APPENDIX 4D

SOUTH32 LIMITED

(ABN 84 093 732 597)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This page and the accompanying 50 pages comprise the half year end financial information given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A. This statement includes the consolidated results of the South32 Group for the half year ended 31 December 2017 (H1 FY18) compared with the half year ended 31 December 2016 (H1 FY17) on a statutory basis.

The half year report should be read in conjunction with the Annual Financial Report 2017.

US$M	H1 FY18	H1 FY17	%
Revenue	3,494	3,221	up 8%
Profit/(loss) after tax	543	620	down 12%
Underlying earnings	544	479	up 14%

Net tangible assets per share

Net tangible assets per ordinary share were US$1.96 as at 31 December 2017 (US$1.91 as at 30 June 2017).

Dividends

The Board has resolved to pay an interim dividend of US 4.3 cents per share (fully franked) for the half year ended 31 December 2017, and a special dividend of US 3.0 cents per share (franked to 81%).

The record date for determining entitlements to dividends is 9 March 2018; payment date is 5 April 2018.

This page is intentionally blank

FINANCIAL RESULTS AND OUTLOOK
HALF YEAR ENDED 31 DECEMBER 2017

SOUTH32

15 February 2018 **ASX, LSE, JSE Share Code: S32 ADR: SOUHY**

Restructuring our portfolio and delivering strong shareholder returns

"After a challenging start to the 2018 financial year, production for the majority of our operations is tracking on or ahead of schedule. We achieved record production at Australia Manganese and Mozal Aluminium, increased production guidance at South Africa Manganese in response to favourable market conditions, and delivered a 23 per cent increase in payable nickel production at Cerro Matoso as ore grades improved.

"We also announced a 4.3B South African rand investment in the Klipspruit colliery, which will extend its life by approximately 20 years, and our decision to manage South Africa Energy Coal as a stand-alone business to sustainably improve its financial performance. This major strategic initiative will also allow us to transform the ownership of South Africa Energy Coal, consolidate our functions and further reduce duplication.

"We continue to deliver strong returns by maintaining a disciplined and flexible approach to capital management. We resolved to pay US$378M in shareholder dividends, directed US$93M to our buy-back program and announced a further US$250M increase to our capital management program to US$1B, leaving US$540M outstanding.

"With a net cash balance of US$1.4B, working capital expected to partially unwind and Group volumes expected to increase marginally in the second half, we are well positioned despite a reduction in future Cannington processing rates and metal production."

Graham Kerr, South32 CEO

Financial highlights			
US$M	**H1 FY18**	**H1 FY17**	**% Change**
Revenue(1)	3,494	3,221	8%
Profit/(loss)	673	857	(21)%
Profit/(loss) after tax	543	620	(12)%
Basic earnings per share (US cents)(2)	10.5	11.7	(10)%
Ordinary dividends per share (US cents)(3)	4.3	3.6	19%
Special dividends per share (US cents)(4)	3.0	-	N/A
Other financial measures			
Underlying EBITDA(5)	1,087	1,064	2%
Underlying EBITDA margin(6)	35.7%	36.7%	(1.0)%
Underlying EBIT(5)	724	691	5%
Underlying EBIT margin(7)	23.7%	23.7%	0%
Underlying earnings(5)	544	479	14%
Basic Underlying earnings per share (US cents)(2)	10.5	9.0	17%
ROIC(8)	11.0%	9.2%	1.8%

DECEMBER 2017 HALF YEAR SUMMARY

SAFETY

Nothing is more important to us than creating an environment where everyone goes home safe and well every day. Through 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[9][10]) declined from 6.0 to 4.9 per million hours worked in H1 FY18.

PERFORMANCE HIGHLIGHTS

In H1 FY18 we delivered a statutory profit after tax of US$543M as stronger commodity prices more than offset lower volumes and broader inflationary pressure, most notably in our aluminium supply chain. Production guidance is unchanged for the majority of our operations and Group volumes are expected to increase marginally in H2 FY18. With a net cash balance of US$1.4B and working capital expected to partially unwind, we are well positioned despite a reduction in future Cannington processing rates and metal production.

Specific performance highlights included:

- Delivering record ore production at Australia Manganese and increasing production guidance at South Africa Manganese in response to favourable market conditions;
- Achieving another production record at Mozal Aluminium and a 23% increase in nickel production at Cerro Matoso;
- Approving the 4.3B South African rand investment to extend the life of the Klipspruit colliery by at least 20 years and increasing our exposure to Arizona Mining (TSX:AZ) by way of a prepayment designed to take our interest up to 19.9%;
- Exercising the second year of our Trilogy Metals (TSX:TMQ) option, in order to fully test the high grade copper extension at Bornite in Alaska and further increasing our exploration expenditure on greenfield base metal opportunities in Australia and South America;
- Resolving to pay a fully franked interim dividend of US$223M, representing 41% of Underlying earnings in the December 2017 half year;
- Showing the discipline and flexibility of our capital management program by returning an additional US$248M to shareholders by way of a partially franked (to 81%) special dividend (US$155M) and through the continuation of our on-market share buy-back (US$93M); and
- Increasing our approved capital management program by US$250M to US$1B, leaving US$540M to be returned before April 2019.

SOUTH AFRICA ENERGY COAL SEPARATION UPDATE

On 27 November 2017, we announced that we would manage South Africa Energy Coal as a stand-alone business in order to sustainably improve its financial performance and that we would simplify the way we manage the remainder of our global portfolio. We are well advanced in our planning of this important strategic initiative and propose to implement this new way of working during H2 FY18, unlocking additional value for shareholders.

With the management of South Africa Energy Coal as a stand-alone entity, we propose to consolidate our functions across the Group. Removing our regional structures will allow us to have more direct lines of communication, streamline our processes and further reduce duplication.

This new way of working will also include:

- Reallocation of Chief Operating Officer accountabilities enabling us to fully capture value across our supply chain;
- Aggregation of supply and marketing under the Chief Marketing Officer enabling us to leverage commercial expertise and optimise working capital management; and
- Retention of a centralised marketing team and low cost service delivery centre.

We are currently finalising plans and will be commencing consultation with employees and key stakeholders. A further update will be provided during H2 FY18.

EARNINGS

The Group's statutory profit after tax decreased by US$77M (or 12%) to US$543M in H1 FY18. The corresponding period's profit benefitted from the recognition of a fair value gain on non-trading derivative instruments of US$189M.

Consistent with our accounting policies, various items are excluded from the Group's statutory profit to derive Underlying earnings including: exchange rate losses associated with the restatement of monetary items (US$17M pre-tax); fair value losses on non-trading derivative instruments (US$65M pre-tax); exchange rate losses associated with the Group's non US dollar denominated debt (US$11M pre-tax); the tax expense for all pre-tax earnings adjustments and exchange rate variations on tax balances (-US$61M) and significant items (-US$31M). Further information on these earnings adjustments is included on page 38.

Underlying EBITDA increased by US$23M (or 2%) to US$1.1B for an operating margin of 35.7% in H1 FY18 (H1 FY17: 36.7%). Higher realised prices for most of our commodities during the period gave rise to a US$273M increase in sales revenue, despite a significant reduction in coal and metal production at Illawarra Metallurgical Coal and Cannington, respectively. The Group's cost base was primarily impacted by external inflationary pressures such as a stronger Australian dollar and South African rand, higher price-linked royalties and rising raw material input costs. The latter pressure was most notable in our aluminium supply chain as higher caustic soda, energy, coke, pitch and alumina prices reflected more buoyant commodity markets. Our operating leverage and long alumina position ensures we are a net beneficiary of this dynamic.

Underlying EBIT increased 5% to US$724M, benefitting from a reduction in depreciation and amortisation. Underlying earnings increased 14% to US$544M.

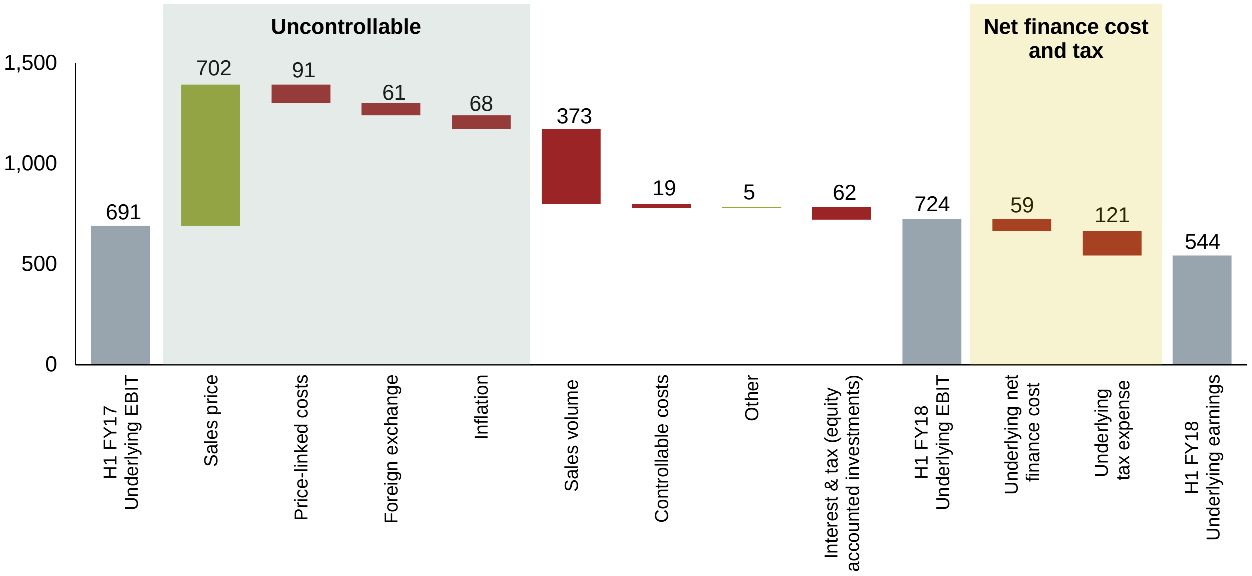
Profit/(loss) to Underlying EBITDA reconciliation		
US$M	**H1 FY18**	**H1 FY17**
Profit/(loss)	673	857
Earnings adjustments to derive Underlying EBIT	51	(166)
Underlying EBIT	**724**	**691**
Depreciation and amortisation	363	373
Underlying EBITDA	**1,087**	**1,064**

Profit/(loss) after tax to Underlying earnings reconciliation		
US$M	**H1 FY18**	**H1 FY17**
Profit/(loss) after tax	543	620
Earnings adjustments to derive Underlying EBIT	51	(166)
Earnings adjustments to derive Underlying net finance cost	11	(11)
Earnings adjustments to derive Underlying income tax expense	(61)	36
Underlying earnings	**544**	**479**

EARNINGS ANALYSIS

The following key factors influenced Underlying EBIT in H1 FY18, relative to H1 FY17.

Reconciliation of movements in Underlying EBIT (US$M)[11][12][13]



Earnings analysis	US$M	Commentary
H1 FY17 Underlying EBIT	**691**	
Change in sales price	702	Higher average realised prices for our commodities: Aluminium and Alumina (+US$362M). Manganese ore and alloy (+US$155M). Energy coal (+US$110M).
Net impact of price-linked costs	(91)	Higher price-linked royalties more than offset by the impact of lower sales volumes (+US$10M). Higher caustic soda prices at Worsley Alumina and Brazil Alumina (-US$44M). Higher smelter raw material costs (-US$28M), including pitch and coke. Higher LME-linked electricity costs at South Africa Aluminium (-US$18M). Higher freight rates (-US$15M). Lower treatment and refining charges for Cannington concentrates (+US$27M).
Change in exchange rates	(61)	Stronger Australian dollar (-US$28M) and South African rand (-US$28M).
Change in inflation	(68)	Broader inflationary pressure in Southern Africa (-US$44M) and Australia (-US$17M).
Change in sales volume	(373)	Illawarra Metallurgical Coal (-US$258M). Cannington (-US$148M). Cerro Matoso (+US$40M).
Controllable costs	(19)	Greenfield exploration (-US$11M). South Africa Energy Coal (-US$44M). Illawarra Metallurgical Coal (+US$19M). South Africa Aluminium (+US$17M).
Other	5	Lower depreciation and amortisation (+US$8M). Recognition of provision for transmission charges at Brazil Alumina (-US$12M).
Interest & tax (equity accounted investments)	(62)	Stronger profitability in our jointly controlled manganese operations.
H1 FY18 Underlying EBIT	**724**	

Net finance cost

The Group's Underlying net finance cost, excluding equity accounted investments, was US$59M in H1 FY18 and largely reflects the unwinding of the discount applied to our closure and rehabilitation provisions (US$52M) and finance lease interest (US$27M), primarily at Worsley Alumina.

Underlying net finance cost reconciliation		
US$M	**H1 FY18**	**H1 FY17**
Unwind of discount applied to closure and rehabilitation provisions	(52)	(48)
Finance lease interest	(27)	(26)
Other	20	3
Underlying net finance cost	**(59)**	**(71)**
Add back earnings adjustment for exchange rate variations on net debt	(11)	11
Net finance cost	**(70)**	**(60)**

Tax expense

The Group's Underlying income tax expense, which excludes tax associated with equity accounted investments, was US$121M for an Underlying effective tax rate[14] (ETR) of 28.0%. The Group's Underlying ETR 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%, Mozambique 0%[15] and Brazil 34%.

The tax expense for equity accounted investments was US$137M, including royalty related taxation of US$31M at GEMCO, for an ETR of 36.2%.

Underlying income tax expense reconciliation and Underlying ETR		
US$M	**H1 FY18**	**H1 FY17**
Underlying EBIT	724	691
Include: Underlying net finance cost	(59)	(71)
Remove: Share of profit/(loss) of equity accounted investments	(232)	(161)
Underlying profit/(loss) before tax	**433**	**459**
Income tax expense	**60**	**177**
Tax effect of earnings adjustments to Underlying EBIT	23	(45)
Tax effect of earnings adjustments to net finance cost	4	(4)
Exchange rate variations on tax balances	34	13
Underlying income tax expense	**121**	**141**
Underlying effective tax rate	**28.0%**	**30.7%**

CASH FLOW

The Group's free cash flow from operations, excluding equity accounted investments, was US$52M in H1 FY18. Stronger prices for our commodities and higher raw material inputs contributed to a build in working capital (+US$421M), while the lagged effect of higher profitability in FY17 fed through to a significant increase in income tax payments (+US$142M to US$181M, net, excluding tax paid within equity accounted investments).

Working capital movement reconciliation	
US$M	**Movement**
Trade and other receivables	(223)
Inventories	(172)
Trade and other payables	38
Provisions and other liabilities	(64)
Working capital movement	**(421)**

Trade and other receivables increased by US$223M as days debtors temporarily rose to 25 days at 31 December 2017 (18 days as at 30 June 2017). This receivables balance is expected to partially unwind with days debtors projected to decline towards the typical 20 days as there has been no change to customer payment terms. The temporary increase in days debtors at period end primarily related to high value aluminium sales being concluded at the end of December.

The US$172M increase in the value of inventory held (primarily aluminium and metallurgical coal) reflects higher raw material input costs in our aluminium supply chain and a temporary increase in finished goods at some operations.

The prior weather related deferral of activity at South Africa Energy Coal contributed to a US$50M increase in total capital expenditure[(16)], excluding equity accounted investments, to US$202M. This included:

- Sustaining capital expenditure, comprising Stay-in-business, Minor discretionary and Deferred stripping (including underground development) of US$195M; and
- Major project capital expenditure of US$4M relating to the Klipspruit Life Extension (KPSX) project.

The purchase of intangibles and the capitalisation of exploration accounted for a further US$3M of expenditure.

Total capital expenditure associated with equity accounted investments increased by US$10M to US$29M during H1 FY18 as we invested in additional tailings storage capacity at Australia Manganese.

Total capital expenditure, including equity accounted investments, was US$231M in H1 FY18.

Free cash flow from operations, excluding equity accounted investments		
US$M	**H1 FY18**	**H1 FY17**
Profit/(loss)	673	857
Non-cash items	418	207
(Profit)/loss from equity accounted investments	(232)	(164)
Change in working capital	(421)	(203)
Cash generated	**438**	**697**
Total capital expenditure, excluding equity accounted investments, including intangibles and capitalised exploration	(202)	(152)
Operating cash flows before financing activities and tax, and after capital expenditure	**236**	**545**
Interest (paid)/received	(3)	(17)
Income tax (paid)/received	(181)	(39)
Free cash flow from operations	**52**	**489**

We received (net) distributions totalling US$238M from our manganese equity accounted investments in H1 FY18, comprising US$70M in dividends and US$168M from the repayment of a shareholder loan. A further US$9M in dividends was received from our other investments, including Mineração Rio do Norte S.A (MRN).

BALANCE SHEET, DIVIDENDS & CAPITAL MANAGEMENT

As at 31 December 2017, the Group's net cash balance was US$1.4B, following the payment of our US$333M final dividend in respect of FY17 and the purchase of a further 37M shares for a cash consideration of US$93M during H1 FY18.

With our focus on value rather than execution speed we slowed the rate of our on-market buy-back during H1 FY18. To 31 December 2017 we have purchased 143M shares at an average price of A$2.80 per share for a cash consideration of US$305M.

Demonstrating the disciplined and flexible approach we are taking with our capital management program and our confidence in our financial position, our Board has resolved to pay a fully franked interim dividend of US$223M, representing 41% of Underlying earnings in H1 FY18 and a partially franked (to 81%) special dividend of US$155M.

Notwithstanding this 97% increase in dividend distributions, we have also increased our approved capital management program by a further US$250M to US$1B, leaving US$540M to be returned before the end of April 2019.

Net cash/(debt)		
US$M	**H1 FY18**	**FY17**
Cash and cash equivalents	2,495	2,675
Finance leases	(616)	(613)
Other interest bearing liabilities	(448)	(422)
Net cash/(debt)	**1,431**	**1,640**

Consistent with our commitment to maintain a strong investment grade credit rating, Standard and Poor's and Moody's reaffirmed their respective BBB+ and Baa1 credit ratings for the Group having completed their annual reviews in H1 FY18.

Dividends announced				
Period	**Dividend per share (US cents)**	**US$M**	**Franking**	**Pay-out ratio**
H1 FY17	3.6	192	0%	40%
H2 FY17	6.4	334	100%	50%
H1 FY18	4.3	223	100%	41%
Special dividend announced 15 February 2018	3.0	155	81%	n/a

South32 Limited shareholders registered on the South African branch register will not be able to dematerialise or rematerialise their shareholdings between 7 and 9 March 2018 (both dates inclusive), nor will transfers to/from the South African branch register be permitted between 1 and 9 March 2018 (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.

Ordinary and special dividend timetable	Date
Announce currency conversion into Rand	2 March 2018
Last day to trade cum dividend on the Johannesburg Stock Exchange (JSE)	6 March 2018
Ex-dividend date on the JSE	7 March 2018
Ex-dividend date on the ASX and London Stock Exchange (LSE)	8 March 2018
Record date (including currency election date for ASX)	9 March 2018
Payment date	**5 April 2018**

OUTLOOK

PRODUCTION

FY18 production guidance is unchanged for the majority of our operations with Group volumes expected to increase marginally in H2 FY18. Production at South Africa Manganese is expected to be 8% higher than our initial estimate as market conditions for manganese remain strong. At Cannington, the stress regime is evolving as the orebody is being depleted and we are moving to more challenging areas within the mine plan. In order to deliver greater predictability and stability in the underground mine as the level of activity increases (80 stopes to be extracted in FY19, average of 50: FY12-16), we are lowering the mining rate to 2.45 Mt per annum which is expected to translate to mill throughput of 2.3Mt and 2.4Mt in FY18 and FY19, respectively. FY18 production guidance and our forward plan for Illawarra Metallurgical Coal remains unchanged. We will run a single longwall at Appin for the remainder of FY18 as part of a staged ramp-up of activities, before targeting a return to a twin longwall configuration in the December 2018 quarter. We will provide FY19 production guidance for Illawarra Metallurgical Coal with our FY18 results to reflect the completion of our annual planning cycle.

Production guidance (South32's share)[13]				
	FY17	**FY18e**	**FY19e**	**Assumptions**
Worsley Alumina				**Unchanged**.
Alumina production (kt)	3,892	3,975	3,965	Refinery's input circuit operating at a rate of 4.5Mtpa (100% basis). Calciner maintenance scheduled for the March 2018 quarter.
South Africa Aluminium				**Unchanged**.
Aluminium production (kt)	714	720	720	On track to increase in FY18 despite recent electric arc incident.
Mozal Aluminium				**Unchanged**.
Aluminium production (kt)	271	269	269	Smelter operating at benchmark levels of efficiency.
Brazil Alumina				**Unchanged.**
Alumina production (kt)	1,329	1,345	1,355	Refinery on track to achieve record production.
South Africa Energy Coal[17]				**Unchanged (subject to domestic market demand)**.
Total coal production (kt)	28,913	27,500	29,350	Development of new mining areas at the Wolvekrans Middleburg Complex (WMC) progressing to plan.
Domestic coal production (kt)	16,717	16,000	15,850	
Export coal production (kt)	12,196	11,500	13,500	
Illawarra Metallurgical Coal				**Unchanged**.
Total coal production (kt)	7,073	4,500	Not provided	Single longwall configuration at Appin for remainder of FY18. Move from Appin 707 longwall to Appin 902 longwall scheduled for the June 2018 quarter. Longwall move now scheduled for Dendrobium in June 2018 quarter.
Metallurgical coal production (kt)	5,697	3,350		
Energy coal production (kt)	1,376	1,150		
Australia Manganese				**Unchanged (subject to market demand)**.
Manganese ore production (kwmt)	2,994	3,125	Subject to demand	Wet season likely to impact production across H2 FY18. PC02 circuit expected to operate at capacity.
South Africa Manganese				**Guidance increased by 8% in FY18 (subject to market demand).**
Manganese ore production (kwmt)	2,038	↑ *2,040*	Subject to demand	Continuation of trucking activity.
Cerro Matoso				**Unchanged.**
Payable nickel production (kt)	36.5	41.6	38.8	Furnace maintenance scheduled for March 2018 quarter.
Cannington				**Ore processed guidance reduced by 12% and 19% in FY18 and FY19 respectively.**
Ore processed (kdmt)	3,036	↓ *2,300*	↓ *2,400*	
Payable silver production (koz)	15,603	↓ *12,200*	↓ *11,750*	Mining rates to increase marginally in H2 FY18 as above ground stocks established. Ore processed flat in H2 FY18.
Payable lead production (kt)	132	↓*102*	↓*98*	
Payable zinc production (kt)	70	↓ *39*	↓ *51*	

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

COSTS AND CAPITAL EXPENDITURE

Industry cost curves steepened during H1 FY18 as a result of US dollar weakness, rising commodity prices and the environmental policy response in China. Despite a strong focus on controllable costs, all of our operations are being affected by these external factors to some degree with the pressure being most notable in our smelters and refineries (caustic soda, alumina, price-linked power, pitch and coke).

Operating unit costs

Operating unit costs by upstream operation[18]					
	H1 FY17	**H1 FY18**	**H1 FY18 adjusted[(a)]**	**FY18 Prior guidance[(b)]**	**Commentary**
Worsley Alumina					
(US$/t)	200	224	216	211	Substantial increase in average caustic soda price and temporary increase in usage rates.
South Africa Energy Coal[(17)]					
(US$/t)	26	36	34	32	Production weighted to H2 FY18. Greater contribution of higher margin export tonnes to sales mix with associated logistics costs and a US$8M net realisable value write-down related to an area of in-pit inventory at the WMC.
Illawarra Metallurgical Coal					
(US$/t)	75	149	140	130	Higher H1 FY18 costs reflect the expected skew in production to H2 FY18.
Australia Manganese ore (FOB)					
(US$/dmtu)	1.44	1.55	1.45	1.50	Stronger Australian dollar and higher price-linked royalties.
South Africa Manganese ore (FOB)					
(US$/dmtu)	1.96	2.31	2.04	2.06	Continuation of trucking activity and higher price-linked royalties.
Cerro Matoso					
(US$/lb)	3.81	3.41	3.40	3.53	Stronger volumes with the ramp-up of La Esmeralda ore.
Cannington					
(US$/t)[(c)]	131	170	163	142	Adverse movement in finished goods inventory (US$12/t).

(a) Adjusted H1 FY18 Operating unit costs are restated to reflect price and foreign exchange rate assumptions used for Prior FY18 guidance (refer to footnote 19 on page 25).

(b) Prior FY18 Operating unit cost guidance includes commodity price and foreign exchange rate forward curves or our internal expectations (refer to footnote 19 on page 25).

(c) 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.

Operating unit cost guidance

We have updated our FY18 operating unit cost guidance by operation to primarily reflect the movement in underlying exchange rate and price assumptions.

Operating unit costs guidance by upstream operation[18]				
	FY18 Prior guidance[a]	**FY18 Adjusted guidance[b]**	**FY18 New guidance[c]**	**Commentary**
Worsley Alumina				
(US$/t)	211	229	235	Stronger Australian dollar and 17% increase to our prior caustic soda price assumption, offset by lower consumption rates.
South Africa Energy Coal[17]				
(US$/t)	32	34	34	Stronger South African rand.
Illawarra Metallurgical Coal				
(US$/t)	130	134	135	Stronger Australian dollar and higher price-linked royalties.
Australia Manganese ore (FOB)				
(US$/dmtu)	1.50	1.61	1.63	Stronger Australian dollar and higher price-linked royalties.
South Africa Manganese ore (FOB)				
(US$/dmtu)	2.06	2.40	2.41	Continuation of trucking activity, higher price-linked royalties and stronger South African rand.
Cerro Matoso				
(US$/lb)	3.53	3.64	3.61	Higher royalties.
Cannington				
(US$/t)[d]	142	144	159	Lower mining and processing rates, stronger Australian dollar and adverse movement in finished goods inventory (US$3/t).

(a) Prior FY18 Operating unit cost guidance includes commodity price and foreign exchange rate forward curves or our internal expectations (refer to footnote 19 on page 25).

(b) Adjusted FY18 Operating unit cost guidance is Prior FY18 Operating unit cost guidance, restated to reflect price and foreign exchange rate assumptions used for New FY18 Operating unit cost guidance (refer to footnote 20 on page 25).

(c) New FY18 Operating unit cost guidance includes commodity price and foreign exchange rate forward curves or our internal expectations for the remainder of FY18, as at January 2018 (refer to footnote 20 on page 25).

(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.

Other expenditure guidance

Corporate costs of US$105M are now expected in FY18, an increase of US$25M relative to prior guidance to reflect a greater rate of investment in technology in support of our operations and a rise in greenfield exploration activity (+US$5M to US$25M).

Depreciation and amortisation (excluding equity accounted investments) of US$730M is now expected in FY18. The US$30M reduction in guidance primarily relates to Illawarra Metallurgical Coal, where extraction and development rates have been reset as a result of the extended outage at the Appin mine. Depreciation and amortisation guidance for our equity accounted investments of US$85M is unchanged.

Capital expenditure guidance

We have lowered FY18 guidance for Sustaining capital expenditure, including equity accounted investments, by US$5M to US$465M. This minor adjustment reflects a further reduction in expenditure at Illawarra Metallurgical Coal (-US$15M to US$105M) and incrementally lower expenditure across the portfolio, which is partially offset by a higher rate of investment at South Africa Energy Coal (+US$20M to US$132M) and revised exchange rate assumptions. This guidance excludes Major project capital expenditure for the 4.3B rand South Africa Energy Coal KPSX project, which was approved in November 2017. Major project capital expenditure guidance for FY18 has been increased by US$10M to US$60M to reflect the timing of a number of long lead time items and revised exchange rate assumptions.

Capital expenditure		
US$M	**H1 FY18**	**FY18e**
Sustaining capital expenditure (excluding equity accounted investments)	195	395
Equity accounted investments	29	70
Sustaining capital expenditure (including equity accounted investments)	**224**	**465**
Major capital expenditure	4	60
Capital expenditure (including equity accounted investments)	**228**	**525**

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

OPERATIONS ANALYSIS

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

Operations table

	Revenue		Underlying EBIT	
US$M	**H1 FY18**	**H1 FY17**	**H1 FY18**	**H1 FY17**
Worsley Alumina	668	492	164	26
South Africa Aluminium	734	601	120	90
Mozal Aluminium	326	238	60	25
Brazil Alumina	240	164	47	10
South Africa Energy Coal[17]	622	539	115	128
Illawarra Metallurgical Coal	243	471	(84)	109
Australia Manganese[a]	516	390	299	207
South Africa Manganese[a]	228	175	86	46
Cerro Matoso	244	188	41	(4)
Cannington	296	412	72	165
Third party products[21]	463	349	5	11
Inter-segment / Group and Unallocated	(342)	(232)	(48)	(31)
Total	**4,238**	**3,787**	**877**	**782**
Equity accounting adjustment[b]	(744)	(566)	(153)	(91)
South32 Group	**3,494**	**3,221**	**724**	**691**

(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.

WORSLEY ALUMINA (86% SHARE)

Volumes

Worsley Alumina hydrate production was largely unchanged at 1.95Mt in H1 FY18 as the refinery's input circuit continued to operate at a rate of 4.5Mtpa (100% basis). In contrast, calcined alumina production declined by 4% (or 75kt) to 1.87Mt in H1 FY18 as scheduled maintenance was undertaken and a substantial hydrate inventory position was established.

FY18 production guidance remains unchanged at 4.0Mt with additional calciner maintenance scheduled for the March 2018 quarter.

Operating costs

Operating unit costs increased by 12% to US$224/t in H1 FY18 as the price of caustic soda increased, consumption rates rose temporarily and the Australian dollar strengthened.

We have updated FY18 unit cost guidance to US$235/t to reflect revised exchange rate and price assumptions, and a significantly higher price of caustic soda, albeit caustic consumption is expected to decline in H2 FY18 with the introduction of bauxite feed from West Marradong. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT increased by 531% (or US$138M) in H1 FY18 to US$164M as a 37% rise in the average realised price of alumina (+US$184M) was partially offset by an increase in the price of caustic soda and caustic consumption rates (-US$39M), and a stronger Australian dollar (-US$8M).

Capital expenditure

Sustaining capital expenditure increased to US$22M in H1 FY18. Expenditure in H2 FY18 will be primarily directed towards bauxite residue disposal capacity and boiler maintenance.

South32 share	H1 FY18	H1 FY17
Alumina production (kt)	1,865	1,940
Alumina sales (kt)	1,886	1,909
Realised alumina sales price (US$/t)[(a)]	354	258
Operating unit cost (US$/t)[(b)]	224	200

(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 FY18	H1 FY17
Revenue	668	492
Underlying EBITDA	246	110
Underlying EBIT	164	26
Net operating assets[(a)]	3,034	3,043
Capital expenditure	22	19
Major projects (>US$100M)	-	-
All other capital expenditure	*22*	*19*

(a) H1 FY17 reflects balance as at 30 June 2017.

SOUTH AFRICA ALUMINIUM (100%)

Volumes

South Africa Aluminium saleable production increased by 1% (or 2kt) to 358kt in H1 FY18 and remains on track to increase in FY18 despite an electric arc incident on 30 November 2017 which impacted 39 pots. These pots are being progressively returned to service during the March 2018 quarter. A temporary increase in finished goods inventory related to our shipping schedule is expected to unwind in H2 FY18.

FY18 production guidance remains unchanged at 720kt.

Operating costs

Operating unit costs increased by 22% to US$1,680/t in H1 FY18 as higher raw material input costs for alumina, coke and pitch, and higher aluminium price-linked electricity costs for the smelter were absorbed. This rise in raw material costs and the stronger aluminium price contributed to a significant increase in the value of inventory.

A total of 44 pots were relined across H1 FY18 at a cost of US$196k per pot (H1 FY17: 50 pots at US$211k per pot). 145 pots are scheduled to be relined in FY18.

While operating unit cost guidance is not provided, the cost profile of the smelter will continue to be 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 with the price of electricity supplied to potlines 1 and 2 linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline 3 is South African rand based.

Financial performance

Underlying EBIT increased by 33% (or US$30M) in H1 FY18 to US$120M as a 23% increase in the average realised price of aluminium (+US$138M) was largely offset by an increase in raw material input costs (-US$81M) and aluminium price-linked electricity costs (-US$18M).

Capital expenditure

Sustaining capital expenditure increased to US$13M in H1 FY18 following a deferral of activity in FY17.

South32 share	H1 FY18	H1 FY17
Aluminium production (kt)	358	356
Aluminium sales (kt)[(a)]	344	347
Realised sales price (US$/t)[(a)]	2,134	1,732
Operating unit cost (US$/t)[(b)]	1,680	1,380

(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 FY18	H1 FY17
Revenue	734	601
Underlying EBITDA	156	122
Underlying EBIT	120	90
Net operating assets[(a)]	1,265	1,205
Capital expenditure	13	6
Major projects (>US$100M)	-	-
All other capital expenditure	*13*	*6*

(a) H1 FY17 reflects balance as at 30 June 2017.

MOZAL ALUMINIUM (47.1% SHARE)

Volumes

Mozal Aluminium saleable production increased by 1% (or 1kt) to a record 137kt in H1 FY18 as the smelter continued to operate at its maximum technical capability. Aluminium sales increased by 10% as our inventory position returned to more normal levels, however the timing of those sales fed through to our receivables balance and an increase in average days debtors for the Group.

FY18 production guidance remains unchanged at 269kt.

Operating costs

Operating unit costs increased by 17% to US$1,694/t in H1 FY18 as the cost of raw material inputs (alumina, coke and pitch) increased.

A total of 34[22] pots were relined in H1 FY18 at a cost of US$191k per pot (H1 FY17: 39[22] pots at US$193k per pot). 82[22] pots are scheduled to be relined in FY18.

While operating unit cost guidance is not provided, the cost profile of the smelter will continue to be heavily influenced by power and raw material inputs, given the operation's high variable cost base. Mozal Aluminium utilises hydroelectric power that is generated by Hidroeléctrica de Cahora Bassa (HCB). HCB delivers power into the South African grid to Eskom and Mozal Aluminium sources electricity via the Mozambique Transmission Company (Motraco) under a long term contract. The price of electricity supplied is South African rand based with the rate of escalation linked to a South Africa domestic production price index plus margin.

Financial performance

Underlying EBIT increased by 140% (or US$35M) in H1 FY18 to US$60M as a 25% increase in the average realised price of aluminium (+US$65M) and higher sales volumes (+US$23M) were partially offset by higher alumina, pitch and coke input costs (-US$20M).

Capital expenditure

Sustaining capital expenditure increased to US$8M in H1 FY18. The US$18M AP3XLE energy efficiency project, which was approved in August 2017, remains on schedule with first incremental production anticipated in FY20 and the full benefit to be realised by FY24. The project will deliver a circa 5% (or 10kt pa) increase in annual production with no associated increase in power consumption.

South32 share	H1 FY18	H1 FY17
Aluminium production (kt)	137	136
Aluminium sales (kt)[a]	147	134
Realised sales price (US$/t)[a]	2,218	1,776
Operating unit cost (US$/t)[b]	1,694	1,448

(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 FY18	H1 FY17
Revenue	326	238
Underlying EBITDA	77	44
Underlying EBIT	60	25
Net operating assets[a]	540	534
Capital expenditure	8	3
Major projects (>US$100M)	-	-
All other capital expenditure	*8*	*3*

(a) H1 FY17 reflects balance as at 30 June 2017.

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

Volumes

Brazil Alumina saleable production increased by 3kt to 676kt in H1 FY18 as the refinery continued to operate at capacity.

FY18 production guidance remains unchanged at 1.3Mt with Phase I of the refinery de-bottlenecking project nearing completion.

Operating costs

Operating unit costs at the non-operated refinery increased by 21% to US$234/t in H1 FY18 as the price of caustic soda increased and consumption rates rose temporarily as lower quality bauxite feed was introduced following a weather related disruption to supply from MRN.

Financial performance

Alumina Underlying EBIT increased by 392% (or US$47M) in H1 FY18 to US$59M as a 44% increase in the average realised price of alumina (+US$73M) was partially offset by higher caustic soda (-US$9M) and fuel oil (-US$12M) costs.

Aluminium Underlying EBIT decreased by US$10M to a loss of US$12M as our obligation to purchase electricity from Eletronorte was fulfilled during the period, following termination of the contract in December 2015. The sale of surplus electricity generated other income of US$36M, although this was more than offset by the utilisation of the associated onerous contract provision and the recognition of a US$12M provision to reflect transmission charges that will no longer be offset by ongoing electricity purchases.

Capital expenditure

Sustaining capital expenditure decreased to US$10M in H1 FY18 with the de-bottlenecking Phase I project nearing completion.

South32 share	H1 FY18	H1 FY17
Alumina production (kt)	676	673
Alumina sales (kt)	649	638
Realised alumina sales price (US$/t)[a]	370	257
Alumina operating unit cost (US$/t)[b][c]	234	194

(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 mainly from MRN.

South32 share (US$M)	H1 FY18	H1 FY17
Revenue	240	164
Alumina	*240*	*164*
Aluminium	-	-
Other income	41	86
Underlying EBITDA	76	38
Alumina	*88*	*40*
Aluminium	*(12)*	*(2)*
Underlying EBIT	47	10
Alumina	*59*	*12*
Aluminium	*(12)*	*(2)*
Net operating assets/(liabilities)[a]	675	691
Alumina	*687*	*718*
Aluminium	*(12)*	*(27)*
Capital expenditure	10	13
Major projects (>US$100M)	-	-
All other capital expenditure	*10*	*13*

(a) H1 FY17 reflects balance as at 30 June 2017.

SOUTH AFRICA ENERGY COAL (92% SHARE)

Volumes

South Africa Energy Coal saleable production decreased by 9% (or 1.4Mt) to 13.4Mt in H1 FY18. Export coal production exceeded expectations as productivity lifted at both the Klipspruit mine and the export oriented areas of the WMC. In contrast, domestic production was impacted by a reduction in demand from the Duvha power station and scheduled maintenance in the domestically focused areas of the WMC. The continued build of inventory across H1 FY18 reflects ongoing constraint in the supply chain and weather related delays at the Richards Bay Coal Terminal.

FY18 production guidance remains unchanged at 27.5Mt (11.5Mt export; 16.0Mt domestic).

Operating costs

Operating unit costs increased by 38% to US$36/t in H1 FY18 as the South African rand strengthened, the proportion of higher margin export tonnes (with associated washing and logistics costs) increased and an area of in-pit inventory at the WMC was written down to net realisable value.

We have updated FY18 unit cost guidance to US$34/t to reflect revised exchange rate and price assumptions. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT decreased by 10% (or US$13M) in H1 FY18 to US$115M. Higher average export (+US$77M) and domestic (+US$28M) realised prices were more than offset by lower sales volumes (-US$30M), an increase in planned maintenance and labour costs (-US$48M), inflation (-US$22M) and a stronger South African rand (-US$21M). The operation's costs were also impacted by the net realisable value write-down of an area of in-pit inventory at the WMC (-US$8M).

Capital expenditure

Sustaining capital expenditure increased to US$68M in H1 FY18 as activity previously deferred as a result of adverse weather was completed. Sustaining capital expenditure will continue to be directed towards the WMC in H2 FY18 given the requirement to open-up new mining areas. FY18 guidance for Sustaining capital expenditure has been increased by US$20M to US$132M.

We also invested US$4M in H1 FY18 to progress the 4.3B South African rand KPSX project, which was approved by the Board in November 2017. The 8Mtpa brownfield project will extend the life of the Klipspruit colliery by more than 20 years.

100 per cent terms[a]	H1 FY18	H1 FY17
Energy coal production (kt)	13,423	14,825
Domestic sales (kt)[b]	7,334	8,918
Export sales (kt)[b]	5,865	5,856
Realised domestic sales price (US$/t)[b]	24	19
Realised export sales price (US$/t)[b]	76	63
Operating unit cost (US$/t)[c]	36	26

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

(b) 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.

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

100 per cent terms[a] (US$M)	H1 FY18	H1 FY17
Revenue[b]	622	539
Underlying EBITDA	149	152
Underlying EBIT	115	128
Net operating liabilities[c]	(21)	(84)
Capital expenditure	72	27
Major projects (>US$100M)	*4*	*2*
All other capital expenditure	*68*	*25*

(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 FY17 reflects balance as at 30 June 2017.

ILLAWARRA METALLURGICAL COAL (100%)

Volumes

Illawarra Metallurgical Coal saleable production decreased by 50% (or 1.9Mt) to 1.9Mt in H1 FY18 as the Appin colliery recovered from an extended outage and the Dendrobium longwall progressed through a faulted zone.

FY18 production guidance of 4.5Mt remains unchanged with a longwall move now scheduled for Dendrobium in the June 2018 quarter.

Operating costs

Operating unit costs increased by 99% to US$149/t in H1 FY18, commensurate with the significant reduction in coal sales.

We have updated FY18 unit cost guidance to US$135/t to reflect revised exchange rate and price assumptions. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT decreased by US$193M in H1 FY18 to a loss of US$84M as lower sales volumes (-US$258M) more than offset higher average realised coal prices (+US$36M), lower price-linked royalties (+US$15M) and a volume related reduction in depreciation (+US$14M).

Capital expenditure

Sustaining capital expenditure decreased by 17% to US$40M in H1 FY18 as underground development was impacted by the extended outage. FY18 guidance for Sustaining capital expenditure has been reduced by a further US$15M to US$105M to reflect a lower level of underground activity.

South32 share	H1 FY18	H1 FY17
Metallurgical coal production (kt)	1,282	2,829
Energy coal production (kt)	578	884
Metallurgical coal sales (kt)	1,057	2,788
Energy coal sales (kt)	603	817
Realised metallurgical coal sales price (US$/t)(a)	189	151
Realised energy coal sales price (US$/t)(a)	71	62
Operating unit cost (US$/t)(b)	149	75

(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 FY18	H1 FY17
Revenue(a)	243	471
Underlying EBITDA	(5)	202
Underlying EBIT	(84)	109
Net operating assets(b)	1,442	1,406
Capital expenditure	40	54
Major projects (>US$100M)	*-*	*6*
All other capital expenditure	*40*	*48*
Exploration expenditure	4	2
Exploration expensed	4	2

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

(b) H1 FY17 reflects balance as at 30 June 2017.

AUSTRALIA MANGANESE (60% SHARE)

Volumes

Australia Manganese saleable ore production increased by 13% (or 202kwmt) to a record 1.7Mwmt in H1 FY18. Lower than expected rainfall in the December 2017 quarter underpinned higher throughput in the primary circuit while favourable market conditions allowed the PC02 circuit to operate at full capacity. The PC02 circuit contributed 8% of total manganese ore production in H1 FY18 (5% H1 FY17; 6% FY17).

Saleable Manganese alloy production increased by 5% (or 4kt) to 82kt in H1 FY18.

FY18 ore production guidance remains unchanged at 3.1Mwmt with the wet season expected to impact production across H2 FY18.

Operating costs

FOB manganese ore operating unit costs increased by 8% to US$1.55/dmtu in H1 FY18 as a result of a rise in planned maintenance expenditure, a stronger Australian dollar and higher price-linked royalties.

We have updated FY18 unit cost guidance to US$1.63/dmtu to reflect revised exchange rate and price assumptions. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT increased by 44% (or US$92M) in H1 FY18 to US$299M. A significant improvement in average realised ore and alloys prices (+US$106M) and an increase in sales volumes (+US$20M) were only partially offset by a rise in planned maintenance expenditure (-US$8M), the impact of a stronger Australian dollar and higher price-linked royalties (-US$7M).

Our average realised price for external ore sales in H1 FY18 reflected the high grade 44% manganese lump ore index (CIF China) on a volume weighted M-1 basis[23], despite the higher contribution of 40% grade PC02 product to the sales mix.

Capital expenditure

Sustaining capital expenditure increased to US$21M in H1 FY18 as we invested in additional tailings storage capacity at GEMCO.

South32 share	H1 FY18	H1 FY17
Manganese ore production (kwmt)	1,701	1,499
Manganese alloy production (kt)	82	78
Manganese ore sales (kwmt)[(a)]	1,612	1,500
External customers	*1,441*	*1,362*
TEMCO	*171*	*138*
Manganese alloy sales (kt)[(a)]	78	82
Realised external manganese ore sales price (US$/dmtu, FOB)[(a)(b)]	5.96	4.91
Realised manganese alloy sales price (US$/t)[(a)]	1,526	988
Ore operating unit cost (US$/dmtu)[(b)(c)]	1.55	1.44
Alloy operating unit cost (US$/t)[(c)]	910	720

(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 FY18 average manganese content of ore sales was 46.1% on a dry basis (H1 FY17: 46.4%). 94% of H1 FY18 external manganese ore sales (H1 FY17: 95%) were completed on a CIF basis. H1 FY18 realised FOB ore prices and operating unit costs have been adjusted for freight and marketing costs of US$21M (H1 FY17: 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 cost is Revenue less Underlying EBITDA divided by alloy sales volumes and includes costs associated with sinter sold externally.

South32 share (US$M)	H1 FY18	H1 FY17
Revenue[(a)]	516	390
Manganese Ore	*411*	*320*
Manganese Alloy	*119*	*81*
Intra-segment elimination	*(14)*	*(11)*
Underlying EBITDA	328	233
Manganese Ore	*280*	*211*
Manganese Alloy	*48*	*22*
Underlying EBIT	299	207
Manganese Ore	*253*	*187*
Manganese Alloy	*46*	*20*
Net operating assets/(liabilities)[(b)]	312	319
Manganese Ore	*318*	*313*
Manganese Alloy	*(6)*	*6*
Capital expenditure	21	15
Major projects (>US$100M)	*-*	*-*
All other capital expenditure	*21*	*15*
Exploration expenditure	1	1
Exploration expensed	1	-

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

(b) H1 FY17 reflects balance as at 30 June 2017.

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

Volumes

South Africa Manganese ore production increased by 21% (or 195kwmt) to 1.1Mwmt in H1 FY18 as the continuation of higher cost trucking and the sale of lower quality fines products enabled us to take advantage of favourable market conditions. FY18 ore production guidance has been increased by 8% to 2,040kwmt, but remains subject to market demand.

Manganese alloy saleable production decreased by 3% (or 1kt) to 36kt in H1 FY18 as Metalloys continued to operate one of its four furnaces.

Operating costs

FOB manganese ore operating unit costs increased by 18% to US$2.31/dmtu in H1 FY18 as a result of a stronger South African rand and higher price-linked royalties. The drawdown of low cost Wessels concentrate and other fines material stockpiles offset the cost of opportunistically trucking ore to port.

We have updated FY18 unit cost guidance to US$2.41/dmtu to reflect revised exchange rate and price assumptions, and a continuation of higher cost trucking activity. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT increased by 87% (or US$40M) in H1 FY18 to US$86M as a significant improvement in ore and alloy prices (+US$49M) was only partially offset by a stronger South African rand (-US$5M), higher price-linked royalties (-US$4M) and an increase in trucking costs (-US$6M).

Our average realised price for external ore sales in H1 FY18 reflected the medium grade 37% manganese lump ore index[24] on a volume weighted M-1 basis. Wessels concentrate and other fines products receive a substantial discount when referenced to index prices. Favourable negotiated price outcomes for our primary products and a temporary increase in the proportion of sales priced in the month of shipping (i.e. M, as opposed to M-1) offset the impact of these discounts.

Capital expenditure

Sustaining capital expenditure increased to US$8M in H1 FY18.

South32 share	H1 FY18	H1 FY17
Manganese ore production (kwmt)	1,129	934
Manganese alloy production (kt)	36	37
Manganese ore sales (kwmt)[(a)]	1,067	928
External customers	*985*	*859*
Metalloys	*82*	*69*
Manganese alloy sales (kt)[(a)]	28	40
Realised external manganese ore sales price (US$/dmtu, FOB)[(a)(b)]	4.57	3.87
Realised manganese alloy sales price (US$/t)[(a)]	1,321	875
Ore operating unit cost (US$/dmtu)[(b)(c)]	2.31	1.96
Alloy operating unit cost (US$/t)[(c)]	821	925

(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 FY18 average manganese content of ore sales was 40.3% on a dry basis (H1 FY17: 40.3%). 68% of H1 FY18 external manganese ore sales (H1 FY17: 61%) were completed on a CIF basis. H1 FY18 realised FOB ore prices and operating costs have been adjusted for freight and marketing costs of US$16M (H1 FY17: US$10M), 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 cost is Revenue less Underlying EBITDA divided by alloy sales volumes.

South32 share (US$M)	H1 FY18	H1 FY17
Revenue[(a)]	228	175
Manganese Ore[(b)]	*200*	*145*
Manganese Alloy	*37*	*35*
Intra-segment elimination	*(9)*	*(5)*
Underlying EBITDA	100	61
Manganese Ore[(b)]	*86*	*63*
Manganese Alloy	*14*	*(2)*
Underlying EBIT	86	46
Manganese Ore[(b)]	*77*	*54*
Manganese Alloy	*9*	*(8)*
Net operating assets[(c)]	301	307
Manganese Ore[(b)]	*235*	*245*
Manganese Alloy	*66*	*62*
Capital expenditure	8	4
Major projects (>US$100M)	*-*	*-*
All other capital expenditure	*8*	*4*

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

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

(c) H1 FY17 reflects balance as at 30 June 2017.

CERRO MATOSO (99.9% SHARE)

Volumes

Cerro Matoso payable nickel production increased by 23% (or 4.1kt) to 21.8kt in H1 FY18 as ore grades improved with the ramp-up of production at the higher grade La Esmeralda deposit.

FY18 production guidance remains unchanged at 41.6kt with additional maintenance planned for the furnace in the March 2018 quarter.

Operating costs

Operating unit costs decreased by 10% to US$3.41/lb in H1 FY18 as the operation benefitted from a substantial increase in sales volumes.

We have updated FY18 unit cost guidance to US$3.61/lb to reflect revised exchange rate and price assumptions. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT increased by US$45M in H1 FY18 to US$41M as the rise in sales volumes (+US$40M) and a higher average realised nickel price (+US$16M) were partially offset by higher royalties (-US$5M) and an increase in exploration activity (-US$3M).

Capital expenditure

Sustaining capital expenditure increased to US$11M in H1 FY18 as La Esmeralda was brought online and the project's permanent access bridge was completed.

South32 share	H1 FY18	H1 FY17
Ore mined (kwmt)	2,087	2,347
Ore processed (kdmt)	1,340	1,289
Ore grade processed (%, Ni)	1.83	1.53
Payable nickel production (kt)	21.8	17.7
Payable nickel sales (kt)	21.3	17.6
Realised nickel sales price (US$/lb)[(a)]	5.20	4.85
Operating unit cost (US$/lb)[(b)]	3.41	3.81

(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 FY18	H1 FY17
Revenue	244	188
Underlying EBITDA	84	40
Underlying EBIT	41	(4)
Net operating assets[(a)]	587	611
Capital expenditure	11	4
Major projects (>US$100M)	-	-
All other capital expenditure	*11*	*4*
Exploration expenditure	5	2
Exploration expensed	4	2

(a) H1 FY17 reflects balance as at 30 June 2017.

CANNINGTON (100% SHARE)

Volumes

Cannington silver, lead and zinc payable production decreased by 41%, 33% and 52% respectively in H1 FY18 as lower ore grades and a reduction in mill throughput impacted performance.

The stress regime within the orebody is evolving with depletion and we are moving to more challenging areas within the mine plan. In order to deliver greater predictability and stability in the underground mine as the level of activity increases (80 stopes to be extracted in FY19, average of 50: FY12-16), we are lowering the mining rate to 2.45 Mt per annum which is expected to translate to mill throughput of 2.3Mt and 2.4Mt in FY18 and FY19, respectively.

Operating costs

Operating unit costs increased by 30% to US$170/t in H1 FY18 as a result of the reduction in throughput and an adverse movement in finished goods inventory.

We have updated FY18 unit cost guidance to US$159/t to reflect revised exchange rate and price assumptions. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 25, footnote 20.

Financial performance

Underlying EBIT decreased by 56% (or US$93M) in H1 FY18 to US$72M as lower sales volumes (-US$148M) were partially offset by higher average realised prices (+US$32M) and lower treatment and refining charges (+US$27M). The ramp-up of underground trucking activity successfully replaced shaft haulage in the period for a modest US$2M increase in costs. Finalisation adjustments and the provisional pricing of Cannington concentrates increased Underlying EBIT by US$5.5M in H1 FY18 (US$4.1M FY17; US$0.5M H1 FY17). Outstanding concentrate sales (containing 1.8Moz of silver, 21.1kt of lead and 3.9kt of zinc) were revalued at 31 December 2017. The final price of these sales will be determined in H2 FY18.

Capital expenditure

Sustaining capital expenditure increased to US$23M in H1 FY18. The underground crusher is now expected to be commissioned in February 2018, ahead of schedule.

South32 share	H1 FY18	H1 FY17
Ore mined (kwmt)	1,209	1,639
Ore processed (kdmt)	1,168	1,669
Ore grade processed (g/t, Ag)	165	198
Ore grade processed (%, Pb)	5.1	5.5
Ore grade processed (%, Zn)	2.6	3.7
Payable silver production (koz)	5,175	8,729
Payable lead production (kt)	49.4	73.9
Payable zinc production (kt)	20.2	42.1
Payable silver sales (koz)	5,429	8,860
Payable lead sales (kt)	48.6	73.3
Payable zinc sales (kt)	25.7	40.8
Realised silver sales price (US$/oz)[a]	16.8	17.4
Realised lead sales price (US$/t)[a]	2,517	2,128
Realised zinc sales price (US$/t)[a]	3,192	2,475
Operating unit cost (US$/t ore processed)[b]	170	131

(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 FY18	H1 FY17
Revenue	296	412
Underlying EBITDA	97	194
Underlying EBIT	72	165
Net operating assets[a]	187	215
Capital expenditure	23	18
Major project (>US$100M)	-	-
All other capital expenditure	*23*	*18*
Exploration expenditure	2	1
Exploration expensed	2	1

(a) H1 FY17 reflects balance as at 30 June 2017.

NOTES

(1) Revenue includes revenue from third party products.

(2) H1 FY18 basic earnings per share is calculated as Profit/(loss) after tax divided by the weighted average number of shares for H1 FY18 (5,191 million). H1 FY18 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for H1 FY18. H1 FY17 basic earnings per share is calculated as Profit/(loss) after tax 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.

(3) H1 FY18 ordinary dividend per share is calculated as H1 FY18 interim dividend announced (US$223M) divided by the number of shares on issue at 31 December 2017 (5,181 million).

(4) H1 FY18 special dividend per share is calculated as H1 FY18 special dividend announced (US$155M) divided by the number of shares on issue at 31 December 2017 (5,181 million).

(5) Underlying EBIT is profit before net finance costs, tax and any earnings adjustment items, including impairments. Underlying EBIT is reported inclusive of South32's share of net finance costs and tax of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation. Underlying earnings is Profit/(loss) after tax and earnings adjustment items. Underlying earnings is the key measure that South32 uses to assess the performance of the South32 Group, make decisions on the allocation of resources and assess senior management's performance. In addition, the performance of each of the South32 operations and operational management are assessed based on Underlying EBIT. In order to calculate Underlying earnings, Underlying EBIT and Underlying EBITDA, the following items are adjusted as applicable each period, irrespective of materiality:

- Exchange rate gains/losses on restatement of monetary items;
- Impairment losses/reversals;
- Net gain/loss on disposal and consolidation of interests in businesses;
- Fair value gain/loss on non-trading 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.

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

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

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

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

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

(11) 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.

(12) Underlying net finance cost and Underlying tax expense are actual H1 FY18 results, not half-on-half variances.

(13) South32's ownership share of operations are presented 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%).

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

(15) The Mozambique operations are subject to a royalty on revenues instead of income tax.

(16) 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.

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

(18) Operating unit cost is Revenue less Underlying EBITDA, excluding third party sales, divided by sales volumes. Operating cost is Revenue less Underlying EBITDA excluding third party sales. Additional manganese disclosures are included on pages 21 and 22.

(19) Prior FY18 Operating unit cost guidance included royalties (where appropriate) and the influence of exchange rate assumptions, and were predicated on various assumptions for FY18, including: an alumina price of US$299/t; an average blended coal price of US$119/t for Illawarra Metallurgical Coal; a manganese ore price of US$4.50/dmtu for 44% manganese product; a nickel price of US$4.27/lb; a thermal coal price of US$72/t (API4) for South Africa Energy Coal; a silver price of US$16.82/troy oz; a lead price of US$2,135/t; a zinc price of US$2,555/t; an AUD:USD exchange rate of 0.74; a USD:ZAR exchange rate of 14.17; a USD:COP exchange rate of 2,961; and a reference price for caustic soda; all of which reflected forward markets as at May 2017 or our internal expectations.

(20) New FY18 Operating unit cost guidance includes royalties (where appropriate) and the influence of exchange rates, and includes various assumptions for FY18, including: an alumina price of US$388/t; an average blended coal price of US$168/t for Illawarra Metallurgical Coal; a manganese ore price of US$6.30/dmtu for 44% manganese product; a nickel price of US$5.39/lb; a thermal coal price of US$90/t (API4) for South Africa Energy Coal; a silver price of US$16.96/troy oz; a lead price of US$2,475/t; a zinc price of US$3,246t; an AUD:USD exchange rate of 0.78; a USD:ZAR exchange rate of 12.98; a USD:COP exchange rate of 2,920; and a 17% increase in the reference price for caustic soda relative to prior guidance; all of which reflected forward markets as at January 2018 or our internal expectations.

(21) Third party products sold comprise US$148M for aluminium, US$48M for alumina, US$128M for coal, US$85M for freight services and US$54M for aluminium raw materials. Underlying EBIT on third party products comprise US$6M for aluminium, nil for alumina, nil for coal, (US$1)M for freight services and nil for aluminium raw materials.

(22) Presented on a 100% basis.

(23) Metal Bulletin 44% manganese lump ore index (CIF Tianjin, China).

(24) Metal Bulletin 37% manganese lump ore index (FOB Port Elizabeth, South Africa).

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

The following abbreviations may be used throughout this report: US$ million (US$M); US$ billion (US$B); December half year (H1 FY18); grams per tonne (g/t); tonnes (t); thousand tonnes (kt); thousand tonnes per annum (ktpa); million tonnes (Mt); million tonnes per annum (Mtpa); thousand ounces (koz); million ounces (Moz); thousand wet metric tonnes (kwmt); million wet metric tonnes (Mwmt); million wet metric tonnes per annum (Mwmt pa); thousand dry metric tonnes (kdmt); dry metric tonne unit (dmtu); pound (lb); megawatt (MW); Australian Securities Exchange (ASX); London Stock Exchange (LSE); Johannesburg Stock Exchange (JSE); and American Depositary Receipts (ADR).

SOUTH32 FINANCIAL INFORMATION

For the half year ended 31 December 2017

CONSOLIDATED INCOME STATEMENT

for the half year ended 31 December 2017

US$M	Note	H1 FY18	H1 FY17
Revenue			
Group production		**3,031**	2,873
Third party products		**463**	348
		3,494	3,221
Other income		**130**	142
Expenses excluding net finance cost		**(3,183)**	(2,670)
Share of profit/(loss) of equity accounted investments		**232**	164
Profit/(loss)		**673**	857
Comprising:			
Group production		**668**	846
Third party products		**5**	11
Profit/(loss)		**673**	857
Finance expenses		**(100)**	(77)
Finance income		**30**	17
Net finance cost	6	**(70)**	(60)
Profit/(loss) before tax		**603**	797
Income tax (expense)/benefit		**(60)**	(177)
Profit/(loss) after tax		**543**	620
Attributable to:			
Equity holders of South32 Limited		**543**	620
Profit/(loss) for the period attributable to the equity holders of South32 Limited			
Basic earnings per share (cents)	5	**10.5**	11.7
Diluted earnings per share (cents)	5	**10.3**	11.5

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 31 December 2017

US$M	H1 FY18	H1 FY17
Profit/(loss) for the period	**543**	620
Other Comprehensive Income		
Items that may be reclassified to the Consolidated Income Statement:		
Available for sale investments:		
Net gains/(losses) taken to equity	**76**	(1)
Net (gains)/losses transferred to the Consolidated Income Statement	**(31)**	-
Tax benefit/(expense) recognised within Other Comprehensive Income	**(5)**	2
Total items that may be reclassified to the Consolidated Income Statement	**40**	1
Items not to be reclassified to the Consolidated Income Statement:		
Actuarial gains/(losses) on pension and medical schemes	**(1)**	2
Tax benefit/(expense) recognised within Other Comprehensive Income	**-**	(1)
Total items not to be reclassified to the Consolidated Income Statement	**(1)**	1
Total Other Comprehensive Income/(loss)	**39**	2
Total Comprehensive Income/(loss)	**582**	622
Attributable to:		
Equity holders of South32 Limited	**582**	622

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2017

US$M	H1 FY18	FY17
ASSETS		
Current assets		
Cash and cash equivalents	**2,495**	2,675
Trade and other receivables	**861**	718
Other financial assets	**123**	103
Inventories	**953**	781
Current tax assets	**11**	27
Other	**50**	28
Total current assets	**4,493**	4,332
Non-current assets		
Trade and other receivables	**214**	365
Other financial assets	**476**	465
Inventories	**81**	81
Property, plant and equipment	**8,225**	8,373
Intangible assets	**237**	252
Equity accounted investments	**731**	569
Deferred tax assets	**265**	276
Other	**64**	20
Total non-current assets	**10,293**	10,401
Total assets	**14,786**	14,733
LIABILITIES		
Current liabilities		
Trade and other payables	**844**	850
Interest bearing liabilities	**429**	391
Current tax payables	**20**	116
Provisions	**345**	383
Deferred income	**5**	4
Total current liabilities	**1,643**	1,744
Non-current liabilities		
Trade and other payables	**5**	4
Interest bearing liabilities	**635**	644
Deferred tax liabilities	**463**	518
Provisions	**1,651**	1,577
Deferred income	**10**	11
Total non-current liabilities	**2,764**	2,754
Total liabilities	**4,407**	4,498
Net assets	**10,379**	10,235
EQUITY		
Share capital	**14,654**	14,747
Treasury shares	**(38)**	(26)
Reserves	**(3,452)**	(3,503)
Retained earnings/(accumulated losses)	**(784)**	(982)
Total equity attributable to equity holders of South32 Limited	**10,380**	10,236
Non-controlling interests	**(1)**	(1)
Total equity	**10,379**	10,235

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

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 December 2017

US$M	H1 FY18	H1 FY17
Operating activities		
Profit/(loss) before tax	**603**	797
Adjustments for:		
Non-cash significant items	**(31)**	-
Depreciation and amortisation expense	**363**	373
Impairments of property, plant and equipment, financial assets, intangibles and equity accounted investments	**-**	4
Employee share awards expense	**24**	22
Net finance cost	**70**	60
Share of (profit)/loss of equity accounted investments	**(232)**	(164)
Fair value (gains)/losses on derivative instruments	**62**	(189)
Other non-cash or non-operating items	**-**	(3)
Changes in assets and liabilities:		
Trade and other receivables	**(223)**	(164)
Inventories	**(172)**	(23)
Trade and other payables	**38**	24
Provisions and other liabilities	**(64)**	(40)
Cash generated from operations	**438**	697
Interest received	**30**	17
Interest paid	**(33)**	(34)
Income tax (paid)/received	**(181)**	(39)
Dividends received	**9**	-
Dividends received from equity accounted investments	**70**	41
Net cash flows from operating activities	**333**	682
Investing activities		
Purchases of property, plant and equipment	**(199)**	(150)
Exploration expenditure	**(23)**	(7)
Exploration expenditure expensed and included in operating cash flows	**22**	6
Purchase of intangibles	**(2)**	(1)
Investment in financial assets	**(63)**	(28)
Investment in equity accounted investments	**-**	(21)
Cash outflows from investing activities	**(265)**	(201)
Proceeds from sale of property, plant and equipment and intangibles	**-**	15
Proceeds from financial assets	**196**	105
Net cash flows from investing activities	**(69)**	(81)
Financing activities		
Proceeds from interest bearing liabilities	**27**	147
Repayment of interest bearing liabilities	**(10)**	(9)
Purchase of shares by South32 Limited Employee Incentive Plans Trusts (ESOP Trusts)	**(36)**	(12)
Share buy-back	**(93)**	-
Dividends paid	**(333)**	(53)
Net cash flows from financing activities	**(445)**	73
Net increase/(decrease) in cash and cash equivalents	**(181)**	674
Cash and cash equivalents, net of overdrafts, at the beginning of the period	**2,675**	1,225
Foreign currency exchange rate changes on cash and cash equivalents	**1**	2
Cash and cash equivalents, net of overdrafts, at the end of the period	**2,495**	1,901

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2017

	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 2017	**14,747**	**(26)**	**(3,503)**	**(982)**	**10,236**	**(1)**	**10,235**
Profit/(loss) for the period	**-**	**-**	**-**	**543**	**543**	**-**	**543**
Other Comprehensive Income/(loss)	**-**	**-**	**40**	**(1)**	**39**	**-**	**39**
Total Comprehensive Income/(loss)	**-**	**-**	**40**	**542**	**582**	**-**	**582**
Transactions with owners:							
Accrued employee entitlements for unexercised awards	**-**	**-**	**24**	**-**	**24**	**-**	**24**
Dividends	**-**	**-**	**-**	**(333)**	**(333)**	**-**	**(333)**
Purchase of shares by ESOP Trusts	**-**	**(36)**	**-**	**-**	**(36)**	**-**	**(36)**
Employee share awards exercised	**-**	**24**	**(13)**	**(11)**	**-**	**-**	**-**
Shares bought back and cancelled(1)	**(93)**	**-**	**-**	**-**	**(93)**	**-**	**(93)**
Balance as at 31 December 2017	**14,654**	**(38)**	**(3,452)**	**(784)**	**10,380**	**(1)**	**10,379**
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 share 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

(1) Represents 37,168,657 shares permanently cancelled through the on-market share buy-back during the period.

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

The consolidated financial statements of South32 Limited (referred to as the Company) and its subsidiaries and joint arrangements (collectively, the Group) for the half year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 15 February 2018.

1. Reporting entity

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

2. Basis of preparation

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

- Have been prepared in accordance with AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act
- Have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities which are required to be measured at fair value
- Are presented in US dollars, which is the functional currency of the majority of the Group's operations, and all values are rounded to the nearest million dollars (US$M or US$ million) unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191
- Present reclassified comparative information where required for consistency with the current period's presentation
- Have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2017 annual consolidated financial statements

In preparing these half year consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017.

For a full understanding of the financial performance and financial position of the Group it is recommended that the half year consolidated financial statements be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2017. Consideration should also be given to any public announcements made by the Company in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

	Average for the half year ended 31 December 2017	Average for the half year ended 31 December 2016	As at 31 December 2017	As at 30 June 2017	As at 31 December 2016
Australian dollar(1)	0.78	0.75	0.78	0.77	0.72
Brazilian real	3.21	3.27	3.31	3.30	3.26
Colombian peso	2,982	2,983	2,984	3,038	3,001
South African rand	13.41	14.00	12.40	13.00	13.60

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

3. Segment information

(a) Description of segments

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

The members of the Lead Team (the chief operating decision makers) and the Board of Directors monitor the segment results regularly for the purpose of making decisions about resource allocation and performance assessment. The segment information for the manganese operations are presented on a proportional consolidation basis, which is the measure used by the Group's management to assess their performance.

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

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

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

(b) Segment results

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

It is the Group's policy that inter-segment transactions are made on a commercial basis.

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

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

3. Segment information (continued)

(b) Segment results (continued)

Half year ended 31 December 2017 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
Revenue													
Group production	326	734	326	240	622	243	516	221	244	296	-	(737)	3,031
Third party products[2]	-	-	-	-	-	-	-	-	-	-	463	-	463
Inter-segment revenue	342	-	-	-	-	-	-	7	-	-	(342)	(7)	-
Total revenue	**668**	**734**	**326**	**240**	**622**	**243**	**516**	**228**	**244**	**296**	**121**	**(744)**	**3,494**
Underlying EBITDA	**246**	**156**	**77**	**76**	**149**	**(5)**	**328**	**100**	**84**	**97**	**(25)**	**(196)**	**1,087**
Depreciation and amortisation	(82)	(36)	(17)	(29)	(34)	(79)	(29)	(14)	(43)	(25)	(18)	43	(363)
Underlying EBIT	**164**	**120**	**60**	**47**	**115**	**(84)**	**299**	**86**	**41**	**72**	**(43)**	**(153)**	**724**
Comprising:													
Group production	164	120	60	47	115	(84)	299	86	41	72	(48)	(385)	487
Third party products[2]	-	-	-	-	-	-	-	-	-	-	5	-	5
Share of profit/(loss) of equity accounted investments[3]	-	-	-	-	-	-	-	-	-	-	-	232	232
Underlying EBIT	**164**	**120**	**60**	**47**	**115**	**(84)**	**299**	**86**	**41**	**72**	**(43)**	**(153)**	**724**
Net finance cost													(59)
Income tax (expense)/benefit													(121)
Underlying earnings													**544**
Earnings adjustments[4]													(1)
Profit/(loss) after tax													**543**
Capital expenditure[5]	**22**	**13**	**8**	**10**	**72**	**40**	**21**	**8**	**11**	**23**	**-**	**(29)**	**199**
Equity accounted investments	**-**	**-**	**-**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**721**	**731**
Total assets[6]	**3,543**	**1,537**	**649**	**805**	**1,037**	**1,672**	**604**	**511**	**786**	**348**	**3,848**	**(554)**	**14,786**
Total liabilities[6]	**509**	**272**	**109**	**130**	**1,058**	**230**	**292**	**210**	**199**	**161**	**1,780**	**(543)**	**4,407**

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

(2) Third party products sold comprise US$148 million for aluminium, US$48 million for alumina, US$128 million for coal, US$85 million for freight services and US$54 million for aluminium raw materials. Underlying EBIT on third party products comprise US$6 million for aluminium, nil for alumina, nil 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 impact of earnings adjustments to Underlying EBIT.

(4) Refer to note 3(b)(i) Earnings adjustments.

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

(6) Total assets and liabilities for each operating segment represent operating assets and liabilities which predominantly 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)

(b) Segment results (continued)

Half year ended 31 December 2016 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
Revenue													
Group production	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													**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]	**-**	**-**	**-**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**559**	**569**
Total assets[6]	**3,564**	**1,478**	**630**	**860**	**936**	**1,667**	**597**	**493**	**800**	**371**	**4,011**	**(674)**	**14,733**
Total liabilities[6]	**521**	**273**	**96**	**169**	**1,020**	**261**	**278**	**186**	**189**	**156**	**2,017**	**(668)**	**4,498**

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

(2) 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 impact of earnings adjustments to Underlying EBIT.

(4) Refer to note 3(b)(i) Earnings adjustments.

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

(6) Total assets and liabilities for each operating segment are as at 30 June 2017 and represent operating assets and liabilities which predominantly exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

3. Segment information (continued)

(b) Segment results (continued)

(i) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

US$M	H1 FY18	H1 FY17
Adjustments to Underlying EBIT		
Significant items[1]	**(31)**	-
Exchange rate (gains)/losses on restatement of monetary items[2]	**17**	20
Impairment losses[2]	**-**	4
Fair value (gains)/losses on non-trading derivative instruments[2]	**65**	(189)
Major corporate restructures[2]	**-**	2
Earnings adjustments included in profit/(loss) of equity accounted investments[3]	**-**	(3)
Total adjustments to Underlying EBIT	**51**	(166)
Adjustments to net finance cost		
Exchange rate variations on net debt	**11**	(11)
Total adjustments to net finance cost	**11**	(11)
Adjustments to income tax expense		
Tax effect of earnings adjustments to Underlying EBIT	**(23)**	45
Tax effect of earnings adjustments to net finance cost	**(4)**	4
Exchange rate variations on tax balances	**(34)**	(13)
Total adjustments to income tax expense	**(61)**	36
Total earnings adjustments	**1**	(141)

(1) Refer to note 3(b)(ii) Significant items.

(2) Recognised in expenses excluding net finance cost in the Consolidated Income Statement.

(3) Recognised in share of profit/(loss) of equity accounted investments in the Consolidated Income Statement.

(ii) Significant items

31 December 2017 US$M	Gross	Tax	Net
Unwind of the investment in Dreamvision[1]	(31)	-	(31)
Total significant items	**(31)**	**-**	**(31)**

(1) The Group's investment in Dreamvision Investments 15 (RF) (Pty) Ltd (Dreamvision) originated in 2006 through the formation of a Broad-Based Black Economic Empowerment (B-BBEE) transaction. The transaction contained a lock-in period which expired in November 2016 and the process to unwind the investment was triggered. Consequently, the Group elected to receive shares in Exxaro Resources Limited in exchange for its shareholding in Dreamvision. The net valuation gain on the available for sale investment in Dreamvision has been transferred from the Financial assets reserve and recognised in the Consolidated Income Statement.

4. Dividends

US$M	H1 FY18	H1 FY17
Prior year final dividend(1)	**333**	53
Total dividends declared and paid during the period	**333**	53

(1) On 24 August 2017, the Directors resolved to pay a fully franked final dividend of US6.4 cents per share (US$334 million) in respect of the 2017 financial year. The dividend was paid on 12 October 2017. The South32 Employee Incentive Plans Trust waived its right to receive dividends from South32 Limited, therefore reducing the dividends paid by US$1 million.

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 FY18**	**H1 FY17**
Profit/(loss) attributable to equity holders of South32 Limited (basic)	**543**	620
Profit/(loss) attributable to equity holders of South32 Limited (diluted)	**543**	620

Weighted average number of shares		
Million	**H1 FY18**	**H1 FY17**
Basic earnings per share denominator(1)	**5,191**	5,319
Shares and options contingently issuable under employee share ownership plans(2)	**71**	55
Diluted earnings per share denominator	**5,262**	5,374

(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 and shares permanently cancelled through the on-market share buy-back during the period.

(2) Diluted EPS calculation excludes 6,932,916 (31 December 2016: 15,371,165) rights which are considered anti-dilutive and are subject to service and performance conditions.

Earnings per share		
US cents	**H1 FY18**	**H1 FY17**
Basic earnings per share	**10.5**	11.7
Diluted earnings per share	**10.3**	11.5

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

6. Net finance cost

US$M	H1 FY18	H1 FY17
Finance expenses		
Interest on borrowings	**6**	8
Finance lease interest	**27**	26
Discounting on provisions and other liabilities	**52**	48
Net interest expense on post-retirement employee benefits	**3**	5
Fair value change on financial asset	**1**	1
Exchange rate variations on net debt	**11**	(11)
	100	77
Finance income		
Interest income	**30**	17
Net finance cost	**70**	60

7. Financial assets and financial liabilities

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

31 December 2017 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	2,495	-	-	-	**2,495**
Trade and other receivables[(1)]	698	-	65	-	**763**
Derivative contracts	-	-	144	-	**144**
Loans to equity accounted investments	103	-	-	-	**103**
Interest bearing loans receivable	42	-	-	-	**42**
Other investments	-	455	-	-	**455**
Total	**3,338**	**455**	**209**	**-**	**4,002**
Financial liabilities					
Trade and other payables[(2)]	-	-	-	830	**830**
Finance leases	-	-	-	616	**616**
Unsecured other	-	-	-	448	**448**
Total	**-**	**-**	**-**	**1,894**	**1,894**

(1) Excludes input taxes of US$167 million included in trade and other receivables.

(2) Excludes input taxes of US$19 million included in trade and other payables.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

7. Financial assets and financial liabilities (continued)

30 June 2017 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	2,675	-	-	-	2,675
Trade and other receivables[(1)]	540	-	76	-	616
Derivative contracts	-	-	202	-	202
Loans to equity accounted investments	251	-	-	-	251
Interest bearing loans receivable	42	-	-	-	42
Other investments	-	366	-	-	366
Total	**3,508**	**366**	**278**	**-**	**4,152**
Financial liabilities					
Trade and other payables[(2)]	-	-	3	800	803
Finance leases	-	-	-	613	613
Unsecured other	-	-	-	422	422
Total	**-**	**-**	**3**	**1,835**	**1,838**

(1) Excludes input taxes of US$174 million included in other receivables.

(2) Excludes input taxes of US$51 million included in other payables.

Measurement of fair value

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

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

Level 2 – Valuation includes 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 2017 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	-	65	-	**65**
Derivative contracts	-	1	143	**144**
Investments – available for sale	198	150	107	**455**
Total	**198**	**216**	**250**	**664**

7. Financial assets and financial liabilities (continued)

Level 3 financial assets and liabilities

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

US$M	H1 FY18	H1 FY17
As at the beginning of the period	**334**	161
Disposals recognised in the Consolidated Income Statement(1)	**(31)**	-
Realised gains/(losses) recognised in the Consolidated Income Statement(2)	**(47)**	-
Unrealised gains/(losses) recognised in the Consolidated Income Statement(3)	**(11)**	189
Unrealised gains/(losses) recognised in the Consolidated Statement of Comprehensive Income(4)	**5**	(9)
At the end of the period	**250**	341

(1) Refer to note 3(b)(ii) Significant items.

(2) Realised gains and losses recognised in the Consolidated Income Statement are recorded in expenses excluding net finance cost.

(3) Unrealised gains and losses recognised in the Consolidated Income Statement are recorded in expenses excluding net finance cost.

(4) Unrealised gains and losses recognised in the Consolidated Statement of 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 appropriate valuation models, including discounted cash flow modelling, with inputs such as commodity prices, foreign exchange rates and inflation. The potential effect of using reasonably possible alternative assumptions in these models, based on changes in the most significant inputs by 10 per cent while holding all other variables constant, is shown in the following table.

31 December 2017			Profit before tax		Other Comprehensive Income, net of tax	
US$M	Carrying amount	Significant inputs	10% increase in input	10% decrease in input	10% increase in input	10% decrease in input
Financial assets and liabilities						
Derivative contracts(1)	143	Aluminium price(2) Foreign exchange rate(2) Electricity price(3)	(177)	167	-	-
Investments – available for sale(1)(4)	107	Aluminium price(2) Foreign exchange rate(2)	-	-	46	(54)
Total	**250**		**(177)**	**167**	**46**	**(54)**

(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.

8. Subsequent events

On 15 February 2018, the Directors resolved to pay a fully franked interim dividend of US4.3 cents per share (US$223 million) in respect of the 2018 half year and a partially franked (to 81%) special dividend of US3 cents per share (US$155 million). The dividends will be paid on 5 April 2018. The dividends have not been provided for in the half year consolidated financial statements and will be recognised in the 2018 financial year.

On 15 February 2018, the Group announced an extension of the existing capital management program, announced on 27 March 2017, by US$250 million to a total of US$1 billion. This program has US$540 million remaining with 143 million shares having been purchased to 31 December 2017 for a cash consideration of US$305 million and the special dividend of US$155 million.

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

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

(a) The consolidated financial statements and notes that are set out on pages 27 to 43 for the half year ended 31 December 2017 are in accordance with the Corporations Act, including:

   (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and

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

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

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

David Crawford AO

Chairman

Graham Kerr

Chief Executive Officer and Managing Director

Date: 15 February 2018

DIRECTORS' REPORT

The Directors of the Group present the Consolidated Financial Report for the half year ended 31 December 2017 and the auditor's review report thereon.

Directors

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

David Crawford AO	
Frank Cooper AO	
Graham Kerr	
Xiaoling Liu	Appointed 1 November 2017
Xolani Mkhwanazi	
Ntombifuthi (Futhi) Mtoba	
Wayne Osborn	
Keith Rumble	
Karen Wood	Appointed 1 November 2017

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

Nicole Duncan
Melanie Williams

Review and results of operations

A review of the operations of the consolidated entity during the period and of the results of those operations is contained on pages 3 to 26.

Principal risks and uncertainties

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

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

- Fluctuations in commodity prices, exchange rates, interest rates and global economy
- Political events, actions by governments, or tax authorities
- Cost inflation and labour disputes could impact operating margins and expansion opportunities
- Climate change
- Failure to maintain, realise or enhance existing reserves
- Deterioration in liquidity and cash flow
- Health and safety risks in respect of our activities
- Access to water and power
- Water and waste water management, and environmental risks
- Unexpected operational or natural catastrophes
- Counterparties that we transact with may not meet their obligations
- Risks of fraud and corruption
- Breaches of information technology security
- Failure to retain and attract key employees

Further information on these risks and how they are managed can be found on pages 19 to 22 of the Annual Report for the year ended 30 June 2017, a copy of which is available on the Group's website at www.south32.net.

DIRECTORS' REPORT

Events subsequent to the balance date

On 15 February 2018, the Directors resolved to pay a fully franked interim dividend of US4.3 cents per share (US$223 million) in respect of the 2018 half year and a partially franked (to 81%) special dividend of US3 cents per share (US$155 million). The dividends will be paid on 5 April 2018. The dividends have not been provided for in the half year consolidated financial statements and will be recognised in the 2018 financial year.

On 15 February 2018, the Group announced an extension of the existing capital management program, announced on 27 March 2017, by US$250 million to a total of US$1 billion. This program has US$540 million remaining with 143 million shares having been purchased to 31 December 2017 for a cash consideration of US$305 million and the special dividend of US$155 million.

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

UK responsibility statements

The Directors state that to the best of their knowledge:

- The Financial Results and Outlook on pages 3 to 26, includes a fair review of important events during the first six months of the current financial year and their impact on the half year consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- That disclosure has been made for related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 47.

Rounding of amounts

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

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

David Crawford AO

Chairman

Graham Kerr

Chief Executive Officer and Managing Director

Date: 15 February 2018

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

To the Directors of South32 Limited

I declare that, to the best of my knowledge and belief, in relation to the review of South32 Limited for the half-year ended 31 December 2017 there have been:

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

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

KPMG

KPMG

Denise McComish

Partner

Perth

15 February 2018

Independent Auditor’s Review Report

To the shareholders of South32 Limited

Conclusion

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

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

- giving a true and fair view of the ***Group’s*** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Consolidated Balance Sheet as at 31 December 2017
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the half-year ended on that date
- Notes 1 to 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 give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Statements that is free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express a conclusion on the Half-year Financial Statements based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of South32 Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual Financial Report.

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

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

KPMG

KPMG

Denise McComish

Partner

Perth

15 February 2018

DISCLAIMER

FORWARD-LOOKING STATEMENTS

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

NON-IFRS FINANCIAL INFORMATION

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

NO OFFER OF SECURITIES

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

NO FINANCIAL OR INVESTMENT ADVICE – SOUTH AFRICA

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

FURTHER INFORMATION

INVESTOR RELATIONS

Alex Volante
T +44 20 7798 1778
M +44 7468 353 005
E Alex.Volante@south32.net

Rob Ward
T +61 8 9324 9340
M +61 431 596 831
E Robert.Ward@south32.net

MEDIA RELATIONS

Hayley Cardy
T +61 8 9324 9008
M +61 409 448 288
E Hayley.Cardy@south32.net

James Clothier
T +61 8 9324 9697
M +61 413 319 031
E James.Clothier@south32.net

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

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

JSE Sponsor: UBS South Africa (Pty) Ltd
15 February 2018