non-cash items	207	1,868
(Profit)/loss from equity accounted investments	(164)	356
Change in working capital	(203)	(211)
Cash generated from continuing operations	697	426
Total capital expenditure, excluding equity accounted investments, including intangibles and capitalised exploration	(152)	(253)
Operating cash flows from continuing operations before financing activities and tax, and after capital expenditure	545	173
Interest (paid)/received	(17)	(18)
Income tax (paid)/received	(39)	37
Free cash flow of operations, excluding equity accounted investments	489	192

In addition to free cash flow of US\$489M, distributions totalling US\$137M were received from equity accounted investments during H1 FY17, comprising US\$41M in dividends and US\$96M from the repayment of a shareholder loan.

BALANCE SHEET

As at 31 December 2016, the Group's net cash position was US\$859M, an increase of US\$547M from 30 June 2016. The further strengthening of our financial position ensures we are well placed to fund the proposed acquisition of the Metropolitan Colliery for US\$200M and the payment of our interim dividend (US\$192M). While these commitments will consume a significant proportion of the free cash flow generated in H1 FY17, a release of working capital and additional distributions from our equity accounted investments are expected in the March 2017 quarter. We will continue to manage our financial position to ensure we retain the right balance of flexibility and efficiency.

Net cash/(debt)		
US\$M	H1 FY17	FY16
Cash and cash equivalents	1,901	1,225
Finance leases	(581)	(602)
Other interest bearing liabilities	(461)	(311)
Net cash/ (debt)	859	312

The increase in interest bearing liabilities recorded in H1 FY17 is a result of the cash management activities that the Group undertakes on behalf of the manganese joint venture and is offset by a commensurate increase in cash and cash equivalents. The US\$21M reduction in finance leases is primarily associated with the weaker Australian dollar at the end of H1 FY17.

Standard and Poor's and Moody's reaffirmed the Group's BBB+ and Baa1 credit ratings respectively, following their annual reviews in H1 FY17.

DIVIDENDS

The Board has resolved to pay an interim dividend of US 3.6 cents per share in respect of H1 FY17. While it is our intention to distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system, this dividend will not be franked for Australian taxation purposes as South32 Limited did not generate franking credits during the period as it paid no Australian income tax.

This dividend is paid in line with our policy to distribute a minimum 40% of Underlying earnings as dividends to its shareholders following each six-month reporting period, having regard to our first two priorities for cash flow, being a commitment to maintain safe and reliable operations and an investment grade credit rating through the cycle.

Dividend timetable	Date
Announce currency conversion into Rand	3 March 2017
Last day to trade cum dividend on the Johannesburg Stock Exchange (JSE)	7 March 2017
Ex-dividend date on the JSE	8 March 2017
Ex-dividend date on the ASX and London Stock Exchange (LSE)	9 March 2017
Record date (including currency election date for ASX)	10 March 2017
Payment date	6 April 2017

South32 Limited shareholders registered on the South African branch register will not be able to dematerialise or rematerialise their shareholdings between 8 March and 10 March (both dates inclusive), nor will transfers to/from the South African branch register be permitted between 3 March and 10 March (both dates inclusive).

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

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

OUTLOOK

Information in this section does not reflect the proposed acquisition of the Metropolitan Colliery.

PRODUCTION

Production guidance for FY17 is unchanged for our upstream operations.

Illawarra Metallurgical Coal saleable production guidance was revised in December 2016 to 7.9Mt as a result of challenging ground conditions at Appin Area 9 and a moderation of mining rates at Appin Area 7 to ensure gas concentrations were maintained at safe levels. With the completion of the 901 panel and associated release of ground stresses, longwall availability and cutting rates are anticipated to improve in FY18. The lower production rate in FY17 has, however, impacted the timing of longwall panel extraction and production guidance for FY18 has been revised accordingly.

Worsley Alumina saleable alumina production guidance is unchanged with the refinery expected to produce at its nameplate capacity of 4.6Mtpa (100% basis) across FY17 and FY18. Similarly, Brazil Alumina saleable production guidance for FY17 is unchanged at 1.32Mt with a small increase in production anticipated in FY18.

At South Africa Energy Coal, total coal production guidance for FY17 and FY18 is unchanged and will benefit from additional capital investment at the Wolvekrans Middelburg Complex to open up new mining areas.

Payable nickel production guidance for Cerro Matoso remains unchanged at approximately 36kt for FY17 before the accelerated development of the higher grade La Esmeralda Mineral Resource increases production by 16% in FY18 to approximately 42kt. Production from La Esmeralda is now expected to commence in the June 2017 quarter.

Production guidance for Australia Manganese of 3.1Mwmt in FY17 and FY18 remains unchanged, albeit with a greater proportion of Premium Concentrate ore (PC02) product. Guidance is not provided for South Africa Manganese as our plans will continue to be adjusted to reflect market demand given our focus on value over volume.

The optimised longer term mine plan at Cannington seeks to maximise total silver, lead and zinc extraction across the remaining years of the underground operation and reduce geotechnical risk by sequencing stope design. FY17 production guidance (silver 19.05Moz, lead 163kt, zinc 80kt) remains predicated on the extraction of the higher grade (silver/lead) 60L stope that is in close proximity to the existing underground crusher, while the development of the replacement underground crusher is expected to be commissioned in the March 2018 quarter. Guidance will be revised should geotechnical conditions dictate a change to the current stope sequence and the extraction of the 60L stope be deferred, albeit with no net loss of metal production in the forward plan.

Upstream production guidance (South32 share) ⁽¹⁰⁾			
	FY16	FY17e ^(a)	FY18e ^(a)
Worsley Alumina			
Alumina production (kt)	3,961	3,965	3,965
Brazil Alumina			
Alumina production (kt)	1,335	1,320	1,350
South Africa Energy Coal⁽¹¹⁾			
Domestic coal production (kt)	16,825	17,000	17,000
Export coal production (kt)	14,856	13,850	12,800
Illawarra Metallurgical Coal			
Metallurgical coal production (kt)	7,059	6,360	Revised ↓ 7,550
Energy coal production (kt)	1,307	1,540	Revised ↑ 1,450
Australia Manganese			
Manganese ore production (kwmt)	3,071	3,120	3,125
South Africa Manganese			
Manganese ore production (kwmt)	1,711	Subject to demand	Subject to demand
Cerro Matoso			
Payable nickel production (kt)	36.8	36.0	Revised ↑ 41.6
Cannington			
Payable silver production (koz)	21,393	19,050	16,550
Payable lead production (kt)	173	163	147
Payable zinc production (kt)	79	80	72

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

Our African aluminium smelters continue to operate at benchmark levels of current efficiency and are experiencing fewer load-shedding events. During H1 FY17, we restarted production in the 22 pots (equivalent to 3% of total production) that were taken offline at South Africa Aluminium in September 2015.

At Metalloys (South Africa Manganese), we continue to operate one of four furnaces, whereas all four furnaces at TEMCO (Australia Manganese) are expected to return to full capacity once scheduled maintenance is completed in the March 2017 quarter.

COSTS AND CAPITAL EXPENDITURE

When compared with H1 FY16, we reduced controllable costs by US\$239M and capital expenditure by US\$116M.

Cost targets

In FY16, we announced major restructuring initiatives at our operations and we continue to pursue our cost saving targets. New guidance primarily reflects the movement of foreign exchange rates and price-linked royalties.

Operating unit costs, including Sustaining capital expenditure by upstream operation ⁽¹²⁾						
	Units	H1 FY16	H1 FY17	H1 FY17 adjusted ^(a)	FY17 Prior guidance ^(b)	FY17 New guidance ^(c)
Worsley Alumina	US\$/t	239	210	204	204	218
Illawarra Metallurgical Coal	US\$/t	85	88	83	83	90
Australia Manganese ore (FOB)	US\$/dmu	1.91	1.64	1.54	1.66	1.72
South Africa Manganese ore (FOB)	US\$/dmu	2.44	2.07	1.70	1.71	2.20
Cerro Matoso	US\$/lb	4.74	3.92	3.81	3.87	3.98
South Africa Energy Coal	US\$/t	27	28	24	26	30
Cannington ^(d)	US\$/t	155	141	134	138	141

- (a) Adjusted H1 FY17 Operating unit costs, including Sustaining capital expenditure, are restated to reflect price and foreign exchange rate assumptions used for prior FY17 guidance (refer to footnote 13 on page 27).
- (b) Prior FY17 Operating unit cost targets, including Sustaining capital expenditure, were predicated on commodity price and foreign exchange rate assumptions (refer to footnote 13 on page 27). Prior guidance for South Africa Manganese reflected the previously expected H2 FY17 run-rate as activity was reprioritised following a fatality at the Wessels underground mine in June 2016.
- (c) New FY17 Operating unit cost targets, including Sustaining capital expenditure, are predicated on commodity price and foreign exchange rate forward curves or our internal expectations for H2 FY17, as at January 2017 (refer to footnote 14 on page 27). New guidance for South Africa Manganese reflects the expected FY17 run-rate.
- (d) US dollar per tonne of ore processed. Periodic movements in finished product inventory may impact operating unit costs as related marketing costs and treatment and refining charges may change.

Capital expenditure

Guidance for FY17 capital expenditure, including equity accounted investments, remains unchanged at approximately US\$450M⁽¹⁵⁾ as the spend profile is skewed to H2 FY17 for a number of projects. This guidance includes capital expenditure associated with equity accounted investments of US\$50M and major project expenditure of US\$35M. Major project capital expenditure primarily reflects study costs and the acquisition of land in preparation for our Klipspruit Life Extension project. A final investment decision for the Klipspruit Life Extension project is scheduled for the June 2017 quarter.

Exploration expenditure

Exploration expenditure of approximately US\$16M is expected within our existing footprint, including US\$4M for our equity accounted investments following the commencement of exploration within the Southern Areas of Groote Eylandt for high grade manganese ore. As part of our agreement with Northern Shield Resources, we will fund US\$1M of exploration for Cu-Ni-PGE mineralisation at Huckleberry, in the Labrador Trough, Canada in FY17. We continue to actively pursue additional greenfield exploration opportunities which could lead to an increase in expenditure.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation, excluding equity accounted investments, of US\$760M is now expected in FY17. The US\$40M increase in guidance primarily results from an adjustment to the useful life of specific assets, the accelerated depreciation of the Group's information technology systems and the appreciation of the South African rand given its impact on the depreciation profile of projects scheduled for completion in FY17. Depreciation and amortisation for equity accounted investments is also expected to increase by US\$10M to US\$80M in FY17.

TAX EXPENSE

The Group's Underlying effective tax rate (Underlying ETR), which excludes taxation associated with equity accounted investments, largely reflects the geographic distribution of the Group's profit. The corporate tax rates applicable to the Group include: Australia 30%; South Africa 28%; Colombia 40%; and Brazil 34%. It should also be recognised that permanent differences have a disproportionate effect on the Group's Underlying ETR⁽¹⁶⁾ when commodity prices and profit margins are compressed.

While South32 Limited currently maintains a zero franking credit balance, the Group is expected to generate a positive franking credit balance in FY17, based on current projections. South32 Limited did not generate franking credits during the period as it paid no Australian income tax.

DECEMBER 2016 HALF YEAR FINANCIAL RESULTS

To provide insight into the underlying performance of the South32 Group, we present internal earnings measures utilised by management. These internal measures include Underlying EBITDA, Underlying EBIT and Underlying earnings.

Income statement		
US\$M	H1 FY17	H1 FY16
Revenue	3,221	2,981
Other income	142	167
Expenses excluding net finance cost	(2,670)	(4,379)
Share of profit/(loss) of equity accounted investments	164	(356)
Profit/(loss) from continuing operations	857	(1,587)
Net finance cost	(60)	(45)
Taxation expense	(177)	(117)
Profit/(loss) after taxation	620	(1,749)
Basic earnings per share (US cents)	11.7	(32.9)
Other financial information		
Profit/(loss) from continuing operations	857	(1,587)
Earnings adjustments to derive Underlying EBIT	(166)	1,728
Underlying EBIT	691	141
Depreciation and amortisation	373	401
Underlying EBITDA	1,064	542
Profit/(loss) after taxation	620	(1,749)
Earnings adjustments after taxation	(141)	1,775
Underlying earnings	479	26
Basic Underlying earnings per share (US cents)	9.0	0.5

EARNINGS ADJUSTMENTS

The following table notes the various Earnings adjustments that are excluded from the Group's Underlying measures.

Earnings adjustments		
US\$M	H1 FY17	H1 FY16
Adjustments to Underlying EBIT		
Significant items	-	92
Exchange rate (gains)/losses on restatement of monetary items ^(a)	20	(87)
Impairment losses ^{(a)(b)}	4	1,384
Fair value (gains)/losses on derivative instruments ^(a)	(189)	36
Major corporate restructures ^(a)	2	5
Impairment losses included in operating profit/(loss) of equity accounted investments ^(c)	-	287
Earnings adjustments included in operating profit/(loss) of equity accounted investments ^(c)	(3)	11
Total adjustments to Underlying EBIT	(166)	1,728
Adjustments to net finance cost		
Exchange rate variations on net debt	(11)	(26)
Total adjustments to net finance cost	(11)	(26)
Adjustments to income tax expense		
Significant items	-	39
Tax effect of earnings adjustments to Underlying EBIT	45	(152)
Tax effect of earnings adjustments to net finance cost	4	8
Exchange rate variations on tax balances	(13)	178
Total adjustments to income tax expense	36	73
Total earnings adjustments	(141)	1,775

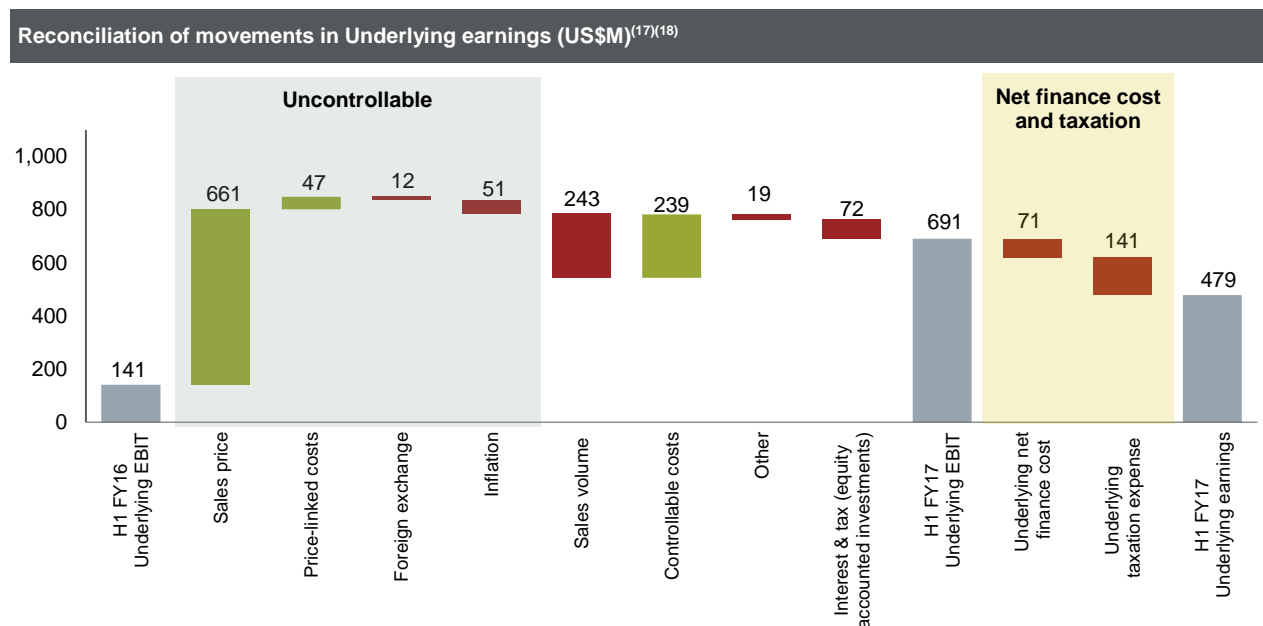
(a) Recognised in expenses excluding net finance cost in the consolidated income statement.

(b) In the half year ended 31 December 2015, the South32 Group recognised impairments as a result of significant and continuing weakening of commodity markets. For detailed disclosure of the impairments refer to the financial statements released for the period ending 31 December 2015.

(c) Recognised in share of profit/(loss) of equity accounted investments in the consolidated income statement.

EARNINGS ANALYSIS

The following key factors influenced Underlying earnings in H1 FY17, relative to H1 FY16.



Prices, foreign exchange and inflation

An increase in average realised prices for our commodities increased revenue by US\$661M. Metallurgical and energy coal, and manganese ore and alloy were the main contributors, increasing revenue by US\$313M and US\$230M respectively. Higher averaged realised silver, lead and zinc prices increased sales revenue by a further US\$93M. Conversely, lower average realised prices for alumina reduced revenue by US\$39M.

Despite the increase in commodity prices, price-linked costs decreased by US\$47M, attributable to lower raw material prices at our alumina and aluminium operations and a reduction in treatment and refining charges for Cannington concentrates. This was offset by general inflation which increased costs by US\$51M. The inflationary impact was most pronounced at our African operations which accounted for 65% of the total variance.

The cumulative impact of changes in foreign exchange rate markets reduced Underlying EBIT by a net US\$12M as a stronger Australian dollar was partially offset by a weaker South African rand.

Volume

The US\$243M volume related impact in revenue reflects a decline in processed ore grades and metal production at Cannington (US\$104M) and lower production at South Africa Energy Coal (US\$103M) following the suspension of the North Plant at the Wolvekrans Middelburg Complex, scheduled maintenance and the repositioning of draglines. The revenue impact of lower production volumes at Illawarra Metallurgical Coal (US\$20M) was mitigated by a net reduction in inventory.

Controllable cost reduction

Controllable costs were US\$239M lower than the corresponding period as we continued to benefit from the major restructuring initiatives undertaken in H2 FY16. An increase in controllable costs is anticipated in H2 FY17 as working capital unwinds.

Group and Unallocated costs of US\$70M are expected in FY17, as planned.

Other items

Other items reduced Underlying EBIT by US\$19M in H1 FY17. Depreciation and amortisation, including equity accounted investments, declined by US\$72M as a result of impairments recorded in H1 FY16. Conversely, the net effect of a reduction in power sales in Brazil (US\$57M) and the prior US\$29M reversal of a rehabilitation provision that benefitted South Africa Energy Coal in H1 FY16 reduced Underlying EBIT by a combined US\$86M.

Interest and tax associated with equity accounted investments

The Group's manganese operations are jointly controlled by South32 (60% share) and Anglo American (40% share). The Underlying interest and taxation expense associated with these equity accounted investments increased by US\$72M to US\$91M in H1 FY17 as higher prices led to a significant increase in profitability.

Net finance costs

The Group's Underlying net finance costs, excluding equity accounted investments, were US\$71M in H1 FY17 and largely reflect the unwinding of the discount applied to our restoration and rehabilitation provisions (US\$48M) and finance lease charges (US\$26M), primarily at Worsley Alumina.

Underlying net finance cost reconciliation		
US\$M	H1 FY17	H1 FY16
Unwind of discount applied to closure and rehabilitation provisions	(48)	(49)
Finance lease charges	(26)	(25)
Other	3	3
Underlying net finance cost	(71)	(71)
Add back earnings adjustment for exchange rate variations on net debt	11	26
Net finance cost	(60)	(45)

Taxation expense

The Group's underlying income tax expense, which excludes taxation associated with equity accounted investments, was US\$141M for an Underlying effective tax rate (ETR) of 30.7%. The tax expense for equity accounted investments was US\$76M, including royalty related taxation. The recognition of the GEMCO (Australia Manganese) Northern Territory royalty as a profits-based tax gives rise to a royalty related taxation expense of US\$14M in equity accounted investments.

Underlying income tax expense reconciliation and Underlying ETR		
US\$M	H1 FY17	H1 FY16
Underlying EBIT	691	141
Include: Underlying net finance cost	(71)	(71)
Remove: Share of profit/(loss) of equity accounted investments	(161)	58
Underlying Profit/(loss) before taxation	459	128
Income tax expense	177	117
Tax effect of earnings adjustments to Underlying EBIT	(45)	152
Tax effect of earnings adjustments to net finance cost	(4)	(8)
Exchange rate variations on tax balances	13	(178)
Tax on significant items	-	(39)
Underlying income tax expense	141	44
Underlying effective tax rate	30.7%	34.4%

OPERATIONS ANALYSIS

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

Operations table				
US\$M	Revenue		Underlying EBIT	
	H1 FY17	H1 FY16	H1 FY17	H1 FY16
Worsley Alumina	492	540	26	33
South Africa Aluminium	601	596	90	21
Mozal Aluminium	238	208	25	(10)
Brazil Alumina	164	186	10	74
South Africa Energy Coal	539	542	128	46
Illawarra Metallurgical Coal	471	284	109	(37)
Australia Manganese ^(a)	390	226	207	10
South Africa Manganese ^(a)	175	114	46	(51)
Cerro Matoso	188	166	(4)	(48)
Cannington	412	423	165	153
Third party products ⁽¹⁹⁾	349	291	11	-
Inter-segment / Group and Unallocated	(232)	(254)	(31)	(31)
Total	3,787	3,322	782	160
Equity accounting adjustment ^(b)	(566)	(341)	(91)	(19)
South32 Group	3,221	2,981	691	141

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

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

Note: Detailed operational analysis is presented on pages 17 to 26. Unless otherwise stated:

- All metrics reflect South32's share;
- Operating unit costs, including Sustaining capital expenditure, is Revenue less Underlying EBITDA plus Sustaining capital expenditure. Additional manganese disclosures are included on pages 23 and 24; and
- New FY17 Operating unit cost guidance, including Sustaining capital expenditure, and Sustaining capital expenditure guidance, include royalties (where appropriate) and the influence of exchange rates, and are predicated on various assumptions for H2 FY17, including: an alumina price of US\$316/t; an average blended coal price of US\$146/t for Illawarra Metallurgical Coal; a manganese ore price of US\$6.79/dmtu for 44% manganese product; a nickel price of US\$4.65/lb; a thermal coal price of US\$84/t (API4) for South Africa Energy Coal; a silver price of US\$17.04/troy oz; a lead price of US\$2,267/t; a zinc price of US\$2,746/t; an AUD:USD exchange rate of 0.75; a USD:ZAR exchange rate of 14.20; and a USD:COP exchange rate of 2,943; all of which reflected forward markets as at January 2017 or our internal expectations.

WORSLEY ALUMINA (86% SHARE)

Volumes

Worsley Alumina saleable production decreased by 3% (or 53kt) to 1.9Mt in H1 FY17. Hydrate production remained at an annualised rate of 4.5Mt (100% basis) and FY17 saleable alumina production guidance remains unchanged at 4.0Mt.

FY18 saleable alumina production guidance is unchanged with the refinery expected to produce at its nameplate capacity of 4.6Mt (100% basis).

Costs

Operating unit costs decreased by 12% to US\$200/t in H1 FY17 despite a stronger Australian dollar. Reduced employee and contractor numbers and procurement savings, including lower energy costs and contractor rates, contributed to the improvement in unit costs.

We have restated FY17 Operating unit costs, including Sustaining capital expenditure guidance to US\$218/t in FY17 (FY16: US\$221/t) to reflect updated exchange rate and price-linked royalty assumptions and a minor increase in costs. This includes Sustaining capital expenditure of US\$59M as additional investment is directed towards water infrastructure in H2 FY17. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT declined by US\$7M in H1 FY17 to US\$26M. Lower average realised alumina prices (-US\$32M, net of price-linked costs), a stronger Australian dollar (-US\$10M) and a US\$44M reduction in controllable costs had the most significant influence on financial performance.

Capital expenditure decreased by 14% to US\$19M in H1 FY17.

South32 share	H1 FY17	H1 FY16
Alumina production (kt)	1,940	1,993
Alumina sales (kt)	1,909	1,898
Realised alumina sales price (US\$/t) ^(a)	258	285
Operating unit cost (US\$/t) ^(b)	200	228

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

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue	492	540
Underlying EBITDA	110	108
Underlying EBIT	26	33
Net operating assets/(liabilities) ^(a)	3,186	3,208
Capital expenditure	19	22
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	19	22
Exploration expenditure	-	-
Exploration expensed	-	-

- (a) H1 FY16 reflects balance as at 30 June 2016.

SOUTH AFRICA ALUMINIUM (100%)

Volumes

South Africa Aluminium saleable production increased by 1% (or 4kt) to 356kt in H1 FY17 as the smelter continued to operate at benchmark levels of current efficiency, with fewer load-shedding events. Strong performance also reflected the recommencement of production in the 22 pots that were suspended in the September 2015 quarter.

Costs

Operating unit costs decreased by 8% to US\$1,380/t in H1 FY17. The combination of lower raw material prices and a weaker South African rand offset higher aluminium price-linked power costs and the impact of lower sales. A total of 50 pots were relined across H1 FY17 at a cost of approximately US\$211k per pot (H1 FY16: 66 pots at US\$204k per pot). 72 pots are scheduled to be relined in FY17.

While additional productivity gains are being pursued, the cost profile of the smelter will be more heavily influenced by power and raw material inputs, given the operation's high variable cost base. Hillside sources power from Eskom under long-term contracts. The price of electricity supplied to potlines 1 and 2 is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline 3 is South African rand based and linked to South African and United States producer price indices.

Financial performance

Underlying EBIT increased by US\$69M in H1 FY17 to US\$90M. The combination of higher average realised aluminium prices and premia and lower raw material costs increased Underlying EBIT by US\$80M, net of other price-linked costs. The impact of lower sales volumes (-US\$28M) was offset by inventory movements that contributed to a total controllable cost reduction of US\$19M.

Capital expenditure decreased by 25% to US\$6M in H1 FY17.

South32 share	H1 FY17	H1 FY16
Aluminium production (kt)	356	352
Aluminium sales (kt) ^(a)	347	363
Realised sales price (US\$/t) ^(a)	1,732	1,642
Operating unit cost (US\$/t) ^(b)	1,380	1,496

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

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue	601	596
Underlying EBITDA	122	53
Underlying EBIT	90	21
Net operating assets/(liabilities) ^(a)	1,243	1,059
Capital expenditure	6	8
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	6	8
Exploration expenditure	-	-
Exploration expensed	-	-

- (a) H1 FY16 reflects balance as at 30 June 2016.

MOZAL ALUMINIUM (47.1% SHARE)

Volumes

Mozal Aluminium saleable production increased by 2% (or 3kt) to 136kt in H1 FY17 as current efficiency continued to improve and the operation experienced fewer load-shedding events. The 11% increase in sales reflects the timing of shipments between periods.

Costs

Operating unit costs decreased by 12% to US\$1,448/t in H1 FY17 reflecting stronger sales and lower raw materials prices. A total of 39 pots were relined across H1 FY17 at a cost of approximately US\$193k per pot (H1 FY16: 69 pots at US\$212k per pot). 106 pots are now scheduled to be relined in FY17.

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

Financial performance

Underlying EBIT increased by US\$35M in H1 FY17 to US\$25M. The combination of higher average realised aluminium prices and premia and lower raw material costs increased Underlying EBIT by US\$23M, net of other price-linked costs. The benefit of higher sales volumes (+US\$21M) was partially offset by an unfavourable year-on-year movement in inventory that contributed to a net controllable cost increase of US\$12M. A favourable exchange rate impact (+US\$8M) was offset by inflation (-US\$6M).

Capital expenditure decreased by 40% to US\$3M in H1 FY17.

South32 share	H1 FY17	H1 FY16
Aluminium production (kt)	136	133
Aluminium sales (kt) ^(a)	134	121
Realised sales price (US\$/t) ^(a)	1,776	1,719
Operating unit cost (US\$/t) ^(b)	1,448	1,653

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

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue	238	208
Underlying EBITDA	44	8
Underlying EBIT	25	(10)
Net operating assets/(liabilities) ^(a)	561	565
Capital expenditure	3	5
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	3	5
Exploration expenditure	-	-
Exploration expensed	-	-

- (a) H1 FY16 reflects balance as at 30 June 2016.

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

Volumes

Brazil Alumina saleable production remained unchanged in H1 FY17 at 673kt as planned maintenance at the refinery and port in the September 2016 quarter was offset by record production in the December 2016 quarter. FY17 saleable alumina production guidance remains unchanged at 1.32Mt, with a small increase in production anticipated in FY18.

Costs

Alumina operating unit costs at the non-operated refinery increased by 5% to US\$194/t in H1 FY17 as the Brazilian real strengthened and sales volumes declined.

Financial performance

Underlying EBIT decreased by US\$64M in H1 FY17 to US\$10M as the contribution of power sales declined by US\$57M in the period.

In H1 FY16 we terminated the power supply contract with Eletronorte and in H2 FY16 recorded an onerous contract provision to reflect anticipated future losses associated with the remaining power supply commitments across FY17 and FY18.

Within the alumina supply chain, Underlying EBIT decreased by US\$24M to US\$12M. Lower average realised alumina prices (-US\$7M, net of price-linked costs), weaker sales volumes (-US\$6M) and the stronger Brazilian real (-US\$6M) led to the decline in profitability.

Capital expenditure at the refinery increased by 44% to US\$13M in H1 FY17.

South32 share	H1 FY17	H1 FY16
Alumina production (kt)	673	673
Alumina sales (kt)	638	661
Realised alumina sales price (US\$/t) ^(a)	257	281
Alumina operating unit cost (US\$/t) ^{(b)(c)}	194	185

- (a) Realised sales price is calculated as sales revenue divided by sales volume.
(b) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.
(c) Includes cost of acquiring bauxite from Mineração Rio do Norte S.A.

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue	164	186
<i>Alumina</i>	164	186
<i>Aluminium</i>	-	-
<i>Intra-segment elimination</i>	-	-
Other income ^(a)	86	105
Underlying EBITDA	38	110
<i>Alumina</i>	40	64
<i>Aluminium</i>	(2)	46
Underlying EBIT	10	74
<i>Alumina</i>	12	36
<i>Aluminium</i>	(2)	38
Net operating assets/(liabilities) ^(b)	662	707
<i>Alumina</i>	722	737
<i>Aluminium</i>	(60)	(30)
Capital expenditure	13	9
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	13	9
Exploration expenditure	-	-
Exploration expensed	-	-

- (a) Other income in H1 FY17 includes revenue of US\$84M from the sale of surplus electricity (H1 FY16: US\$99M). This revenue was offset by electricity purchases from Eletronorte and the unwind of the onerous contract provision recorded in FY16.
(b) H1 FY16 reflects balance as at 30 June 2016.

SOUTH AFRICA ENERGY COAL (92% SHARE)

Volumes

South Africa Energy Coal saleable production decreased by 9% (or 1.6Mt) to 14.8Mt in H1 FY17. The decline in production reflects the prior suspension of the North Plant at the Wolvekrans Middelburg Complex (WMC), scheduled maintenance and the repositioning of draglines. Export sales were also impacted by Transnet's annual rail maintenance cycle.

Total coal production guidance for FY17 and FY18 is unchanged and will benefit from additional capital investment at the Wolvekrans Middelburg Complex that will open up new mining areas. FY17 saleable coal production guidance is 30.9Mt (domestic coal 17.0Mt, export coal 13.9Mt).

Costs

Operating unit costs increased by 4% to US\$26/t in H1 FY17 largely as a result of lower sales volumes for both domestic and export coal. This impact was partially offset by a favourable movement in inventory and a weaker South African rand.

We have restated FY17 Operating unit costs, including Sustaining capital expenditure guidance to US\$30/t in FY17 (FY16: US\$27/t) to reflect updated exchange rate and price-linked royalty assumptions. This includes Sustaining capital expenditure of US\$75M as additional investment is directed towards the Wolvekrans Middelburg Complex in H2 FY17. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT increased by US\$82M in H1 FY17 to US\$128M. Higher average realised coal prices increased Underlying EBIT by US\$100M, net of price-linked costs, but were partially offset by lower sales volumes (net -US\$73M). Non-cash charges declined by US\$46M as depreciation and amortisation was rebased following the prior recognition of impairments.

Sustaining capital expenditure decreased by 40% to US\$25M in H1 FY17 following the purchase of mobile equipment in the prior period. We expect Major project capital expenditure of approximately US\$30M in FY17 to fund study costs and the acquisition of land in preparation for our Klipspruit Life Extension project. A final investment decision is scheduled for the June 2017 quarter. Major project capital expenditure is excluded from our unit cost guidance.

100 per cent terms ^(a)	H1 FY17	H1 FY16
Energy coal production (kt)	14,825	16,379
Domestic sales (kt) ^(b)	8,918	9,080
Export sales (kt) ^(b)	5,856	8,021
Realised domestic sales price (US\$/t) ^(b)	19	19
Realised export sales price (US\$/t) ^(b)	63	46
Operating unit cost (US\$/t) ^(c)	26	25

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

100 per cent terms ^(a) (US\$M)	H1 FY17	H1 FY16
Revenue ^(b)	539	542
Underlying EBITDA	152	116
Underlying EBIT	128	46
Net operating assets/(liabilities) ^(c)	(81)	(99)
Capital expenditure	27	42
Major projects (>US\$100M)	2	-
All other capital expenditure	25	42
Exploration expenditure	-	-
Exploration expensed	-	-

- (a) South32's interest in South Africa Energy Coal is accounted at 100% until B-BBEE vendor loans are repaid.
- (b) Includes domestic and export sales revenue.
- (c) H1 FY16 reflects balance as at 30 June 2016.

ILLAWARRA METALLURGICAL COAL (100%)

Volumes

Illawarra Metallurgical Coal saleable production decreased by 6% (or 243kt) to 3.7Mt in H1 FY17. The decline in production primarily reflected challenging ground conditions at Appin Area 9 and a moderation of mining rates at Appin Area 7 that ensured gas concentrations were maintained at safe levels. These impacts were partially offset by strong operating performance at Dendrobium. Consistent with our recent update, Illawarra Metallurgical Coal sales of 8.1Mt are expected in FY17 as Appin Area 7 has returned to full capacity and Appin Area 9 has recommenced production, as planned.

With the completion of the 901 panel and associated release of ground stresses, longwall availability and cutting rates are anticipated to improve in subsequent longwall panels. The lower production rate in FY17 has, however, impacted the timing of longwall panel extraction and production guidance for FY18 has been revised accordingly.

Restated FY17 production guidance incorporates a longwall move for each of the March and June 2017 quarters.

Costs

Operating unit costs increased by 19% to US\$75/t in H1 FY17 as a result of lower sales and the operation's high proportion of fixed costs. Additional cost pressure stemmed from a stronger Australian dollar, inflation and higher price-linked royalties.

We have restated Operating unit costs, including Sustaining capital expenditure guidance to US\$90/t (FY16: US\$80/t) to reflect updated exchange rate and price-linked royalty assumptions. This includes Sustaining capital expenditure of US\$129M, encompassing underground mine development of US\$69M. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT increased by US\$146M in H1 FY17 to US\$109M. The benefit of higher average realised coal prices (+US\$193M, net of price-linked costs) was partially offset by a decline in sales volumes (-US\$20M) and a stronger Australian dollar (-US\$10M). Our average realised price for H1 FY17 was impacted by a carry over shipment in December 2016 that was associated with our prior declaration of force majeure. Another carry over shipment is scheduled for H2 FY17.

Capital expenditure decreased by 51% to US\$54M in H1 FY17 following the completion of the Appin Area 9 project in the March 2016 quarter. Capital expenditure included underground development of approximately US\$29M.

South32 share	H1 FY17	H1 FY16
Metallurgical coal production (kt)	2,829	3,298
Energy coal production (kt)	884	658
Metallurgical coal sales (kt)	2,788	3,132
Energy coal sales (kt)	817	609
Realised metallurgical coal sales price (US\$/t) ^(a)	151	82
Realised energy coal sales price (US\$/t) ^(a)	62	43
Operating unit cost (US\$/t) ^(b)	75	63

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

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

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue ^(a)	471	284
Underlying EBITDA	202	50
Underlying EBIT	109	(37)
Net operating assets/(liabilities) ^(b)	1,514	1,516
Capital expenditure	54	111
<i>Major projects (>US\$100M)</i>	6	26
<i>All other capital expenditure</i>	48	85
Exploration expenditure	2	1
Exploration expensed	2	1

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

(b) H1 FY16 reflects balance as at 30 June 2016.

AUSTRALIA MANGANESE (60% SHARE)

Volumes

Australia Manganese saleable ore production in H1 FY17 decreased by 6% (or 90kwt) from the prior period's record rate to 1.5Mwmt as lower yields and reduced plant availability resulted in lower production from the primary high grade circuit. This impact was partially offset by the opportunistic ramp-up of the Premium Concentrate ore (PC02) circuit to its annualised capacity of 500kwt in the December 2016 quarter.

FY17 production guidance of 3.1Mwmt remains unchanged, albeit with a greater proportion of PC02 product. The share of PC02 product in H1 FY17 production was 5% (H1 FY16: Nil). Our PC02 fines product has a manganese content of approximately 40% which leads to both grade and product-type discounts when referenced to the high grade 44% manganese lump ore index.

Saleable manganese alloy production decreased by 8% (or 7kt) to 78kt in H1 FY17 as furnace instability impacted performance. All four furnaces are expected to operate at full capacity once scheduled maintenance is completed in the March 2017 quarter.

Costs

FOB manganese ore operating unit costs increased by 10% to US\$1.44/dmtu in H1 FY17 as a result of a stronger Australian dollar and higher price-linked royalties.

We have restated FY17 Operating unit costs, including Sustaining capital expenditure guidance to US\$1.72/dmtu (FY16: US\$1.88/dmtu FOB) to reflect updated exchange rate and price-linked royalty assumptions and the greater proportion of lower cost PC02 product. The strip ratio is now expected to increase to 3.5 from 3.3 in FY16. Cost guidance includes Sustaining capital expenditure of US\$31M. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT increased by US\$197M in H1 FY17 to US\$207M. Higher average realised manganese ore and alloy prices increased Underlying EBIT by US\$159M, net of price-linked costs. The impacts of a stronger Australian dollar and inflation decreased Underlying EBIT by US\$6M. Non-cash charges declined by US\$36M as depreciation and amortisation was rebased following the prior recognition of impairments. Our average realised price for external ore sales reflected a modest premium to the high grade 44% manganese lump ore index on an M-1 basis, despite the greater proportion of PC02 product.

Capital expenditure decreased by US\$26M to US\$15M in H1 FY17 following the completion of the PC02 project. Exploration drilling at GEMCO's Southern Areas commenced in the December 2016 quarter.

South32 share	H1 FY17	H1 FY16
Manganese ore production (kwmt)	1,499	1,589
Manganese alloy production (kwmt)	78	85
Manganese ore sales (kwmt) ^(a)	1,500	1,457
<i>External customers</i>	1,362	1,286
<i>TEMCO</i>	138	171
Manganese alloy sales (kt) ^(a)	82	76
Realised external manganese ore sales price (US\$/dmtu, FOB) ^{(a)(b)}	4.91	2.51
Realised manganese alloy sales price (US\$/t) ^(a)	988	868
Ore operating unit cost (US\$/dmtu) ^{(b)(c)}	1.44	1.31
Alloy operating unit cost (US\$/t) ^{(b)(c)}	720	882

- (a) Volumes and realised prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as external sales revenue less freight and marketing costs, divided by external sales volume. Realised alloy prices are calculated as sales revenue, including sinter revenue, divided by alloy sales volume. Ore converted to sinter and alloy, and sold externally is eliminated as an intracompany transaction.
- (b) H1 FY17 average manganese content of ore sales was 46.4% on a dry basis (H1 FY16: 47.6%). 95% of H1 FY17 external manganese ore sales (H1 FY16: 91%) were completed on a CIF basis. H1 FY17 realised FOB ore prices and operating unit costs have been adjusted for freight and marketing costs of US\$13M (H1 FY16: US\$13M), consistent with our FOB cost guidance.
- (c) FOB ore operating unit cost is Revenue less Underlying EBITDA, freight and marketing costs, divided by ore sales volume. Alloy operating unit costs is Revenue less Underlying EBITDA divided by alloy sales volumes and includes costs associated with sinter sold externally.

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue ^(a)	390	226
<i>Manganese Ore</i>	320	173
<i>Manganese Alloy</i>	81	66
<i>Intra-segment elimination</i>	(11)	(13)
Underlying EBITDA	233	72
<i>Manganese Ore</i>	211	73
<i>Manganese Alloy</i>	22	(1)
Underlying EBIT	207	10
<i>Manganese Ore</i>	187	15
<i>Manganese Alloy</i>	20	(5)
Net operating assets/(liabilities) ^(b)	357	341
<i>Manganese Ore</i>	369	338
<i>Manganese Alloy</i>	(12)	3
Capital expenditure	15	41
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	15	41
Exploration expenditure	1	-
Exploration expensed	-	-

- (a) Revenues of sales from GEMCO to TEMCO are eliminated as part of the consolidation. Internal sales occur on a commercial basis.
- (b) H1 FY16 reflects balance as at 30 June 2016.

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

Volumes

South Africa Manganese saleable ore production increased by 23% (or 177kwmt) to 934kwmt in H1 FY17 as market conditions supported a drawdown of Wessels concentrate stockpiles and the use of higher cost trucking to access export opportunities. Wessels concentrate accounted for 15% of H1 FY17 external sales (H1 FY16: 4%). South Africa Manganese ore production will remain configured for an optimised rate of 2.9Mwmt pa (100% basis), although we will continue to act opportunistically when market fundamentals are supportive.

Manganese alloy saleable production decreased by 20% (or 9kt) to 37kt in H1 FY17 as a result of furnace instability. Metalloys continues to operate one of its four furnaces.

Costs

FOB manganese ore operating unit costs decreased by 13% to US\$1.96/dmtu in H1 FY17. The benefit of a weaker South African rand was partially offset by higher price-linked royalties and the impact of inflation. The drawdown of low cost Wessels concentrate stockpiles offset the costs absorbed to opportunistically increase trucking of ore to port.

We have restated FOB Operating unit costs, including Sustaining capital expenditure guidance to US\$2.20/dmtu in FY17 (FY16: US\$2.01/dmtu FOB) to reflect updated exchange rate and price-linked royalty assumptions. This includes Sustaining capital expenditure of US\$9M. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT increased by US\$97M in H1 FY17 to US\$46M as higher average realised manganese ore and alloy prices increased Underlying EBIT by US\$66M, net of price-linked costs. Our average realised price for external sales reflects a 12% discount to the medium grade 37% manganese lump ore index on an M-1 basis as our Wessels concentrate is a fine grained product. Non-cash charges declined by US\$8M as depreciation and amortisation was rebased following the prior recognition of impairments.

Capital expenditure decreased to US\$4M in H1 FY17. The Wessels Central Block project remains on track to be completed in the March 2017 quarter.

South32 share	H1 FY17	H1 FY16
Manganese ore production (kwmt)	934	757
Manganese alloy production (kwmt)	37	46
Manganese ore sales (kwmt) ^(a)	928	879
<i>External customers</i>	859	862
<i>Metalloys</i>	69	17
Manganese alloy sales (kt) ^(a)	40	50
Realised external manganese ore sales price (US\$/dmtu, FOB) ^{(a)(b)}	3.87	2.00
Realised manganese alloy sales price (US\$/t) ^(a)	875	740
Ore operating unit cost (US\$/dmtu) ^{(b)(c)}	1.96	2.24
Alloy operating unit cost (US\$/t) ^{(b)(c)}	925	1,120

- (a) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as external sales revenue less freight and marketing costs, divided by external sales volume. Realised alloy prices are calculated as sales revenue, divided by alloy sales volume. Ore converted to sinter and alloy, and sold externally is eliminated as an intracompany transaction. Manganese ore sales are grossed-up to reflect a 60% accounting effective interest.
- (b) H1 FY17 average manganese content of ore sales was 40.3% on a dry basis (H1 FY16: 40.1%). 61% of H1 FY17 external manganese ore sales (H1 FY16: 54%) were completed on a CIF basis. H1 FY17 realised FOB ore prices and operating costs have been adjusted for freight and marketing costs of US\$10M (H1 FY16: US\$9M), consistent with our FOB cost guidance.
- (c) FOB ore operating unit cost is Revenue less Underlying EBITDA, freight and marketing costs, divided by ore sales volume. Alloy operating unit costs is Revenue less Underlying EBITDA divided by alloy sales volumes.

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue ^(a)	175	114
<i>Manganese Ore^(b)</i>	145	78
<i>Manganese Alloy</i>	35	37
<i>Intra-segment elimination</i>	(5)	(1)
Underlying EBITDA	61	(28)
<i>Manganese Ore^(b)</i>	63	(9)
<i>Manganese Alloy</i>	(2)	(19)
Underlying EBIT	46	(51)
<i>Manganese Ore^(b)</i>	54	(25)
<i>Manganese Alloy</i>	(8)	(26)
Net operating assets/(liabilities) ^(c)	337	342
<i>Manganese Ore^(b)</i>	263	258
<i>Manganese Alloy</i>	74	84
Capital expenditure	4	7
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	4	7
Exploration expenditure	-	-
Exploration expensed	-	-

- (a) Revenues of sales from Hotazel mines to Metalloys are eliminated as part of the consolidation. Internal sales occur on a commercial basis.
- (b) Consistent with the presentation of South32's segment information, South Africa Manganese ore production and sales have been reported at 60%. The group's financial statement will continue to reflect a 54.6% interest in South Africa Manganese ore.
- (c) H1 FY16 reflects balance as at 30 June 2016.

CERRO MATOSO (99.9% SHARE)

Volumes

Cerro Matoso payable nickel production remained largely unchanged at 17.7kt in H1 FY17 as plant performance was further optimised and higher recoveries were achieved.

Payable nickel production guidance for Cerro Matoso remains unchanged at approximately 36kt for FY17. Accelerated development of the higher grade La Esmeralda Mineral Resource will increase production by 16% in FY18 to approximately 42kt. Production from La Esmeralda is now expected to commence in the June 2017 quarter.

Costs

Operating unit costs decreased by 14% to US\$3.81/lb in H1 FY17. Modest inflationary pressure was more than offset by lower electricity costs, a reduction in contract services and lower raw material consumption rates.

We have restated FY17 Operating unit costs, including Sustaining capital expenditure guidance to US\$3.98/lb (FY16: US\$4.30/lb) to reflect updated exchange rate and price-linked royalty assumptions. This includes Sustaining capital expenditure of US\$16M. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT increased by US\$44M in H1 FY17 to a loss of US\$4M as higher average realised prices (+US\$21M, net of price-linked costs) and embedded cost saving initiatives (+US\$22M) underpinned an improvement in financial performance.

Capital expenditure of US\$4M was 67% lower than the prior period.

South32 share	H1 FY17	H1 FY16
Ore mined (kwmt)	2,347	3,017
Ore processed (kdmt)	1,289	1,312
Ore grade processed (% Ni)	1.5	1.5
Payable nickel production (kt)	17.7	17.5
Payable nickel sales (kt)	17.6	17.5
Realised nickel sales price (US\$/lb) ^(a)	4.85	4.30
Operating unit cost (US\$/lb) ^(b)	3.81	4.43

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

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

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue	188	166
Underlying EBITDA	40	(5)
Underlying EBIT	(4)	(48)
Net operating assets/(liabilities) ^(a)	647	683
Capital expenditure	4	12
<i>Major projects (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	4	12
Exploration expenditure	2	3
Exploration expensed	2	1

(a) H1 FY16 reflects balance as at 30 June 2016.

CANNINGTON (100% SHARE)

Volumes

Payable zinc production increased by 1% (or 0.3kt) to 42.1kt in H1 FY17, while payable silver and lead production decreased by 27% and 24%, respectively. Lower silver and lead ore grades were the primary contributors to the reduction in metal production.

The optimised longer term mine plan at Cannington seeks to maximise total silver, lead and zinc extraction across the remaining years of the underground operation and reduce geotechnical risk. FY17 production guidance (silver 19.05Moz, lead 163kt, zinc 80kt) remains predicated on the extraction of the higher grade (silver/lead) 60L stope that is in close proximity to the existing underground crusher chamber, while the development of the replacement underground crusher is expected to be commissioned in the March 2018 quarter. Guidance will be revised should geotechnical conditions dictate a change to the current stope sequence and the extraction of the 60L stope be deferred, albeit with no net loss of metal production in the forward plan.

Costs

Operating unit costs declined by 10% to US\$131/t of ore processed in H1 FY17 as the impact of a stronger Australian dollar was more than offset by lower labour and contractor costs and a decline in haulage rates.

We have restated Operating unit costs, including Sustaining capital expenditure guidance to US\$141/t of ore processed (FY16: US\$153/t) to reflect updated exchange rate and price-linked royalty assumptions and incremental cost savings. This includes Sustaining capital expenditure of US\$39M. Revised exchange rate and price assumptions for our FY17 unit cost targets are detailed on page 27, footnote 14.

Financial performance

Underlying EBIT increased by US\$12M in H1 FY17 to US\$165M. Higher average realised prices increased Underlying EBIT by US\$105M, net of price-linked costs, although this impact was offset by a US\$104M reduction in sales volumes, as lower grades impacted payable metal production. Controllable cost savings (+US\$26M), which benefitted from a favourable movement in inventory, more than offset the impact of a stronger Australian dollar (-US\$6M).

Finalisation adjustments and the provisional pricing of Cannington concentrates increased Underlying EBIT by US\$0.5M in H1 FY17 (-US\$11M in FY16; -US\$19M in H1 FY16). Outstanding concentrate sales (containing 2Moz of silver, 25kt of lead and 12kt of zinc) were revalued at 31 December 2016. The final price of these sales will be determined in H2 FY17.

Capital expenditure of US\$18M was 20% higher than the prior period.

South32 share	H1 FY17	H1 FY16
Ore mined (kt)	1,639	1,743
Ore processed (kt)	1,669	1,657
Ore grade processed (g/t, Ag)	198	266
Ore grade processed (% , Pb)	5.5	7.0
Ore grade processed (% , Zn)	3.7	3.7
Payable silver production (koz)	8,729	11,878
Payable lead production (kt)	73.9	97.5
Payable zinc production (kt)	42.1	41.8
Payable silver sales (koz)	8,860	11,898
Payable lead sales (kt)	73.3	95.5
Payable zinc sales (kt)	40.8	41.2
Realised silver sales price (US\$/oz) ^(a)	17.4	15.3
Realised lead sales price (US\$/t) ^(a)	2,128	1,817
Realised zinc sales price (US\$/t) ^(a)	2,475	1,641
Operating unit cost (US\$/t ore processed) ^(b)	131	146

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

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

South32 share (US\$M)	H1 FY17	H1 FY16
Revenue	412	423
Underlying EBITDA	194	181
Underlying EBIT	165	153
Net operating assets/(liabilities) ^(a)	227	242
Capital expenditure	18	15
<i>Major project (>US\$100M)</i>	-	-
<i>All other capital expenditure</i>	18	15
Exploration expenditure	1	2
Exploration expensed	1	2

(a) H1 FY16 reflects balance as at 30 June 2016.

NOTES

- (1) Revenue includes revenue from third party products.
- (2) H1 FY17 basic earnings per share is calculated as Profit/(loss) after taxation from continuing operations divided by the weighted average number of shares for H1 FY17 (5,319 million). H1 FY17 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for H1 FY17. H1 FY16 basic earnings per share is calculated as Profit/(loss) after taxation from continuing operations divided by the weighted average number of shares for H1 FY16 (5,324 million). H1 FY16 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for H1 FY16.
- (3) H1 FY17 dividend per share is calculated as total dividend (US\$192M) divided by the number of shares on issue at 31 December 2016 (5,324 million).
- (4) Underlying EBIT is profit from continuing operations before net finance costs, taxation and any earnings adjustment items, including impairments. Underlying EBIT is reported inclusive of South32's share of net finance costs and taxation of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation. Underlying earnings is Profit/(loss) after taxation and earnings adjustment items. Underlying earnings is the key measure that South32 uses to assess the performance of the South32 Group, make decisions on the allocation of resources and assess senior management's performance. In addition, the performance of each of the South32 operations and operational management are assessed based on Underlying EBIT. In order to calculate Underlying earnings, Underlying EBIT and Underlying EBITDA, the following items are adjusted as applicable each period, irrespective of materiality:
 - Exchange rate gains/losses on restatement of monetary items;
 - Impairment losses/reversals;
 - Net gain/loss on disposal and consolidation of interests in businesses;
 - Fair value gain/loss on derivative instruments;
 - Major corporate restructures; and
 - The income tax impact of the above items.

In addition, items that do not reflect the underlying operations of South32, and are individually significant to the financial statements, are excluded to determine Underlying earnings. Significant items are detailed in the Financial Information.
- (5) Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.
- (6) Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.
- (7) Return on invested capital (ROIC) is a key measure that South32 uses to assess performance. ROIC is calculated as annualised Underlying EBIT less the discount on rehabilitation provisions included in net finance cost, tax effected by the Group's Underlying effective tax rate (ETR), divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories. Manganese is included in the calculation on a proportional consolidation basis.
- (8) Refer to exchange release dated 3 November 2016.
- (9) Total capital expenditure comprises Capital expenditure, the purchase of intangibles and capitalised exploration expenditure. Capital expenditure comprises Sustaining capital expenditure and Major projects capital expenditure. Sustaining capital expenditure comprises Stay-in-business (SIB), Minor discretionary and Deferred stripping (including underground development) capital expenditure.
- (10) South32's ownership share of operations are as follows: Worsley Alumina (86%), South Africa Aluminium (100%), Mozal Aluminium (47.1% share), Brazil Alumina (Alumina 36% share, Aluminium 40% share), South Africa Energy Coal (92% share), Illawarra Metallurgical Coal (100%), Australia Manganese (60% share), South Africa Manganese (60% share), Cerro Matoso (99.9% share), and Cannington (100%).
- (11) South32's interest in South Africa Energy Coal is accounted at 100% until broad-based black economic empowerment (B-BBEE) vendor loans are repaid.
- (12) Operating unit cost, including Sustaining capital expenditure is operating cost plus Sustaining capital expenditure (excludes Major Project capital expenditure) divided by sales. Operating cost is Revenue less Underlying EBITDA. Additional manganese disclosures are included on pages 23 and 24.
- (13) Prior FY17 Operating unit cost guidance, including Sustaining capital expenditure, and Sustaining capital expenditure guidance, include royalties (where appropriate) and the influence of exchange rate assumptions, and were predicated on: an alumina price of US\$259/t; an average blended coal price of US\$83/t for Illawarra Metallurgical Coal; a manganese ore price of US\$3.23/dmtu for 44% manganese product; a nickel price of US\$3.95/lb; a thermal coal price of US\$54/t (API4) for South Africa Energy Coal; a silver price of US\$17.50/troy oz; a lead price of US\$1,723/t; a zinc price of US\$1,907/t; an AUD:USD exchange rate of 0.72; a USD:ZAR exchange rate of 16.57; and a USD:COP exchange rate of 3,025; all of which reflected forward markets as at May 2016 or our internal expectations.
- (14) New FY17 Operating unit cost guidance, including Sustaining capital expenditure, and Sustaining capital expenditure guidance, include royalties (where appropriate) and the influence of exchange rates, and are predicated on various assumptions for H2 FY17, including: an alumina price of US\$316/t; an average blended coal price of US\$146/t for Illawarra Metallurgical Coal; a manganese ore price of US\$6.79/dmtu for 44% manganese product; a nickel price of US\$4.65/lb; a thermal coal price of US\$84/t (API4) for South Africa Energy Coal; a silver price of US\$17.04/troy oz; a lead price of US\$2,267/t; a zinc price of US\$2,746/t; an AUD:USD exchange rate of 0.75; a USD:ZAR exchange rate of 14.20; and a USD:COP exchange rate of 2,943; all of which reflected forward markets as at January 2017 or our internal expectations.
- (15) FY17 Capital expenditure guidance is predicated on forward markets as at January 2017, or our internal expectations, for H2 FY17, including: an AUD:USD exchange rate of 0.75; a USD:ZAR exchange rate of 14.20; and a USD:COP exchange rate of 2,943.
- (16) Underlying effective tax rate (ETR) is Underlying income tax expense excluding royalty related taxation divided by Underlying profit before tax; both the numerator and denominator exclude equity accounted investments.
- (17) Sales price variance reflects the revenue impact of changes in commodity prices, based on the current period's sales volume. Price-linked costs variance reflects the change in royalties together with the change in input costs driven by changes in commodity prices or market traded consumables. Foreign exchange reflects the impact of exchange rate movements on local currency denominated costs and sales. Volume variance reflects the revenue impact of sales volume changes, based on the comparative period's sales prices. Controllable costs variance represents the impact from changes in the Group's controllable local currency cost base, including the variable cost impact of production volume changes on expenditure, and period on period movements in inventories. The controllable cost variance excludes earnings adjustments including significant items.
- (18) Underlying net finance cost and Underlying taxation expense are actual H1 FY17 results, not year-on-year variances.

- (19) Third party products sold comprise US\$135 million for aluminium, US\$56 million for alumina, US\$73 million for coal, US\$47 million for freight services and US\$37 million for aluminium raw materials. Underlying EBIT on third party products comprise US\$6 million for aluminium, (US\$4) million for alumina, US\$9 million for coal, nil for freight services and nil for aluminium raw materials.

The following abbreviations may be used throughout this report: US\$ million (US\$M); US\$ billion (US\$B); December half year is abbreviated to H1 FY17, grams per tonne (g/t); tonnes (t); thousand tonnes (kt); thousand tonnes per annum (ktpa); million tonnes (Mt); million tonnes per annum (Mtpa); thousand troy ounces (koz); million troy ounces (Moz); thousand wet metric tonnes (kwmt); thousand dry metric tonnes (kdmt) dry metric tonne unit (dm tu); pound (lb); megawatt (MW); Australian Securities Exchange (ASX); London Stock Exchange (LSE); and Johannesburg Stock Exchange (JSE).

SOUTH32 FINANCIAL INFORMATION

For the half year ended 31 December 2016



CONSOLIDATED INCOME STATEMENT

for the half year ended 31 December 2016

US\$M	Note	H1 FY17	H1 FY16
Continuing operations			
Revenue			
Group production		2,873	2,691
Third party products		348	290
		3,221	2,981
Other income		142	167
Expenses excluding net finance cost		(2,670)	(4,379)
Share of profit/(loss) of equity accounted investments		164	(356)
Profit/(loss) from continuing operations		857	(1,587)
Comprising:			
Group production		846	(1,587)
Third party products		11	–
Profit/(loss) from continuing operations		857	(1,587)
Finance expenses		(77)	(57)
Finance income		17	12
Net finance cost	6	(60)	(45)
Profit/(loss) before tax		797	(1,632)
Income tax (expense)/benefit		(177)	(117)
Profit/(loss) after tax from continuing operations		620	(1,749)
Attributable to:			
Equity holders of South32 Limited		620	(1,749)
Profit/(loss) from continuing operations attributable to the equity holders of South32 Limited			
Basic earnings per share (US cents)	5	11.7	(32.9)
Diluted earnings per share (US cents)	5	11.5	(32.9)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 31 December 2016

US\$M	H1 FY17	H1 FY16
Profit/(loss) for the period	620	(1,749)
Other comprehensive income		
<i>Items that may be reclassified to the income statement:</i>		
Available for sale investments:		
Net gain/(loss) taken to equity	(1)	(28)
Net (gain)/loss transferred to the income statement	–	23
Tax benefit/(expense) recognised within other comprehensive income	2	5
Total items that may be reclassified to the income statement	1	–
<i>Items not to be reclassified to the income statement:</i>		
Equity accounted investments – share of other comprehensive income/(loss)	–	1
Actuarial gain/(loss) on pension and medical schemes	2	6
Tax benefit/(expense) recognised within other comprehensive income	(1)	(2)
Total items not to be reclassified to the income statement	1	5
Total other comprehensive income/(loss)	2	5
Total comprehensive income/(loss)	622	(1,744)
Attributable to:		
Equity holders of South32 Limited	622	(1,744)

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2016

US\$M	Note	H1 FY17	FY16
ASSETS			
Current assets			
Cash and cash equivalents	7	1,901	1,225
Trade and other receivables	7	980	618
Other financial assets	7	73	32
Inventories		770	747
Current tax assets		22	61
Other		17	18
Total current assets		3,763	2,701
Non-current assets			
Trade and other receivables	7	165	445
Other financial assets	7	394	260
Inventories		55	55
Property, plant and equipment		8,431	8,651
Intangible assets		271	288
Equity accounted investments		714	570
Deferred tax assets		309	382
Other		21	22
Total non-current assets		10,360	10,673
Total assets		14,123	13,374
LIABILITIES			
Current liabilities			
Trade and other payables	7	683	676
Interest bearing liabilities	7	430	282
Other financial liabilities	7	6	1
Current tax payable		17	6
Provisions		390	408
Deferred income		3	4
Total current liabilities		1,529	1,377
Non-current liabilities			
Trade and other payables	7	4	5
Interest bearing liabilities	7	612	631
Other financial liabilities	7	—	16
Deferred tax liabilities		511	501
Provisions		1,455	1,410
Deferred income		11	12
Total non-current liabilities		2,593	2,575
Total liabilities		4,122	3,952
Net assets		10,001	9,422
EQUITY			
Share capital		14,958	14,958
Treasury shares		(10)	(3)
Reserves		(3,537)	(3,555)
Retained earnings/(accumulated losses)		(1,409)	(1,977)
Total equity attributable to equity holders of South32 Limited		10,002	9,423
Non-controlling interests		(1)	(1)
Total equity		10,001	9,422

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

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 December 2016

US\$M	H1 FY17	H1 FY16
Operating activities		
Profit/(loss) before tax from continuing operations	797	(1,632)
Adjustments for:		
Non-cash significant items	–	37
Depreciation and amortisation expense	373	401
Impairments of property, plant and equipment, financial assets, intangibles and equity accounted investments	4	1,384
Employee share awards expense	22	12
Net finance cost	60	45
Share of (profit)/loss of equity accounted investments	(164)	356
Fair value (gains)/losses on derivative instruments	(189)	36
Other non-cash or non-operating items	(3)	(2)
Changes in assets and liabilities:		
Trade and other receivables	(164)	162
Inventories	(23)	119
Trade and other payables	24	(296)
Provisions and other liabilities	(40)	(196)
Cash generated from continuing operations	697	426
Interest received	17	12
Interest paid	(34)	(30)
Income tax (paid)/received	(39)	37
Dividends received	–	1
Dividends received from equity accounted investments	41	19
Net cash flows from continuing operating activities	682	465
Investing activities		
Purchases of property, plant and equipment	(150)	(237)
Exploration expenditure	(7)	(7)
Exploration expenditure expensed and included in operating cash flows	6	5
Purchase of intangibles	(1)	(14)
Investment in financial assets	(28)	(80)
Investment in equity accounted investments	(21)	–
Cash outflows from investing activities	(201)	(333)
Proceeds from sale of property, plant and equipment and intangibles	15	1
Proceeds from financial assets	105	112
Net cash flows from continuing investing activities	(81)	(220)
Financing activities		
Proceeds from interest bearing liabilities	147	2
Repayment of interest bearing liabilities	(9)	(190)
Purchase of shares by Employee Share Ownership Plan (ESOP) Trusts	(12)	–
Dividends paid	(53)	–
Net cash flows from continuing financing activities	73	(188)
Net increase/(decrease) in cash and cash equivalents	674	57
Cash and cash equivalents, net of overdrafts, at the beginning of the period	1,225	644
Foreign currency exchange rate changes on cash and cash equivalents	2	(8)
Cash and cash equivalents, net of overdrafts, at the end of the period	1,901	693

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2016

Attributable to equity holders of South32 Limited							
US\$M	Share capital	Treasury shares	Reserves	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
Balance as at 1 July 2016	14,958	(3)	(3,555)	(1,977)	9,423	(1)	9,422
Profit/(loss) for the period	–	–	–	620	620	–	620
Other comprehensive income/(loss)	–	–	1	1	2	–	2
Total comprehensive income/(loss)	–	–	1	621	622	–	622
Transactions with owners:							
Accrued employee entitlements for unexercised awards	–	–	22	–	22	–	22
Dividends	–	–	–	(53)	(53)	–	(53)
Purchase of shares by ESOP Trusts	–	(12)	–	–	(12)	–	(12)
Employee share awards exercised	–	5	(5)	–	–	–	–
Balance as at 31 December 2016	14,958	(10)	(3,537)	(1,409)	10,002	(1)	10,001
Balance as at 1 July 2015	14,958	–	(3,557)	(365)	11,036	(1)	11,035
Profit/(loss) for the period	–	–	–	(1,749)	(1,749)	–	(1,749)
Other comprehensive income/(loss)	–	–	–	5	5	–	5
Total comprehensive income/(loss)	–	–	–	(1,744)	(1,744)	–	(1,744)
Transactions with owners:							
Accrued employee entitlements for unexercised awards	–	–	12	–	12	–	12
Balance as at 31 December 2015	14,958	–	(3,545)	(2,109)	9,304	(1)	9,303

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

NOTES TO FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

The consolidated financial statements of South32 Limited referred to as the “Company” and its subsidiaries and joint arrangements (collectively, the “South32 Group”) for the half year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 16 February 2017.

1. Reporting entity

South32 Limited is a for-profit company limited by shares incorporated in Australia with a primary listing on the Australian Securities Exchange, a standard listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. The nature of the operations and principal activities of the South32 Group are described in note 3 Segment information.

2. Basis of preparation

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

- Have been prepared in accordance with AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the *Corporations Act 2001*;
- Have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities which are required to be measured at fair value;
- Are presented in US dollars, which is the functional currency of the majority of the Group’s operations, and all values are rounded to the nearest million dollars (US\$M or US\$ million) unless otherwise stated, in accordance with Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial / Directors’ Reports) Instrument 2016/191;
- Present reclassified comparative information where required for consistency with the current period’s presentation; and
- Have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2016 annual financial statements.

In preparing these half year financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2016.

For a full understanding of the financial performance and financial position of the South32 Group it is recommended that the half year financial statements be read in conjunction with the annual financial statements for the year ended 30 June 2016. Consideration should also be given to any public announcements made by the Company during the half year ended 31 December 2016 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

	Average for the half year ended 31 December 2016	Average for the half year ended 31 December 2015	As at 31 December 2016	As at 30 June 2016	As at 31 December 2015
Australian dollar ⁽¹⁾	0.75	0.72	0.72	0.74	0.73
Brazilian real	3.27	3.69	3.26	3.24	3.90
Colombian peso	2,983	2,999	3,001	2,916	3,149
South African rand	14.00	13.60	13.60	14.85	15.56

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

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

3. Segment information

(i) Description of segments

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

The members of the executive management team (the “chief operating decision maker”) and the Board of Directors monitor the segment results regularly for the purpose of making decisions about resource allocation and performance assessment.

The segment information for the manganese operations are presented on a proportional consolidation basis, which is the measure used by South32’s management to assess their performance.

The principal activities of each reporting segment, as the South32 Group is currently structured, are summarised as follows:

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

All operations are operated or jointly operated by the South32 Group except Alumar (which forms part of Brazil Alumina), which is operated by Alcoa.

The South32 Group separately discloses sales of group production from sales of third party products because of the significant difference in profit margin earned on these sales.

It is the South32 Group’s policy that inter-segment transactions are made on commercial terms.

Group and unallocated items/eliminations represent group centre functions and consolidation adjustments. Group financing (including finance cost and finance income) and income taxes are managed on a South32 Group basis and are not allocated to operating segments.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

3. Segment information (continued)

Half year ended 31 December 2016	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese ⁽¹⁾	South Africa Manganese ⁽¹⁾	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment ⁽¹⁾	Group
US\$M													
Revenue													
Group production	291	601	238	133	539	471	390	175	188	412	–	(565)	2,873
Third party products ⁽²⁾	–	–	–	–	–	–	–	–	–	–	349	(1)	348
Inter-segment revenue	201	–	–	31	–	–	–	–	–	–	(232)	–	–
Total revenue	492	601	238	164	539	471	390	175	188	412	117	(566)	3,221
Underlying EBITDA	110	122	44	38	152	202	233	61	40	194	–	(132)	1,064
Depreciation and amortisation	(84)	(32)	(19)	(28)	(24)	(93)	(26)	(15)	(44)	(29)	(20)	41	(373)
Underlying EBIT	26	90	25	10	128	109	207	46	(4)	165	(20)	(91)	691
Comprising:													
Group Production	26	90	25	10	129	109	207	46	(4)	165	(31)	(253)	519
Third party products ⁽²⁾	–	–	–	–	–	–	–	–	–	–	11	–	11
Share of profit/(loss) of equity accounted investments ⁽³⁾	–	–	–	–	(1)	–	–	–	–	–	–	162	161
Underlying EBIT	26	90	25	10	128	109	207	46	(4)	165	(20)	(91)	691
Net finance cost													(71)
Income tax (expense)/benefit													(141)
Underlying earnings from continuing operations													479
Earnings adjustments ⁽⁴⁾													141
Profit/(loss) after tax													620
Capital expenditure⁽⁵⁾	19	6	3	13	27	54	15	4	4	18	6	(19)	150
Equity accounted investments⁽⁶⁾	–	–	–	–	12	–	–	–	–	–	–	702	714
Total assets⁽⁶⁾	3,613	1,495	651	855	810	1,728	601	551	831	381	3,257	(650)	14,123
Total liabilities⁽⁶⁾	427	252	90	193	891	214	244	214	184	154	1,907	(648)	4,122

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

(2) Third party products sold comprise US\$135 million for aluminium, US\$56 million for alumina, US\$73 million for coal, US\$47 million for freight services and US\$37 million for aluminium raw materials. Underlying EBIT on third party products comprise US\$6 million for aluminium, (US\$4) million for alumina, US\$9 million for coal, nil for freight services and nil for aluminium raw materials.

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

(4) Refer to note 3(ii) Earnings adjustments.

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

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

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

3. Segment information (continued)

Half year ended 31 December 2015	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese ⁽¹⁾	South Africa Manganese ⁽¹⁾	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment ⁽¹⁾	Group
US\$M													
Revenue													
Group production	286	596	208	186	542	284	226	110	166	423	–	(336)	2,691
Third party products ⁽²⁾	–	–	–	–	–	–	–	–	–	–	291	(1)	290
Inter-segment revenue	254	–	–	–	–	–	–	4	–	–	(254)	(4)	–
Total revenue	540	596	208	186	542	284	226	114	166	423	37	(341)	2,981
Underlying EBITDA	108	53	8	110	116	50	72	(28)	(5)	181	(19)	(104)	542
Depreciation and amortisation	(75)	(32)	(18)	(36)	(70)	(87)	(62)	(23)	(43)	(28)	(12)	85	(401)
Underlying EBIT	33	21	(10)	74	46	(37)	10	(51)	(48)	153	(31)	(19)	141
Comprising:													
Group Production	33	21	(10)	74	44	(37)	10	(51)	(48)	153	(31)	41	199
Third party products ⁽²⁾	–	–	–	–	–	–	–	–	–	–	–	–	–
Share of profit/(loss) of equity accounted investments ⁽³⁾	–	–	–	–	2	–	–	–	–	–	–	(60)	(58)
Underlying EBIT	33	21	(10)	74	46	(37)	10	(51)	(48)	153	(31)	(19)	141
Net finance cost													(71)
Income tax (expense)/benefit													(44)
Underlying earnings from continuing operations													26
Earnings adjustments ⁽⁴⁾													(1,775)
Profit/(loss) after tax													(1,749)
Capital expenditure⁽⁵⁾	22	8	5	9	42	111	41	7	12	15	13	(48)	237
Equity accounted investments⁽⁶⁾	–	–	–	–	13	–	–	–	–	–	–	557	570
Total assets⁽⁶⁾	3,647	1,334	656	874	728	1,745	577	517	889	401	2,654	(648)	13,374
Total liabilities⁽⁶⁾	439	275	91	167	827	229	236	175	206	159	1,796	(648)	3,952

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

(2) Third party products sold comprise US\$138 million for aluminium, US\$11 million for alumina, US\$28 million for coal, US\$50 million for freight services and US\$63 million for aluminium raw materials. Underlying EBIT on third party products comprise (US\$1) million for aluminium, (US\$1) million for alumina, US\$1 million for coal, US\$1 million for freight services and nil for aluminium raw materials.

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

(4) Refer to note 3(ii) Earnings adjustments.

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

(6) Total segment assets and liabilities for each reporting segment are as at 30 June 2016 and represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

3. Segment information (continued)

(ii) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

US\$M	H1 FY17	H1 FY16
Adjustments to Underlying EBIT		
Significant items	–	92
Exchange rate (gains)/losses on restatement of monetary items ⁽¹⁾	20	(87)
Impairment losses ⁽¹⁾⁽²⁾	4	1,384
Fair value (gains)/losses on derivative instruments ⁽¹⁾	(189)	36
Major corporate restructures ⁽¹⁾	2	5
Impairment losses included in profit/(loss) of equity accounted investments ⁽³⁾	–	287
Earnings adjustments included in profit/(loss) of equity accounted investments ⁽³⁾	(3)	11
Total adjustments to Underlying EBIT	(166)	1,728
Adjustments to net finance cost		
Exchange rate variations on net debt	(11)	(26)
Total adjustments to net finance cost	(11)	(26)
Adjustments to income tax expense		
Significant items	–	39
Tax effect of earnings adjustments to Underlying EBIT	45	(152)
Tax effect of earnings adjustments to net finance cost	4	8
Exchange rate variations on tax balances	(13)	178
Total adjustments to income tax expense	36	73
Total earnings adjustments	(141)	1,775

(1) Recognised in expenses excluding net finance cost in the consolidated income statement.

(2) In the half year ended 31 December 2015, the South32 Group recognised impairments as a result of significant and continuing weakening of commodity markets. For detailed disclosure of the impairments refer to the financial statements released for the period ending 31 December 2015.

(3) Recognised in share of profit/(loss) of equity accounted investments in the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Dividends

US\$M	H1 FY17	H1 FY16
Final unfranked dividend ⁽¹⁾	53	–
Total dividends declared and paid during the period	53	–

(1) On 25 August 2016, the Directors resolved to pay an unfranked final dividend of US 1 cent per share in respect of the 2016 financial year. The dividend was paid on 6 October 2016.

5. Earnings per share

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

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

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

Profit/(loss) attributable to equity holders		
US\$M	H1 FY17	H1 FY16
Profit/(loss) attributable to equity holders of South32 Limited (basic)	620	(1,749)
Profit/(loss) attributable to equity holders of South32 Limited (diluted)	620	(1,749)

Weighted average number of shares		
Million	H1 FY17	H1 FY16
Basic earnings per share denominator ⁽¹⁾	5,319	5,324
Shares and options contingently issuable under employee share ownership plans ⁽²⁾⁽³⁾	55	–
Diluted earnings per share denominator	5,374	5,324

(1) The basic EPS denominator is the aggregate of the weighted average number of shares after deduction of the weighted average number of Treasury shares outstanding during the period.

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

(3) Diluted EPS calculation excludes 15,371,165 (31 December 2015: 78,949,327) rights which are considered anti-dilutive and are subject to service and performance conditions.

Earnings per share		
US cents	H1 FY17	H1 FY16
Earnings per share – continuing operations		
Basic earnings per share	11.7	(32.9)
Diluted earnings per share	11.5	(32.9)

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

6. Net finance cost

US\$M	H1 FY17	H1 FY16
Finance expenses		
Interest on borrowings	8	5
Finance lease interest	26	25
Discounting on provisions and other liabilities	48	49
Net interest expense on post-retirement employee benefits	5	4
Fair value change on financial asset	1	–
Exchange rate variations on net debt	(11)	(26)
	77	57
Finance income		
Interest income	17	12
Net finance cost	60	45

7. Financial assets and financial liabilities

The following table presents the South32 Group's financial assets and liabilities by class at their carrying amounts which approximates their fair value:

31 December 2016 US\$M	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
Financial assets					
Cash and cash equivalents	1,901	–	–	–	1,901
Trade and other receivables ⁽¹⁾	663	–	47	–	710
Derivative contracts	–	–	206	–	206
Loans to equity accounted investments	266	–	–	–	266
Interest bearing loans receivable	43	–	–	–	43
Other investments	–	261	–	–	261
Total	2,873	261	253	–	3,387
Financial liabilities					
Trade and other payables ⁽²⁾	–	–	8	639	647
Derivative contracts	–	–	6	–	6
Finance leases	–	–	–	581	581
Unsecured other	–	–	–	461	461
Total	–	–	14	1,681	1,695

(1) Excludes input taxes of US\$126 million included in trade and other receivables.

(2) Excludes input taxes of US\$40 million included in trade and other payables.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

7. Financial assets and financial liabilities (continued)

30 June 2016 US\$M	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
Financial assets					
Cash and cash equivalents	1,225	–	–	–	1,225
Trade and other receivables ⁽¹⁾	493	–	58	–	551
Derivative contracts	–	–	33	–	33
Loans to equity accounted investments	352	–	–	–	352
Interest bearing loans receivable	41	–	–	–	41
Other investments	–	259	–	–	259
Total	2,111	259	91	–	2,461
Financial liabilities					
Trade and other payables ⁽²⁾	–	–	6	642	648
Derivative contracts	–	–	17	–	17
Finance leases	–	–	–	602	602
Unsecured other	–	–	–	311	311
Total	–	–	23	1,555	1,578

(1) Excludes input taxes of US\$119 million included in trade and other receivables.

(2) Excludes input taxes of US\$33 million included in trade and other payables.

Measurement of fair value

The following table shows the South32 Group's financial assets and liabilities carried at fair value with reference to the nature of valuation inputs used:

Level 1 – Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.

Level 2 – Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).

Level 3 – Valuation is based on inputs that are not based on observable market data.

31 December 2016 US\$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	47	–	47
Trade and other payables	–	(8)	–	(8)
Derivative contracts	–	(6)	206	200
Investments – available for sale	–	126	135	261
Total	–	159	341	500

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

7. Financial assets and financial liabilities (continued)

Level 3 financial assets and liabilities

The following table shows the movements in the South32 Group's Level 3 financial assets and liabilities:

US\$M	H1 FY17	H1 FY16
As at the beginning of the period	161	296
Unrealised gains/(losses) recognised in the consolidated income statement ⁽¹⁾	189	(65)
Unrealised gains/(losses) recognised in consolidated other comprehensive income ⁽²⁾	(9)	(16)
At the end of the period	341	215

(1) Unrealised gains and losses recognised in the consolidated income statement are recorded in expenses excluding net finance cost.

(2) Unrealised gains and losses recognised in consolidated other comprehensive income are recorded in the financial assets reserve.

Sensitivity analysis

The carrying amount of financial assets and liabilities that are valued using inputs other than observable market data are calculated using valuation models, including discounted cash flow modelling, with significant inputs as listed below. The potential effect of using reasonably possible alternative assumptions in these models, based on a change in the most significant inputs by 10 per cent while holding all other variables constant, is shown in the following table.

31 December 2016			Profit before tax		Equity	
US\$M	Carrying amount	Significant inputs	10% increase in input	10% decrease in input	10% increase in input	10% decrease in input
Financial assets and liabilities						
Derivative contracts ⁽¹⁾	206	Aluminium price ⁽²⁾ Foreign exchange rate ⁽²⁾ Electricity price ⁽³⁾	(187)	176	(135)	127
Investments – available for sale ⁽¹⁾⁽⁴⁾	135	Aluminium price ⁽²⁾ Foreign exchange rate ⁽²⁾	–	–	48	(52)
Total	341		(187)	176	(87)	75

(1) Sensitivity analysis is performed assuming all inputs are directionally moving unfavourably and favourably.

(2) Aluminium prices are comparable to market consensus forecast and foreign exchange rates are aligned with forward market rates.

(3) Electricity prices are determined as a market equivalent price based on inputs from published data.

(4) When a decrease in fair value recognised in equity reflects an impairment, such amounts are recognised in profit before tax.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

8. Subsequent events

On 3 November 2016 the South32 Group announced that it had entered into a binding agreement to acquire the Metropolitan Colliery and its associated 16.67% interest in the Port Kembla Coal Terminal from an Australian subsidiary of Peabody Energy Corporation. The offer includes a cash consideration of US\$200 million plus a contingent consideration whereby both companies share commodity price upside in the first year of production or on a minimum of 1.3Mt, should metallurgical coal prices exceed an agreed forward curve. The agreement is subject to approval by the Australian Competition and Consumer Commission.

On 16 February 2017, the Directors resolved to pay an unfranked interim dividend of US 3.6 cents per share (US\$192 million) in respect of the 2017 half year. The dividend will be paid on 6 April 2017. The dividend has not been provided for in the half year financial statements and will be recognised in the financial statements for the 2017 financial year.

No other matters or circumstances have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the South32 Group in subsequent accounting periods.

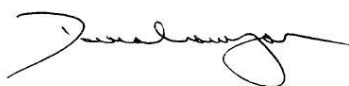
DIRECTORS' DECLARATION

In accordance with a resolution of the directors of South32 Limited, we state that:

In the opinion of the directors:

- (a) The consolidated financial statements and notes that are set out on pages 29 to 45 for the half year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of South32 Limited's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
 - (ii) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.
- (b) There are reasonable grounds to believe that South32 Limited will be able to pay its debts as and when they become due and payable.

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



David Crawford AO

Chairman



Graham Kerr

Chief Executive Officer and Managing Director

Dated 16 February 2017

DIRECTORS' REPORT

The directors of South32 Limited present the consolidated financial report for the half year ended 31 December 2016 and the auditor's review report thereon.

Directors

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

David Crawford AO
Graham Kerr
Frank Cooper AO
Peter Kukielski
Xolani Mkhwanazi
Ntombifuthi (Futhi) Mtoba
Wayne Osborn
Keith Rumble

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

Nicole Duncan
Melanie Williams (appointed 9 August 2016)

Review and results of operations

A review of the operations of the consolidated entity during the period and of the results of those operations is contained on pages 3 to 28.

Principal risks and uncertainties

Due to the international scope of South32's operations and the industries in which it is engaged there are a number of risk factors and uncertainties which could have an effect on South32's results and operations for the remaining six months of the financial year.

Significant external, operational, sustainability and financial risks that could impact South32's performance include:

- Fluctuations in commodity prices, exchange rates, interest rates and global economy;
- Actions by governments, political events or tax authorities;
- Cost inflation and labour disputes could impact operating margins and expansion plans;
- Access to water and power;
- We may be subject to regulations in relation to dividend payments or capital returns;
- Regulatory risks of climate change;
- Risk to commodity portfolio from climate change;
- Access to infrastructure;
- Failure to maintain, realise or enhance existing reserves;
- Support of the local communities in which businesses are located;
- Health and safety impacts in respect of our activities;
- Environmental risks in respect of activities including water and waste water management;
- Deterioration in liquidity and cash flow;
- Unexpected operational or natural catastrophes;
- Commercial counterparties that we transact with may not meet their obligations;
- Risks of fraud and corruption;
- Breaches of information technology security processes; and
- Failure to retain and attract employees.

Further information on these risks and how they are managed can be found on pages 37 to 42 of the Annual Report for the year ended 30 June 2016, a copy of which is available on South32's website at www.south32.net.

DIRECTORS' REPORT

Events subsequent to the balance date

On 3 November 2016 the South32 Group announced that it had entered into a binding agreement to acquire the Metropolitan Colliery and its associated 16.67% interest in the Port Kembla Coal Terminal from an Australian subsidiary of Peabody Energy Corporation. The offer includes a cash consideration of US\$200 million plus a contingent consideration whereby both companies share commodity price upside in the first year of production or on a minimum of 1.3Mt, should metallurgical coal prices exceed an agreed forward curve. The agreement is subject to approval by the Australian Competition and Consumer Commission.

On 16 February 2017, the Directors resolved to pay an unfranked interim dividend of US 3.6 cents per share (US\$192 million) in respect of the 2017 half year. The dividend will be paid on 6 April 2017. The dividend has not been provided for in the half year financial statements and will be recognised in the financial statements for the 2017 financial year.

The Directors are not aware of any other matters or circumstance that have arisen since the end of the half year that have significantly affected, or may significantly affect, the operations, the results of operations or state of affairs of the South32 Group in subsequent accounting periods.

UK responsibility statements

The Directors state that to the best of their knowledge:

- The Financial Results and Outlook on pages 3 to 28, includes a fair review of important events during the first six months of the current financial year and their impact on the half year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- That disclosure has been made for related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the South32 Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect.

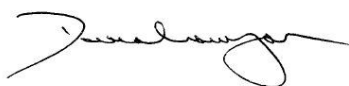
Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 49.

Rounding

The amounts shown in this report and in the financial statements have been rounded to the nearest million dollars (US\$M or US\$ million) unless otherwise stated, in accordance with Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191.

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



David Crawford AO

Chairman



Graham Kerr

Chief Executive Officer and Managing Director

Dated 16 February 2017



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of South32 Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Denise McComish'.

Denise McComish

Partner

Perth

16 February 2017



Independent Auditor's Review Report

To the shareholders of South32 Limited

Conclusion

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

- i) giving a true and fair view of the **Group's** financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- ii) complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

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

- the consolidated balance sheet as at 31 December 2016
- consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date
- notes 1 to 8 comprising a summary of significant accounting policies and other explanatory information
- the Directors' Declaration.

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

Responsibilities of the Directors for the Half-year Financial Statements

The Directors of the Company are responsible for:

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



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

Our responsibility is to express a conclusion on the Half-year Financial Statements based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of South32 Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

KPMG

Denise McComish
Partner

Perth

16 February 2017

DISCLAIMER

FORWARD LOOKING STATEMENTS

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

NON-IFRS FINANCIAL INFORMATION

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

NO OFFER OF SECURITIES

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

NO FINANCIAL OR INVESTMENT ADVICE – SOUTH AFRICA

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

FURTHER INFORMATION

INVESTOR RELATIONS

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

South32 Limited (ABN 84 093 732 597)

Registered in Australia

(Incorporated in Australia under the Corporations Act 2001)

Registered Office: Level 35, 108 St Georges Terrace

Perth Western Australia 6000 Australia

ISIN: AU000000S320

JSE Sponsor: UBS South Africa (Pty) Ltd

16 February 2017