APPENDIX 4D

SOUTH32 LIMITED

(ABN 84 093 732 597)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This page and the accompanying 65 pages comprise the half year end 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 2015 compared with the half year ended 31 December 2014 on both a statutory and pro forma basis.

The half year report should be read in conjunction with the Annual Financial Report 2015.

	Pro forma[(a)]			Statutory
US$M	**H1 FY16**	**H1 FY15**	**%**	**H1 FY15**
Revenue from continuing operations	2,981	4,089	down 27%	649
Revenue from discontinued operations	-	-		133
Revenue	**2,981**	**4,089**	**down 27%**	**782**
Profit/(loss) after tax from continuing operations	(1,749)	339	down 616%	(90)
Profit/(loss) after tax from discontinued operations	-	-		7
Profit/(loss) after taxation	**(1,749)**	**339**	**down 616%**	**(83)**
Underlying earnings from continuing operations	**26**	**460**	**down 94%**	**57**

(a) Refer to note at the bottom of page 3 for the basis of preparation of pro forma financial information.

Net tangible assets per share

Net tangible assets per ordinary share were US$1.69 as at 31 December 2015 (US$2.02 as at 30 June 2015).

Dividends

No dividend is declared for the half year ended 31 December 2015.

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FINANCIAL RESULTS AND OUTLOOK
HALF YEAR ENDED 31 DECEMBER 2015

SOUTH32

25 February 2016 **ASX / LSE / JSE: S32**

"The continuing optimisation of our high quality operations and balance sheet has enabled us to reduce net debt by almost US$300M, despite continued weakness in commodity markets. Our low financial gearing and operational leverage is a powerful combination and the decisive action we are taking across our portfolio will strengthen short term cash flow."

Graham Kerr, South32 CEO

PERFORMANCE SUMMARY

- Statutory loss of US$1.7B includes non-cash impairment related charges of US$1.7B.
- Underlying EBITDA of US$542M for an operating margin of 20%.
- Underlying EBIT and Underlying earnings of US$141M and US$26M, respectively.
- Controllable costs(1) reduced by US$182M.
- Total capital expenditure(2), including equity accounted investments, reduced by 22% or US$85M to US$301M.
- Closing net debt reduced by US$286M to US$116M.
- Underlying return on invested capital (ROIC) of 1.4%.
- No dividend declared for H1 FY16.

OUTLOOK

- FY16 production guidance maintained for the majority of our upstream operations.
- Major restructuring initiatives underpin targeted US$300M reduction in controllable costs in FY16.
- Redundancy and restructuring charges(3) of US$37M anticipated in the June 2016 half year.
- FY16 Capital expenditure(2) guidance, including equity accounted investments, lowered by US$150M to US$550M.
- Well positioned to significantly exceed our US$350M controllable costs savings target.

Financial highlights				
US$M	**H1 FY16**	**Pro forma H1 FY15**	**Change %**	**Statutory(4)(5) H1 FY15**
Revenue(6)	2,981	4,089	(27%)	649
Profit/(loss) from continuing operations	(1,587)	786	(302%)	87
Profit/(loss) after taxation	(1,749)	339	(616%)	(83)
Basic earnings per share (US cents)(7)	(32.9)	6.4	(614%)	(2.8)
Other financial measures				
Underlying EBITDA(8)	542	1,127	(52%)	246
Underlying EBITDA margin(9)	20.1%	29.8%	(9.7%)	31.9%
Underlying EBIT(8)	141	710	(80%)	91
Underlying EBIT margin(10)	5.2%	18.5%	(13.3%)	13.2%
Underlying earnings(8)	26	460	(94%)	57
Basic Underlying earnings per share (US cents)	0.5	8.6	(94%)	1.8
ROIC(11)	1.4%	8.5%	(7.1%)	5.3%

Note: To assist shareholders in their understanding of the South32 Group, pro forma financial information has been prepared for H1 FY15 comparative purposes to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 31 December 2014 (refer to the pro forma income statement and Underlying earnings adjustments on pages 28 and 29). The pro forma financial information must be read in conjunction with the notes on page 27.

DECEMBER 2015 HALF YEAR PERFORMANCE

SAFETY

We are deeply saddened by the loss of two colleagues in our Africa Region in H1 FY16. Our core value of Care dictates that safety is paramount and every one of our employees and contractors should go home safe and well, after every shift. We are in the process of implementing our Care and Safety Strategy across all operated sites. This strategy focusses on our frontline leaders and the importance of having well planned, designed and executed work. With focus and perseverance we will create a safer working environment and become a more productive organisation.

Our Total Recordable Injury Frequency (TRIF) was 7.6 per million hours worked in H1 FY16.

EARNINGS

The Group's statutory loss of US$1.7B in H1 FY16 was significantly impacted by non-cash impairment related charges totalling US$1.7B (post-tax US$1.7B). This included a US$916M impairment at Australia Manganese; a US$97M impairment at South Africa Manganese; a US$64M impairment at Manganese Marketing; a US$518M impairment at South Africa Energy Coal, including US$76M relating to available for sale investments; a US$97M impairment at Brazil Alumina; and the US$126M derecognition of deferred tax assets at South Africa Energy Coal. The tax benefit associated with these non-cash impairments is US$174M.

Consistent with our accounting policy, various items are excluded from Underlying earnings, including: the aforementioned impairments; exchange rate gains associated with the restatement of monetary items (US$87M pre-tax); fair value losses on derivative instruments (US$36M pre-tax); exchange rate gains associated with the Group's non US dollar denominated net debt (US$26M pre-tax), demerger related set-up costs (US$60M pre-tax), exchange rate losses on tax balances (US$178M) and the tax benefit of these remaining earnings adjustments (US$58M).

Profit/(loss) from continuing operations to Underlying EBITDA reconciliation		
US$M	**H1 FY16**	**Pro forma H1 FY15**
Profit/(loss) from continuing operations	(1,587)	786
Earnings adjustments to derive Underlying EBIT	1,728	(76)
Underlying EBIT	**141**	**710**
Depreciation and amortisation	401	417
Underlying EBITDA	**542**	**1,127**

Profit/(loss) after taxation to Underlying earnings reconciliation		
US$M	**H1 FY16**	**Pro forma H1 FY15**
Profit/(loss) after taxation	(1,749)	339
Earnings adjustments to derive Underlying EBIT	1,728	(76)
Earnings adjustments to derive Underlying net finance cost	(26)	(93)
Earnings adjustments to derive Underlying income tax expense	73	290
Underlying earnings	**26**	**460**

Underlying EBITDA declined by 52% in H1 FY16 to US$542M. Lower commodity prices reduced revenue by US$1.0B, although this was partially offset by a stronger US dollar (US$401M) and lower price-linked costs (US$94M). Half year production records were achieved at Worsley Alumina, Australia Manganese (ore) and Cannington (zinc), while power sales at Brazil Alumina contributed US$51M to Underlying EBITDA.

Controllable cost savings of US$182M were delivered during the period as we increased labour productivity, reduced procurement costs and optimised our energy footprint. The majority of these savings are considered to be structural in nature and include a sustainable US$30Mpa or 23% saving in Group and unallocated costs. Depreciation and amortisation remained largely unchanged at US$401M.

H1 FY16 controllable costs[1] savings	
US$M	**Total**
Australia Region	26
Africa Region	119
Group and unallocated	37
Total	**182**

Underlying EBIT declined by 80% in H1 FY16 to US$141M. The Group recorded an Underlying net finance cost of US$71M, while Underlying income tax expense was US$44M for an Underlying effective tax rate (ETR)[12] of 34%. As a result, Underlying earnings declined by 94% in H1 FY16 to US$26M.

> **"Our disciplined approach extends beyond our operations, to the management of our capital and optimisation of our balance sheet. During the December 2015 half year we created additional financial flexibility by resolving two legacy tax disputes and restructuring a financing arrangement. These initiatives reduced net debt by a combined US$136M."**
>
> Brendan Harris, South32 CFO

CASH FLOW

Robust free cash flow from operations, excluding equity accounted investments, of US$192M highlighted the cash generating capacity of our operations. A 23% or US$77M reduction in Total capital expenditure, excluding equity accounted investments, to US$253M included:

- Stay-in-business, Minor discretionary and Deferred stripping (including underground development) capital expenditure of US$211M;
- Major project (Appin Area 9) capital expenditure of US$26M; and
- The purchase of intangibles and capitalisation of exploration expenditure of US$16M.

The Appin Area 9 underground extension at Illawarra Metallurgical Coal is the Group's sole Major project in development. This project is now 95% complete, with commissioning expected to start in the March 2016 quarter. The project, which sustains saleable production capacity at approximately 9Mtpa, is tracking more than 30% below the original budget of US$845M and three months ahead of schedule.

Capital expenditure associated with equity accounted investments of US$48M in H1 FY16 includes the Premium Concentrate Ore (PC02) project at GEMCO (Australia Manganese) and the second phase of the Central Block development project at Wessels (South Africa Manganese). The PC02 project, which increases Australia Manganese ore production capacity by 0.5Mt to 5.3Mtpa (100% basis), is expected to be delivered under budget with first production anticipated in the June 2016 quarter. The ramp-up of this project will be adjusted to match market demand. The second phase of the Central Block development project has been accelerated to enable underground mining activity to relocate closer to critical infrastructure, thereby reducing cycle times. The project is 78% complete, with commissioning expected in July 2016.

Total capital expenditure, including equity accounted investments was US$301M in H1 FY16.

The resolution of two legacy tax disputes contributed US$46M to cash flow, although this was more than offset by a US$211M increase in working capital. In this regard, a US$196M decline in provisions was largely associated with the stronger US dollar, whilst lower commodity and raw material prices led to a US$296M reduction in payables which was partly offset by a US$162M reduction in receivables. A decline in inventory, however, released US$119M to cash flow as days debtors were held steady at 21 days and stock was consumed at a number of operations.

H1 FY16 free cash flow of operations, excluding equity accounted investments	
US$M	**H1 FY16**
Profit/(loss) from continuing operations	(1,587)
Non-cash items	1,868
Profit/(loss) from equity accounted investments	356
Change in working capital	(211)
Cash generated from continuing operations	**426**
Total capital expenditure, excluding equity accounted investments	(253)
Operating cash flows from continuing operations before financing activities and tax, and after capital expenditure	**173**
Net interest (paid)/received	(18)
Income tax (paid)/received	37
Free cash flow of operations, excluding equity accounted investments	**192**

Dividends totalling US$19M were received from our equity accounted investments, although the Group contributed US$75M to the funding of these entities during the period.

BALANCE SHEET

During H1 FY16 net debt declined by US$286M to US$116M. The restructuring of a legacy financing arrangement accounted for US$90M or 31% of the change in net debt during the period, whilst a US$36M reduction in finance leases (to US$595M) largely reflected strength in the US dollar.

The Group's liquidity and flexibility continues to be underpinned by an undrawn US$1.5B revolving credit facility (RCF).

On 22 January 2016, Moody's and S&P announced downward revisions to their respective commodity price forecasts and Moody's notified South32, along with 174 other mining and energy companies worldwide, that its rating had been placed on review for downgrade. Moody's is seeking to complete its review process before 31 March 2016.

DIVIDEND

The Group's simple capital management framework prioritises investment in safe and reliable operations, and an investment grade credit rating through the cycle. Once those core priorities have been satisfied, we intend to distribute a minimum 40% of Underlying earnings as dividends to shareholders in each six month reporting period.

An interim dividend is not declared for H1 FY16 given the reduction in Underlying earnings to US$26M, or 0.5 US cents per share, and the quantum of impairment related non-cash charges recorded during the period.

OUTLOOK

PRODUCTION

FY16 saleable production guidance has been maintained for the majority of our upstream operations, which in most cases occupy the first or second quartile of industry cost or margin curves. Illawarra Metallurgical Coal saleable production guidance has, however, been lowered by 7% to 8.3Mt after difficult ground conditions were encountered during the period, while South Africa Manganese has been restructured to ensure it is appropriately configured for the current environment. Saleable ore production at South Africa Manganese will be adjusted to match market demand.

The mining and processing plans at Australia Manganese (GEMCO) are being adjusted to ensure the operation retains its leading, low-cost position in the industry. This includes a revised ramp-up profile for the PC02 project and a 0.2Mt or 4% reduction in guidance for FY17 Australia Manganese saleable ore production to 5.2Mt (100% basis). Conversely, an increase in longwall utilisation at Illawarra Metallurgical Coal is expected to increase saleable production towards 9.5Mt in FY17, while a further 3% improvement in refinery availability and utilisation at Worsley Alumina is expected to increase saleable production to approximately 4.0Mt.

That being said, we remain ready to react to changes in the external environment and will not hesitate to adjust volumes should superior value and cash flow be attainable by varying the output of any operation.

Upstream production guidance (South32 share)			
	FY15	**FY16e**	**FY17e**
Worsley Alumina			
Alumina production (kt)	3,819	3,950	*(Revised ↑) 3,965*
Brazil Alumina			
Alumina production (kt)	1,328	1,320	1,320
South Africa Energy Coal[13]			
Domestic coal production (kt)	18,123	16,650	15,300
Export coal production (kt)	16,150	15,300	15,700
Illawarra Metallurgical Coal			
Metallurgical coal production (kt)	7,455	*(Revised ↓) 6,900*	*(Revised ↑) 8,150*
Energy coal production (kt)	1,471	*(Revised ↓) 1,350*	*(Revised ↑) 1,380*
Australia Manganese			
Manganese ore production (kt)	2,942	3,050	*(Revised ↓) 3,120*
South Africa Manganese			
Manganese ore production (kt)	2,273	*Subject to demand*	*Subject to demand*
Cerro Matoso			
Payable nickel production (kt)	40.4	36.5	36.0
Cannington			
Payable silver production (koz)	22,601	21,650	19,500
Payable lead production (kt)	183	175	168
Payable zinc production (kt)	72	80	78

At our downstream processing operations we continue to take decisive action.

At Brazil Alumina, we first curtailed activity at our smelter in July 2013 before suspending all aluminium production in March 2015. With the economics unlikely to support the recommencement of smelting activity we sold forward power for the 2017 calendar year and served termination notice on our contract with Eletronorte for the remaining years of the contract.

At South Africa Aluminium, we responded to the deterioration in market conditions by suspending 22 pots, equivalent to 3% of total production. Whilst this decision will lead to an incremental reduction in saleable production, the decision is expected to deliver a modest improvement in free cash flow given the associated deferral of pot relining activity.

At the Samancor Manganese Joint Venture alloying operations, saleable production has been adjusted to reflect market demand. At TEMCO (Australian Manganese), one of the four furnaces was suspended in January 2016 for a minimum of three months while Metalloys (South Africa Manganese) will continue to operate one of its four furnaces for the foreseeable future.

COSTS AND CAPITAL EXPENDITURE

Operating and capital expenditure continues to be scrutinised in every location as we seek to sustainably de-capitalise our business and grow ROIC. In this regard, a cumulative reduction in controllable costs and Capital expenditure, including equity accounted investments, of approximately US$518M is now anticipated in FY16.

Controllable costs

In August 2015, we announced a commitment to reduce our annual controllable cost base, including equity accounted investments, by at least US$350M before end FY18. Having reduced controllable costs by US$182M in H1 FY16, we are well positioned to significantly exceed this target.

We announced a number of major restructuring initiatives subsequent to period end. A reduction of approximately 1,750 employees and contractors is expected before the end of FY16, equivalent to 7% of the Group's employee and contractor headcount at the end of FY15. These initiatives will further optimise and stretch the performance of our high quality operations as we seek to increase our competitiveness in the industry. We have established specific cost targets for a number of our more challenged operations; including:

- A reduction in South Africa Manganese operating unit costs, including Sustaining capital expenditure, to approximately US$1.90/dmtu(14) in FY17;
- A reduction in Worsley Alumina operating unit costs, including Sustaining capital expenditure, to approximately US$200/t(14) in FY17;
- A reduction in Illawarra Metallurgical Coal operating unit costs, including Sustaining capital expenditure, to approximately US$66/t(14) in FY17;
- A reduction in Australia Manganese ore operating unit costs, including Sustaining capital expenditure, to approximately US$1.56/dmtu(14) in FY17; and
- A reduction in Cerro Matoso operating unit costs, including Sustaining capital expenditure, to approximately US$3.90/lb(14) in FY17.

Greenfield exploration opportunities continue to be assessed although a willingness to invest shareholder funds will remain contingent on the quality of the opportunity. A modest investment of US$10M or less is anticipated in FY16. Exploration activity based on our existing footprint of approximately US$15M is anticipated in FY16.

Capital expenditure

Sustaining capital expenditure, comprising Stay-in-business (SIB), Minor discretionary and Deferred stripping capital expenditure, including equity accounted investments, is now expected to decline by 23% (or US$150M) to US$500M.

The Group's share of planned capital expenditure associated with equity accounted investments of approximately US$90M in FY16 is included in the Sustaining capital expenditure guidance noted above.

Guidance for Capital expenditure, including equity accounted investments, is reduced by US$150M to approximately US$550M in FY16 and includes approximately US$50M for Major projects. Major project capital expenditure guidance includes approximately US$5M for feasibility studies, primarily associated with the Klipspruit Life Extension project (South Africa Energy Coal).

Other

All demerger related set-up costs associated with the establishment of South32 have been incurred and were 54% lower than prior guidance at US$60M. These costs, primarily related to the establishment of the Group's IT infrastructure, are excluded from our Underlying earnings measures in H1 FY16.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation, excluding equity accounted investments, is expected to decrease by US$88M in FY16 to US$760M following the recognition of impairment related non-cash charges during the period. Depreciation and amortisation for equity accounted investments is also expected to decline by US$55M to US$117M in FY16.

TAX EXPENSE

South32's Underlying ETR largely reflects the geographic distribution of the Group's profit. The corporate tax rates applicable to South32 include: Australia 30%; South Africa 28%; Colombia 39%; and Brazil 34%. It should, however, be recognised that permanent differences have a disproportionate effect on the Group's Underlying ETR when commodity prices and profit margins are compressed. In this context, the Group's Underlying ETR for FY16 could be significantly higher than the rates recorded in FY15 (28.7%) and H1 FY16 (34.4%) should current conditions persist.

SOUTH32 FINANCIAL RESULTS

For the half year ended 31 December 2015

FINANCIAL RESULTS

To assist shareholders in their understanding of the South32 Group, pro forma financial information for H1 FY15 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 31 December 2015. To provide insight into the underlying performance of the South32 Group, our financial results include internal earnings measures used by South32 management. These internal measures include Underlying EBITDA, Underlying EBIT and Underlying earnings.

Income statement		
US$M	**H1 FY16**	**Pro forma H1 FY15**
Revenue	2,981	4,089
Other income	122	150
Expenses excluding net finance cost	(4,334)	(3,513)
Share of profit/(loss) of equity accounted investments	(356)	60
Profit/(loss) from operations	**(1,587)**	**786**
Net finance cost	(45)	5
Taxation expense	(117)	(452)
Profit/(loss) after taxation	**(1,749)**	**339**
Basic earnings per share (US cents)	**(32.9)**	**6.4**
Other financial information		
Profit/(loss) from operations	(1,587)	786
Earnings adjustments to derive Underlying EBIT	1,728	(76)
Underlying EBIT	**141**	**710**
Depreciation and amortisation	401	417
Underlying EBITDA	**542**	**1,127**
Profit/(loss) after taxation	(1,749)	339
Earnings adjustments after taxation	1,775	121
Underlying earnings	**26**	**460**
Basic Underlying earnings per share (US cents)	**0.5**	**8.6**

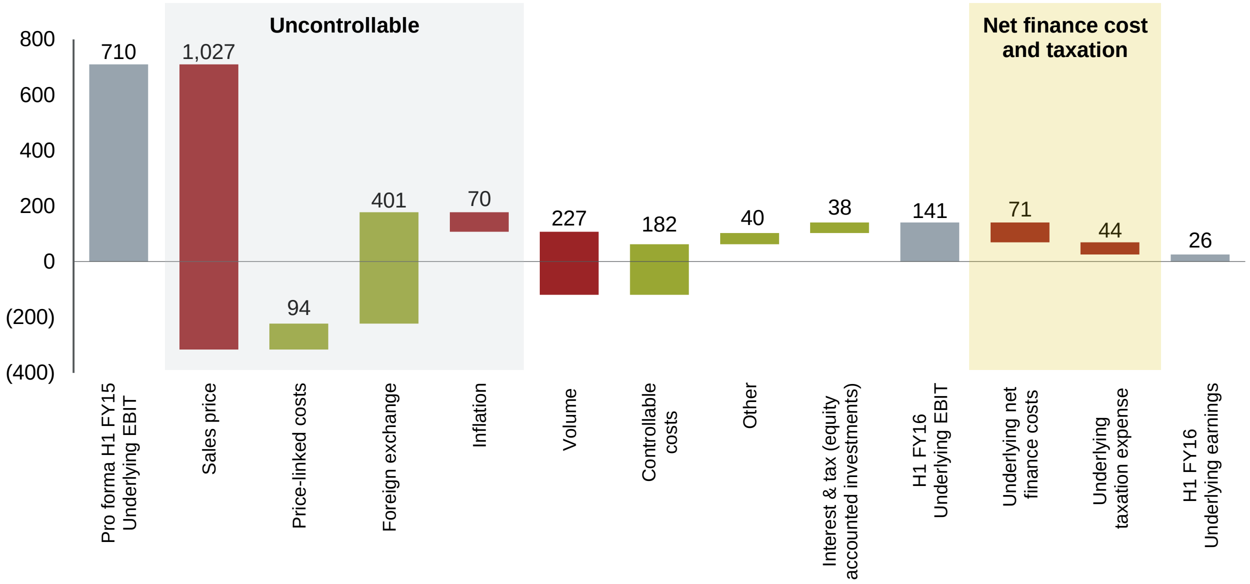
The following table notes the relevant significant items excluded from the Group's Underlying measures. A detailed explanation of the H1 FY16 major adjustments is included in Note 4 on pages 43 to 49.

Earnings adjustments		
US$M	**H1 FY16**	**Pro forma H1 FY15**
Adjustments to Underlying EBIT		
Significant items	92	-
Exchange rate (gains)/losses on restatement of monetary items	(87)	(64)
Impairment losses	1,384	-
Fair value (gains)/losses on derivative instruments	36	(6)
Major corporate restructures	5	-
Impairment losses included in operating profit/(loss) of equity accounted investments	287	-
Earnings adjustments included in operating profit/(loss) of equity accounted investments	11	(6)
Total Adjustments to Underlying EBIT	**1,728**	**(76)**
Adjustments to net finance cost		
Exchange rate variations on net debt	(26)	(93)
Total earnings adjustments to net finance cost	**(26)**	**(93)**
Adjustments to income tax expense		
Significant items	39	96
Tax effect of earnings adjustments to Underlying EBIT	(152)	22
Tax effect of earnings adjustments to net finance cost	8	28
Exchange rate variations on tax balances	178	144
Total Adjustments to income tax expense	**73**	**290**
Total earnings adjustments after taxation	**1,775**	**121**

EARNINGS ANALYSIS

The following chart highlights the key factors that have influenced Underlying earnings in H1 FY16, relative to pro forma H1 FY15.

Reconciliation of movements in Underlying earnings (US$M)(15) (a)



(a) Sales price variance reflects the revenue impact of changes in commodity prices, based on the comparative 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.

Prices, foreign exchange and inflation

A significant contraction in commodity prices reduced revenue by US$1.0B. Persistent weakness in the aluminium market accounted for 34% of this impact. Lower metallurgical and energy coal, manganese ore and alloy, alumina and nickel prices reduced revenue by a further US$185M, US$167M, US$126M and US$123M, respectively. The impact of lower commodity prices reduced Underlying EBIT by US$933M, net of price-linked costs.

General inflation increased costs by US$70M. The absolute impact was most pronounced at our South African operations, which collectively accounted for 64% of the total variance.

Weaker commodity prices and inflation were, however, partly offset by the general strengthening of the US dollar against a basket of producer currencies, which increased Underlying EBIT by US$401M.

Volume

We achieved half year production records at Worsley Alumina, Australia Manganese (ore) and Cannington (zinc) in H1 FY16 and remain on track to meet FY16 production guidance for the majority of our upstream operations. The US$227M volume related decline in revenue does, however, largely reflect the decision to curtail or suspend production at South Africa Manganese (alloy and ore saleable production), Brazil Alumina (aluminium saleable production) and our African aluminium smelters (aluminium saleable production). The remainder of the volume related differential is accounted for by production losses at Illawarra Metallurgical Coal (US$47M), where challenging ground conditions were encountered, and grade decline at Cerro Matoso (US$52M).

Controllable cost reduction

In August 2015, we announced a commitment to reduce our annual controllable cost base, including equity accounted investments, by at least US$350M per annum before end FY18. Having reduced controllable costs by US$182M in H1 FY16, we are well positioned to significantly exceed this target. The majority of the savings achieved to date are considered to be structural in nature and include a sustainable US$30Mpa or 23% saving in Group and unallocated costs.

The suspension of operations, particularly at South Africa Manganese, contributed to the reduction in controllable costs, although this was broadly offset by additional charges associated with a physical reduction in inventory and an adjustment to the carrying value of inventory to reflect net realisable value.

Other items

Other items increased Underlying EBIT by a net US$40M. This included: a US$30M reduction in restoration and rehabilitation provisions at South Africa Energy Coal; an US$18M benefit at Cerro Matoso related to employee provisions in the prior period; and a US$17M reduction in expenses at Brazil Alumina reflecting the full suspension of smelting activities. These benefits were partially offset by a US$30M reduction in the contribution of third party product sales and an US$18M reduction in power sales in Brazil.

Interest and tax associated with equity accounted investments

The Group's manganese operations are jointly controlled by South32 (60% share) and Anglo American (40% share). The Underlying interest and taxation expense associated with these equity accounted investments declined by US$38M in H1 FY16.

Net finance costs

The Group incurred Underlying net finance costs, excluding equity accounted investments, of US$71M in H1 FY16. This largely reflects the unwinding of the discount applied to restoration and rehabilitation provisions (US$49M), and finance lease charges (US$25M), primarily at Worsley Alumina.

The following table reconciles H1 FY16 Underlying net finance cost to the Group's net finance cost.

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

Taxation expense

The Group's underlying income tax expense, which excludes taxation associated with equity accounted investments, was US$44M for an Underlying effective tax rate (ETR)[12] of 34%. The tax expense for equity accounted investments was US$6M, including royalty related taxation. In this regard, the recognition of the GEMCO (Australia Manganese) Northern Territory royalty as a profits based tax gives rise to a royalty related taxation expense of US$9M in equity accounted investments. The Group did not generate franking credits during the period.

The following table reconciles the Group's Underlying income tax expense and Underlying ETR for H1 FY16.

Underlying income tax expense reconciliation and Underlying ETR	
US$M	**H1 FY16**
Underlying EBIT	141
Include: Underlying net finance revenue/(costs)	(71)
Remove: Share of profit/(loss) of equity accounted investments	58
Underlying Profit/(loss) before taxation	**128**
Pro forma income tax expense	**117**
Tax effect of earnings adjustments to Underlying EBIT	152
Tax effect of earnings adjustments to net finance cost	(8)
Exchange rate variations on tax balances	(178)
Tax on significant items	(39)
Underlying income tax expense	**44**
Underlying effective tax rate (ETR)	**34.4%**

OPERATIONS ANALYSIS

A summary of the Underlying performance of the South32 operations is presented below.

Operation tables				
	Revenue		Underlying EBIT	
US$M	**H1 FY16**	**H1 FY15**	**H1 FY16**	**H1 FY15**
Worsley Alumina	540	651	33	79
South Africa Aluminium	596	823	21	169
Mozal Aluminium	208	340	(10)	76
Brazil Alumina	186	268	74	101
South Africa Energy Coal	542	683	46	1
Illawarra Metallurgical Coal	284	425	(37)	22
Australia Manganese[a]	226	339	10	95
South Africa Manganese[a]	114	231	(51)	13
Cerro Matoso	166	340	(48)	88
Cannington	423	486	141	158
Third party products[16]	291	404	-	30
Inter-segment	(254)	(332)	(19)	(65)
Total	**3,322**	**4,658**	**160**	**767**
Equity accounting adjustment[b]	(341)	(569)	(19)	(57)
South32 Group	**2,981**	**4,089**	**141**	**710**

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

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

Note: Detailed operational analysis is presented on pages 17 to 26. In this section, unless otherwise stated:

- All metrics reflect South32's share;
- H1 FY15 comparative financial information reflects pro forma financial information;
- Operating unit costs, including Sustaining capital expenditure, is Revenue less Underlying EBITDA plus Sustaining capital expenditure;
- Projected operating unit costs, including Sustaining capital expenditure, and Sustaining capital expenditure for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: an alumina price of US$255/t; an average blended coal price of US$65/t for Illawarra Metallurgical Coal; a manganese ore price of US$2.00/dmtu for 44% manganese product; a nickel price of US$3.75/lb; an AUD:USD exchange rate of 0.68; a USD:ZAR exchange rate of 14.12; and a USD:COP exchange rate of 3,170; all of which reflect forward markets at the end of the period or our internal expectations; and
- Quoted variances for: procurement activities; Sustaining capital expenditure; and operating unit costs, including Sustaining capital expenditure; compares FY17 with FY15.

WORSLEY ALUMINA (86% SHARE)

Volumes

Worsley Alumina saleable production increased by 2% (or 40kt) to a record 1,993kt in H1 FY16 as the operations processed stockpiled alumina hydrate and benefitted from additional efficiency gains. The 2% decline in sales reflected a timing difference as one shipment slipped into the March 2016 quarter.

Saleable production guidance remains unchanged at 3.95Mt for FY16, with a further lift to 3.97Mt anticipated in FY17 as incremental capacity creep is delivered by improving the consistency of ore feed and increasing refinery availability and utilisation.

Costs

Operating unit costs declined by 11% to US$228/t as the US dollar strengthened, general consumables and energy prices declined, and additional labour productivity gains were embedded.

The benefit associated with capacity creep and broader restructuring initiatives is expected to reduce operating unit costs, including Sustaining capital expenditure, to approximately US$200/t in FY17. Specific initiatives include:

- The fundamental reorganisation of mining and refining into two operations and the removal of layers of management and functional support;
- The reduction of approximately 390 employees and contractors before the end of FY16, equivalent to 15% of the employee and contractor headcount at the end of FY15;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$65M saving in FY17;
- The continued optimisation of the coal to gas fuel mix in the co-generation power facility; and
- A 34% reduction in Sustaining capital expenditure to approximately US$41M in FY17.

Financial performance

Underlying EBIT decreased by US$46M in H1 FY16 to US$33M. Lower realised alumina prices (-US$84M, net of price-linked costs) and a favourable movement in foreign exchange rate markets (+US$59M) had the most significant influence on financial performance.

Capital expenditure decreased by 19% to US$22M.

Pre-tax restructuring costs, including redundancies, of approximately US$15M are anticipated at Worsley Alumina in H2 FY16. These charges will be excluded from the Group's Underlying earnings measures.

South32 share	H1 FY16	H1 FY15
Alumina production (kt)	1,993	1,953
Alumina sales (kt)	1,898	1,943
Realised alumina sales price (US$/t)[a]	285	335
Operating unit cost (US$/t)[b]	228	255

(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.

South32 share (US$M)	H1 FY16	H1 FY15
Revenue	540	651
Underlying EBITDA	108	155
Underlying EBIT	33	79
Net operating assets[a]	3,293	3,361
Capital expenditure	22	27
Major projects (>US$100M)	-	-
All other capital expenditure	*22*	*27*
Exploration expenditure	-	-
Exploration expensed	-	-

(a) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

SOUTH AFRICA ALUMINIUM (100%)

Volumes

South Africa Aluminium saleable production of 352kt was largely unchanged in H1 FY16, while a 2% reduction in December quarter production volumes reflected our decision to suspend production of 22 pots in September 2015. This suspension of activity is expected to deliver an incremental improvement in cash flow as planned pot relining activity is deferred. A loss of 18kt is anticipated should the 22 pots remain offline for the remainder of FY16. The ability to achieve our production guidance remains contingent upon market conditions and the frequency and intensity of electricity load-shedding events.

Costs

Operating unit costs declined by 15% to US$1,496/t, reflecting a stronger US dollar, lower aluminium price-linked power costs and weaker raw material prices. Additional cost savings were realised as the smelter lowered its consumption of coke and alumina per unit of production, and continued to improve its energy efficiency.

While additional productivity gains are being pursued, the cost profile of this first quartile smelter will be more heavily influenced by power and raw material inputs, given the operation's high variable cost base. Controllable costs will, however, be impacted by an increase in relining activity (6 pots) in H2 FY16, consistent with the smelter's natural relining cycle. 66 pots were relined at a cost of approximately US$204k per pot in H1 FY16, down 23% from the prior period.

Hillside sources power from Eskom under long-term contracts. The price of electricity supplied to potlines 1 and 2 is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline 3 is South African rand based and linked to South African and United States producer price indices.

Financial performance

Underlying EBIT decreased by US$148M in H1 FY16 to US$21M. The combination of lower realised aluminium prices and premia reduced Underlying EBIT by US$213M, net of price-linked costs. This impact was partially offset by a favourable movement in foreign exchange rate markets (+US$30M) and an increase in sales volumes (+US$27M).

Capital expenditure of US$8M was broadly unchanged from the prior period.

South32 share	H1 FY16	H1 FY15
Aluminium production (kt)	352	356
Aluminium sales (kt)[(a)]	363	352
Realised sales price (US$/t)[(a)]	1,642	2,338
Operating unit cost (US$/t)[(b)]	1,496	1,761

(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) Total cost per tonne of aluminium sold. Operating unit cost is Revenue less Underlying EBITDA divided by sales.

South32 share (US$M)	H1 FY16	H1 FY15
Revenue	596	823
Underlying EBITDA	53	203
Underlying EBIT	21	169
Net operating assets[(a)]	1,062	1,151
Capital expenditure	8	10
Major projects (>US$100M)	*-*	*-*
All other capital expenditure	*8*	*10*
Exploration expenditure	-	-
Exploration expensed	-	-

(a) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

MOZAL ALUMINIUM (47.1% SHARE)

Volumes

Mozal Aluminium saleable production of 133kt was largely unchanged in H1 FY16, while production increased marginally in the December 2015 quarter following a modest reduction in the number of load-shedding events. The 12% decline in sales reflected the scheduling of shipments between periods. Aluminium production is expected to remain broadly unchanged in FY16.

The Mozal Aluminium smelter utilises hydroelectric power under a long-term contract that is generated by Hidroeléctrica de Cahora Bassa (HCB). HCB delivers power into the South African grid to Eskom and Mozal Aluminium sources the power via the Mozambique Transmission Company (Motraco).

Costs

Operating unit costs declined by 8% to US$1,653/t, reflecting a stronger US dollar and weaker raw material prices.

While additional productivity gains are being pursued, the cost profile of the smelter will be more heavily influenced by power and raw material inputs, given the operation's high variable cost base. Controllable costs will, however, benefit from a 15% decrease in relining activity (8 pots) in H2 FY16 that forms part of the natural relining cycle. Each pot was relined at a cost of approximately US$212k in H1 FY16, down 14% from the prior period.

Financial performance

Underlying EBIT decreased by US$86M in H1 FY16 to a loss of US$10M. The combination of lower realised aluminium prices and premia reduced Underlying EBIT by US$80M, net of price-linked costs, while lower volumes reduced Underlying EBIT by a further US$41M. This impact was partially offset by a favourable movement in foreign exchange rate markets (+US$19M).

Capital expenditure of US$5M was unchanged from the prior period.

South32 share	H1 FY16	H1 FY15
Aluminium production (kt)	133	135
Aluminium sales (kt)[(a)]	121	137
Realised sales price (US$/t)[(a)]	1,719	2,482
Operating unit cost (US$/t)[(b)]	1,653	1,796

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

(b) Total cost per tonne of aluminium sold. Operating unit cost is Revenue less Underlying EBITDA divided by sales.

South32 share (US$M)	H1 FY16	H1 FY15
Revenue	208	340
Underlying EBITDA	8	94
Underlying EBIT	(10)	76
Net operating assets[(a)]	593	626
Capital expenditure	5	5
Major projects (>US$100M)	-	-
All other capital expenditure	*5*	*5*
Exploration expenditure	-	-
Exploration expensed	-	-

(a) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

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

Volumes

Brazil Alumina saleable alumina production of 673kt was largely unchanged in H1 FY16 and FY16 production guidance of 1.32Mt remains unchanged. The 5% decline in sales reflected a timing difference as one shipment moved into the March 2016 quarter.

Aluminium production was first curtailed at Brazil Alumina in July 2013 and the suspension of all smelting activity was announced in March 2015. With the economics unlikely to support the recommencement of smelting activity we have forward sold power for CY17 and served termination notice on our contract with Eletronorte for the remaining years of the contract.

Costs

Alumina operating unit costs at the non-operated refinery declined by 7% to US$185/t as the US dollar strengthened against the Brazilian real and raw material costs at the refinery decreased.

Financial performance

Underlying EBIT decreased by US$27M in H1 FY16 to US$74M. Lower volumes associated with the suspension of smelting activities (-US$54M), a reduction in realised alumina prices (-US$18M, net of price-linked costs) and a decline in power sales (-US$18M to US$51M) was partially offset by a favourable movement in foreign exchange rate markets (+US$53M).

As a result of our decision to terminate the contract with Eletronorte, power sales are not expected to contribute to Underlying EBIT beyond FY16. A minor provision will be booked in our June 2016 financial year statements to reflect the anticipated cash outflow associated with this contract across the 2017 and 2018 financial years. Unhedged power sales, inclusive of this provision, are now expected to contribute approximately BRL235M to Underlying EBIT in FY16 and will be skewed to the first half. Underlying EBIT generated by these power sales in the June 2016 half year will change by +/-BRL9M for every +/-US10c/lb movement in the aluminium price above a floor of US$0.66/lb.

A US$4M increase was recorded for Sustaining capital expenditure at the refinery.

South32 share	H1 FY16	H1 FY15
Alumina production (kt)	673	680
Aluminium production (kt)	-	26
Alumina sales (kt)	661	694
Aluminium sales (kt)	-	25
Realised alumina sales price (US$/t)(a)	281	323
Realised aluminium sales price (US$/t)(a)	N/A	2,360
Alumina operating unit cost (US$/t)(b, c)	185	199
Aluminium operating unit cost (US$/t)(b,d)	N/A	2,840

(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.

(c) Includes cost of acquiring bauxite from MRN.

(d) Includes cost of alumina transferred from the Alumar refinery to the Alumar smelter at the alumina contract sales price. Excludes EBITDA from the sale of power.

South32 share (US$M)	H1 FY16	H1 FY15
Revenue	186	268
Alumina	*186*	*224*
Aluminium	-	*59*
Intra-segment elimination	-	*(15)*
Other income(a)	105	*127*
Underlying EBITDA	110	140
Alumina	*64*	*86*
Aluminium	*46*	*54*
Underlying EBIT	74	101
Alumina	*36*	*56*
Aluminium	*38*	*45*
Net operating assets(b)	789	928
Alumina	*768*	*744*
Aluminium	*21*	*184*
Capital expenditure	9	5
Major projects (>US$100M)	-	-
All other capital expenditure	*9*	*5*
Exploration expenditure	-	-
Exploration expensed	-	-

(a) Other income in H1 FY16 includes revenue of US$99M from the sale of surplus electricity.

(b) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

SOUTH AFRICA ENERGY COAL (90% SHARE)

Volumes

South Africa Energy Coal saleable production of 16.4Mt was broadly unchanged in H1 FY16. Operational efficiencies at the Khutala underground mine and the Wolvekrans Middelburg Complex mitigated the impact of the planned closure of the opencast mine at Khutala.

FY16 saleable production guidance remains unchanged at 32.0Mt.

Costs

Operating unit costs declined by 29% to US$25/t as the rand weakened significantly against the US dollar and labour productivity continued to rise. The insourcing of activity has underpinned a 31% reduction in contractors when compared with the average headcount in FY15, while employee numbers have also been reduced by 10%.

Labour productivity remains a major focus, while several procurement initiatives are expected to deliver additional savings. South African inflation, however, remains a significant challenge and is expected to more than offset the savings associated with these initiatives.

Financial performance

Underlying EBIT increased by US$45M in H1 FY16 to US$46M. A reduction in contractor and labour costs increased Underlying EBIT by US$53M while a stronger US dollar delivered a further US$47M benefit. Non-cash charges declined by US$52M as depreciation and amortisation reflected the recognition of an impairment in the prior period and restoration and rehabilitation provisions were reduced. In contrast, lower realised prices reduced Underlying EBIT by US$86M, net of price linked costs.

A US$16M decrease in Capital expenditure to US$42M reflected the purchase of mobile equipment in the prior period.

100% terms[(a)]	H1 FY16	H1 FY15
Energy coal production (kt)	16,379	16,525
Domestic sales (kt)[(b)]	9,080	9,137
Export sales (kt)[(b)]	8,021	7,913
Realised domestic sales price (US$/t)[(b)]	19	23
Realised export sales price (US$/t)[(b)]	46	60
Operating unit cost (US$/t)[(c)]	25	35

(a) South32's interest in South Africa Energy Coal is accounted at 100% until ESOP and 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.

100% terms[(a)] (US$M)	H1 FY16	H1 FY15
Sales revenue[(b)]	542	683
Underlying EBITDA	116	93
Underlying EBIT	46	1
Net operating assets/(liabilities)[(c)]	(38)	395
Capital expenditure	42	58
Major projects (>US$100M)	-	*8*
All other capital expenditure	*42*	*50*
Exploration expenditure	-	-
Exploration expensed	-	-

(a) South32's interest in South Africa Energy Coal is accounted at 100% until ESOP and B-BBEE vendor loans are repaid.

(b) Includes domestic and export sales revenue.

(c) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

ILLAWARRA METALLURGICAL COAL (100%)

Volumes

Illawarra Metallurgical Coal saleable production decreased by 17% (or 782kt) to 3.96Mt in H1 FY16 as challenging geological conditions were encountered at the Appin and Dendrobium mines, and a planned longwall move was completed during the December 2015 quarter. Another two longwall moves are expected to be completed in the March 2016 quarter. Accordingly, forecast FY16 saleable coal production has been lowered by 7% to 8.25Mt. An increase in longwall utilisation at the Appin and Dendrobium underground mines, and the completion of the Appin Area 9 project is expected to increase production to approximately 9.5Mt in FY17.

Costs

Operating unit costs declined by 13% to US$62/t as US dollar strengthened and broader cost savings initiatives were embedded. At current prices and a constant AUD:USD exchange rate, H2 FY16 operating costs are expected to remain broadly unchanged.

A number of restructuring initiatives are being implemented in order to reduce operating unit costs, including Sustaining capital expenditure and underground development, by 37% to approximately US$66/t in FY17. Specific initiatives include:

- The fundamental reorganisation of the mining complex into two operations and the removal of layers of management and functional support;
- The reduction of at least 300 employees and contractors before the end of FY16, equivalent to 14% of the employee and contractor headcount at the end of FY15;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$50M saving in FY17; and
- A 58% reduction in Sustaining capital expenditure and underground development to approximately US$108M in FY17.

The Appin Area 9 project will be completed in the March 2016 quarter. Underground development of approximately US$58Mpa is not being compromised given a commitment to maximise long-term value, although we do retain the flexibility to curtail this activity in the future.

Financial performance

Underlying EBIT decreased by US$59M in H1 FY16 to a loss of US$37M. Lower realised coal prices (-US$85M, net of price-linked costs) and a decline in sales volumes (-US$47M) were partially offset by the benefit associated with the stronger US dollar (+US$55M).

Capital expenditure decreased by 38% from the prior period to US$111M.

Pre-tax restructuring costs, including redundancies, of approximately US$10M are anticipated at Illawarra Metallurgical Coal in H2 FY16. These charges will be excluded from the Group's Underlying earnings measures.

South32 share	H1 FY16	H1 FY15
Metallurgical coal production (kt)	3,298	3,858
Energy coal production (kt)	658	880
Metallurgical coal sales (kt)	3,147	3,447
Energy coal sales (kt)	609	799
Realised metallurgical coal sales price (US$/t)[a]	82	110
Realised energy coal sales price (US$/t)[a]	43	57
Operating unit cost (US$/t)[b]	62	71

(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.

South32 share (US$M)	H1 FY16	H1 FY15
Sales revenue[a]	284	425
Underlying EBITDA	50	122
Underlying EBIT	(37)	22
Net operating assets[b]	1,540	1,518
Capital expenditure	111	180
Major projects (>US$100M)	*26*	*25*
All other capital expenditure[c]	*85*	*155*
Exploration expenditure	1	2
Exploration expensed	1	2

(a) Includes metallurgical coal and energy coal sales revenue.
(b) H1 FY15 Net operating assets reflects balance as at 30 June 2015.
(c) Includes capitalised underground development expenditure and Appin Area 9 project underground development expenditure in H1 FY16 of US$42M.

AUSTRALIA MANGANESE (60% SHARE)

Volumes

Australia Manganese saleable ore production increased by 6% (or 90kt) to a record 1,589kt in H1 FY16. FY16 saleable production guidance of 5.1Mt (100% basis) remains unchanged.

The mining and processing plans at Australia Manganese (GEMCO) are being adjusted to ensure the operation retains its leading, low-cost position in the industry. This includes a revised ramp-up profile for the PC02 project and a 0.2Mt (100% basis) or 4% reduction in FY17 saleable ore production guidance to 5.2Mt (100% basis).

Saleable manganese alloy production increased by 2% (or 2kt) to 85kt in H1 FY16. In response to market conditions, TEMCO has suspended production at one of its four furnaces for a minimum of three months. While production will be impacted in H2 FY16, customer commitments will be met from inventory.

Costs

Manganese ore operating unit costs declined by 19% to US$1.58/dmtu, despite a planned 20% increase in the waste to ore strip ratio (from 3.0 to 3.6).

A double digit improvement in labour productivity and a substantial reduction in procurement costs are expected to more than offset a 27% increase in the strip ratio (from 3.0 to 3.8) between FY15 and FY17. Consequently, operating unit costs, including sustaining capital expenditure are expected to decline by 43% to approximately US$1.56/dmtu in FY17. Specific measures being taken to reposition GEMCO include:

- The reduction of approximately 82 employees and contractors before the end of FY16, equivalent to 8% of the employee and contractor headcount at the end of FY15, and the decision not to recruit 55 roles planned as largely related to the PC02 project;
- A targeted 6% increase in the productivity of the mining fleet;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$10M saving in FY17; and
- A 56% reduction in Sustaining capital expenditure to approximately US$40M in FY17.

Redundancy costs are not anticipated at GEMCO, despite the meaningful reduction in employees and contractors.

Financial performance

Underlying EBIT declined by US$85M in H1 FY16 to US$10M. Lower manganese ore and alloy prices reduced Underlying EBIT by US$113M, net of price-linked costs, while a stronger US dollar increased Underlying EBIT by US$27M.

Capital expenditure increased by US$7M to US$41M. This included a US$20M investment in the PC02 project.

South32 share	H1 FY16	H1 FY15
Manganese ore production (kt)	1,589	1,499
Manganese alloy production (kt)	85	83
Manganese ore sales (kt)[(a)]	1,499	1,459
External customers	1,328	1,295
TEMCO	171	164
Manganese alloy sales (kt)[(a)]	76	77
Realised manganese ore sales price (US$/dmtu)[(a)(b)]	2.65	4.03
Realised manganese alloy sales price (US$/t)[(a)]	737	1,143
Ore operating unit cost (US$/dmtu)[(b)(c)]	1.58	1.96
Alloy operating unit cost (US$/t)[(b)(c)]	763	979

(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) H1 FY16 average manganese content of ore sales was 46% Mn (H1 FY15: 46% Mn).

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

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

South32 share (US$M)	H1 FY16	H1 FY15
Sales revenue[(a)]	226	339
Manganese Ore	*183*	*270*
Manganese Alloy	*56*	*88*
Intra-segment elimination	*(13)*	*(19)*
Underlying EBITDA	72	151
Manganese Ore	*74*	*138*
Manganese Alloy	*(2)*	*13*
Underlying EBIT	10	95
Manganese Ore	*16*	*86*
Manganese Alloy	*(6)*	*9*
Net operating assets[(b)]	376	1,384
Manganese Ore	*357*	*1,365*
Manganese Alloy	*19*	*19*
Capital expenditure	41	34
Major projects (>US$100M)	-	*5*
All other capital expenditure	*41*	*29*
Exploration expenditure	*1*	2
Exploration expensed	-	2

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

(b) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

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

Volumes

South Africa Manganese saleable ore production decreased by 39% (or 477kt) to 757kt in H1 FY16 following the suspension of operations at the Hotazel mines in November 2015.

Following the completion of the Samancor Manganese Joint Venture's strategic review, the Hotazel mines will operate at a reduced production rate and with greater flexibility. Subject to market conditions, saleable production will ramp-up to 2.9Mtpa (100% basis), taking approximately 900ktpa (or 23% of FY15 production) out of the market for the foreseeable future.

Saleable manganese alloy production decreased by 67% (or 94kt) to 46kt in H1 FY16 following the suspension of three of the four furnaces at Metalloys in May 2015 in response to challenging market conditions. This resulted in a substantial reduction in ore and alloy inventories.

Costs

Manganese ore operating unit costs increased by 27% to US$2.48/dmtu as the significant reduction in production created diseconomies of scale.

A series of restructuring initiatives are expected to reduce manganese operating unit costs, including Sustaining capital expenditure, by 24% to US$1.90/dmtu in FY17. Specific initiatives include:

- The reduction of approximately 620 employees across the joint venture, equivalent to 37% of the employee headcount at the end of FY15;
- The acceleration of the second phase of the Central Block development project at Wessels (US$19M budget), which will enable mining activity to relocate closer to critical infrastructure and reduce cycle times;
- The continued operation of only one of four furnaces at the Metalloys smelter, which is now generating free cash flow; and
- A circa 80% reduction in annual Sustaining capital expenditure at the Hotazel mines to US$7M in FY17.

Financial performance

Underlying EBIT declined by US$64M to a loss of US$51M as lower realised manganese ore and alloy prices reduced Underlying EBIT by US$47M, net of price-linked costs. The reduction in sales volumes impacted unit costs, although this was partially offset by a US$22M benefit associated with the stronger US dollar.

Capital expenditure of US$7M was significantly lower than the prior period.

Pre-tax restructuring costs, including redundancies, of approximately US$10M are anticipated in H2 FY16.

South32 share	H1 FY16	H1 FY15
Manganese ore production (kt)	757	1,234
Manganese alloy production (kt)	46	140
Manganese ore sales (kt)[(a)]	879	1,189
External customers	862	887
Metalloys	17	302
Manganese alloy sales (kt)[(a)]	50	134
Realised manganese ore sales price (US$/dmtu)[(a)(b)]	2.23	2.84
Realised manganese alloy sales price (US$/t)[(a)]	748	910
Ore operating unit cost (US$/dmtu)[(b)(c)]	2.48	1.95
Alloy operating unit cost (US$/t)[(b)(c)]	1,126	930

(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 (Manganese Ore sales gross-up to reflect 60% accounting effective interest).

(b) H1 FY16 average manganese content of ore sales was 40% Mn (H1 FY15: 41% Mn).

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

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

South32 share (US$M)	H1 FY16	H1 FY15
Revenue[(a)]	114	231
Manganese Ore[(b)]	*78*	*139*
Manganese Alloy	*37*	*122*
Intra-segment elimination	*(1)*	*(30)*
Underlying EBITDA	(28)	40
Manganese Ore[(b)]	*(9)*	*43*
Manganese Alloy	*(19)*	*(3)*
Underlying EBIT	(51)	13
Manganese Ore[(b)]	*(25)*	*25*
Manganese Alloy	*(26)*	*(12)*
Net operating assets[(c)]	355	530
Manganese Ore[(b)]	*102*	*384*
Manganese Alloy	*253*	*146*
Capital expenditure	7	22
Major projects (>US$100M)	*-*	*2*
All other capital expenditure	*7*	*20*
Exploration expenditure	-	1
Exploration expensed	-	1

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

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

(c) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

CERRO MATOSO (99.9% SHARE)

Volumes

Cerro Matoso payable nickel production declined by 17% (or 3.7kt) to 17.5kt in H1 FY16 as the average ore grade decreased, consistent with the mine plan. Payable nickel production guidance remains unchanged at approximately 36.5kt for FY16, with a similar rate of production anticipated in FY17.

The higher grade La Esmeralda deposit has the potential to deliver an uplift in the average ore grade between 2018 and 2022. A new social and environmental licence to allow access to the ore body was granted in December 2015.

Costs

Operating unit costs declined by 11% to US$4.43/lb, largely as a result of the stronger US dollar and various cost savings initiatives.

To ensure Cerro Matoso remains competitive amidst declining ore grades and an increasing reliance on stockpiled ore, the operation must significantly increase labour productivity and reduce costs. In this regard, a series of restructuring initiatives are expected to deliver a 30% reduction in operating unit costs, including Sustaining capital expenditure, to approximately US$3.90/lb in FY17. Specific initiatives include:

- The reduction of at least 350 employees and contractors before the end of FY16, equivalent to 18% of the employee and contractor headcount at the end of FY15;
- The continued aggregation of our procurement activities to the region, which is expected to deliver a circa US$37M saving in FY17; and
- A 56% reduction in Sustaining capital expenditure to approximately US$16M in FY17.

Financial performance

Underlying EBIT declined by US$136M to a loss of US$48M. Weaker realised prices (-US$129M, net of price-linked costs) and the grade related decline in sales volumes (-US$52M) was only partly offset by the benefit associated with a stronger US dollar (US$51M).

Capital expenditure declined by 33% from the prior period to US$12M.

Pre-tax restructuring costs, including redundancies, of approximately US$2M are anticipated at Cerro Matoso in H2 FY16. These charges will be excluded from the Group's Underlying earnings measures.

South32 share	H1 FY16	H1 FY15
Ore mined (kwmt)	3,017	3,339
Ore processed (kdmt)	1,312	1,335
Ore grade processed (%, Ni)	1.5	1.7
Payable nickel production (kt)	17.5	21.2
Payable nickel sales (kt)	17.5	20.6
Realised nickel sales price (US$/lb)[(a)]	4.30	7.49
Operating unit cost (US$/lb)[(b)]	4.43	4.95

(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.

South32 share (US$M)	H1 FY16	H1 FY15
Sales revenue	166	340
Underlying EBITDA	(5)	115
Underlying EBIT	(48)	88
Net operating assets[(a)]	749	763
Capital expenditure	12	18
Major projects (>US$100M)	-	-
All other capital expenditure	*12*	*18*
Exploration expenditure	3	5
Exploration expensed	1	1

(a) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

CANNINGTON (100% SHARE)

Volumes

Cannington payable silver production decreased by a modest 3% (or 357koz) to 11.9Moz in H1 FY16 as the average silver ore grade remained largely unchanged. Conversely, a significant increase in the average zinc ore grade and recovery underpinned a 13% increase in zinc production to a record 41.8kt. FY16 production guidance remains unchanged (payable silver 21.65Moz, payable lead 175kt, payable zinc 80kt) as the mine plan delivers an increase in the ratio of zinc to lead concentrate over the remainder of the year.

Costs

Operating unit costs declined by 15% to US$153/t. This largely reflected a favourable movement in foreign exchange rate markets and a reduction in labour costs and contractor spend. By the end of FY17, the employee and contractor headcount will have decreased by approximately 17% relative to the average employee and contractor headcount in FY15.

Further initiatives to increase labour productivity and operational efficiencies are being pursued, including a renewed focus on procurement, which is expected to deliver a US$20M saving in FY17.

Financial performance

Underlying EBIT declined by US$17M to US$141M. Lower average realised prices, net of price-linked costs, and sales volumes reduced Underlying EBIT by US$58M. This was largely offset by a favourable movement in exchange rate markets (+US$33M).

Finalisation adjustments and the provisional pricing of Cannington concentrates reduced Underlying EBIT by US$19M in H1 FY16 (-US$43M in FY15; -US$40M in H1 FY15). Outstanding concentrate sales (containing 5.2Moz of silver, 45.7kt of lead and 16.0kt of zinc) were revalued at 31 December 2015. The final price of these sales will be determined in H2 FY16.

Capital expenditure was largely unchanged at US$15M.

South32 share	H1 FY16	H1 FY15
Ore mined (kt)	1,743	1,748
Ore processed (kt)	1,657	1,669
Ore grade processed (g/t, Ag)	266	272
Ore grade processed (%, Pb)	7.0	7.0
Ore grade processed (%, Zn)	3.7	3.5
Payable Silver production (koz)	11,878	12,235
Payable Lead production (kt)	98	99
Payable Zinc production (kt)	42	37
Payable Silver sales (koz)	11,898	12,715
Payable Lead sales (kt)	95	100
Payable Zinc sales (kt)	41	33
Realised Silver sales price (US$/oz)[a]	15.3	17.1
Realised Lead sales price (US$/t)[a]	1,828	1,938
Realised Zinc sales price (US$/t)[a]	1,640	2,252
Operating unit cost (US$/t ore processed)[b]	153	179

(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.

South32 share (US$M)	H1 FY16	H1 FY15
Revenue	423	486
Underlying EBITDA	169	187
Underlying EBIT	141	158
Net operating assets[a]	238	280
Capital expenditure	15	14
Major project (>US$100M)	-	-
All other capital expenditure	*15*	*14*
Exploration expenditure	2	3
Exploration expensed	2	3

(a) H1 FY15 Net operating assets reflects balance as at 30 June 2015.

PRO FORMA RECONCILIATIONS

BACKGROUND

Effective 15 May 2015, BHP Billiton shares ceased trading with an entitlement to South32 shares. On 18 May 2015, South32 Limited was listed as a separate standalone entity on the Australian Securities Exchange on a deferred settlement basis, on the London Stock Exchange on a when-issued basis and on the Johannesburg Stock Exchange on a normal settlement basis. Economic separation and distribution of South32 shares to shareholders became effective from 25 May 2015.

Prior to the demerger, the South32 Group and the BHP Billiton Group were required to undertake a number of internal share and asset transfers in connection with the corporate restructure (Internal Restructure).

STATUTORY FINANCIAL INFORMATION

As required, statutory financial information for the South32 Group has been presented for the financial half year ended 31 December 2015 (H1 FY16) and the financial half year ended 31 December 2014 (H1 FY15). The South32 Group's H1 FY15 statutory financial information only includes the results of the current South32 Group operations (also referred to as "operations") from their date of acquisition during the half year as part of the Internal Restructure[17] (being Brazil Alumina). The exception is Illawarra Metallurgical Coal, which was part of the South32 Group at 1 July 2013. The South32 Group's H1 FY15 statutory financial information also includes:

- The results of New Mexico Coal for the period 1 July 2014 to 27 October 2014, being the date that it ceased to be part of the South32 Group as a result of the Internal Restructure; and
- Finance charges on internal borrowings from the BHP Billiton Group in the period.

Accordingly, as a result of the Internal Restructure, the statutory financial information for H1 FY15 does not reflect the performance of the South32 Group as it is currently structured.

PRO FORMA FINANCIAL INFORMATION

To assist shareholders in their understanding of the South32 Group, pro forma financial information for H1 FY15 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 31 December 2014. The pro forma financial information is not prepared in accordance with IFRS.

The following pro forma adjustments, including the associated tax effect, have been made on a basis consistent with those contemplated in the South32 Listing Documents:

- Equity accounting of the South32 manganese assets (comprising South Africa Manganese, Australia Manganese and Samancor AG) from 1 July 2013 (refer note 4(c) of the Group's 2015 financial statements); and
- Excluding net finance costs charged by the BHP Billiton Group.

Additional pro forma adjustments, including the associated tax effect, have also been made in the presentation of pro forma financial information. These include:

- Reflecting changes in corporate costs associated with South32 Limited becoming a stand-alone group as if those costs had been incurred from 1 July 2014;
- Excluding demerger related major corporate restructuring costs; and
- Including certain significant tax expense items such as the Brazil Alumina tax accounting adjustments.

A reconciliation between the pro forma financial information and the statutory financial information is included. The statutory financial information, reconciliations and pro forma financial information have not been audited or reviewed by the Group's external auditor.

The following tables reconcile pro forma and statutory earnings for H1 FY15.

H1 FY15 US$M	Statutory consolidated income statement	Demerger related pro forma adjustments[(a)]	Pro forma consolidated financial information
Revenue	649	3,440	4,089
Other income	114	36	150
Expenses excluding net finance cost	(676)	(2,837)	(3,513)
Share of profit/(loss) of equity accounted investments	-	60	60
Profit/(loss) from continuing operations	**87**	**699**	**786**
Net finance cost	(24)	29	5
Taxation expense	(153)	(299)	(452)
Profit/(loss) after taxation from continuing operations	**(90)**	**429**	**339**
Profit/(loss) from discontinued operations, net of taxation	7	(7)	-
Profit/(loss) after taxation	**(83)**	**422**	**339**
Other financial information			
Profit/(loss) from continuing operations	87	699	786
Earnings adjustments	4	(80)	(76)
Underlying EBIT from continuing operations	**91**	**619**	**710**
Depreciation and amortisation	133	284	417
Underlying EBITDA from continuing operations	**224**	**903**	**1,127**
Profit/(loss) after taxation from continuing operations	(90)	429	339
Earnings adjustments after taxation	147	(26)	121
Underlying earnings from continuing operations	**57**	**403**	**460**

The following tables reconcile pro forma and statutory operating cash flows before financing activities and tax, and after capital expenditure for H1 FY15.

H1 FY15 US$M	South32 statutory consolidated cash flow statement	Demerger related pro forma adjustments[(a)]	South32 pro forma consolidated financial information
Profit/(loss) from continuing operations	87	699	786
Non-cash items	138	307	445
(Profit)/loss from equity accounted investments	-	(60)	(60)
Change in working capital	(67)	(138)	(205)
Cash generated from continuing operations	**158**	**808**	**966**
Dividends received (including equity accounted investments)	4	127	131
Capital expenditure	(184)	(133)	(317)
Operating cash flows from continuing operations before financing activities and tax and after capital expenditure	**(22)**	**802**	**780**

(a) The significant items contained in the demerger related pro forma adjustments comprise:

- The results of the current South32 Group operations between 1 July 2014 and their date of acquisition during the December 2014 half year as part of the Internal Restructure;
- Exclusion of the results of New Mexico Coal for the period 1 July 2014 to 27 October 2014 being the date that it ceased to be part of the South32 Group as a result of the Internal Restructure;
- Presenting South32 manganese assets (comprising South Africa Manganese, Australia Manganese and Samancor AG) on an equity accounted basis from 1 July 2013 including associated depreciation;
- Additional corporate costs associated with South32 Limited becoming a stand-alone group of US$38M;
- Exclusion of net finance costs charged by the BHP Billiton Group of US$39M;
- Exclusion of demerger related major corporate restructuring costs of US$13M;
- The tax effect of the above items; and
- Including certain significant tax expense items such as the impact of the Brazil Alumina tax accounting adjustments of US$16M.

SEGMENT INFORMATION

The segment reporting information for the South32 operations for H1 FY16 and pro forma H1 FY15 is set out below. The segment information reflects South32's interest in its manganese assets on a proportional consolidation basis, which is the measure that is used by South32 management to assess the performance of the manganese assets. The statutory adjustment column reconciles the proportional consolidation of the manganese assets to the treatment of the manganese assets on an equity accounted basis.

H1 FY16 SEGMENT INFORMATION

H1 FY16 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment	Total South32
Revenue													
Group production	286	596	208	186	542	284	226	110	166	423	-	(336)	2,691
Third party products[(a)]	-	-	-	-	-	-	-	-	-	-	291	(1)	290
Inter-segment revenue	254	-	-	-	-	-	-	4	-	-	(254)	(4)	-
Total revenue	**540**	**596**	**208**	**186**	**542**	**284**	**226**	**114**	**166**	**423**	**37**	**(341)**	**2,981**
Underlying EBITDA	**108**	**53**	**8**	**110**	**116**	**50**	**72**	**(28)**	**(5)**	**169**	**(7)**	**(104)**	**542**
Depreciation and amortisation	(75)	(32)	(18)	(36)	(70)	(87)	(62)	(23)	(43)	(28)	(12)	85	(401)
Underlying EBIT	**33**	**21**	**(10)**	**74**	**46**	**(37)**	**10**	**(51)**	**(48)**	**141**	**(19)**	**(19)**	**141**
Comprising:													
Group production	33	21	(10)	74	44	(37)	10	(51)	(48)	141	(19)	41	199
Third party products[(a)]	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of profit/(loss) of equity accounted investments[(b)]	-	-	-	-	2	-	-	-	-	-	-	(60)	(58)
Underlying EBIT	**33**	**21**	**(10)**	**74**	**46**	**(37)**	**10**	**(51)**	**(48)**	**141**	**(19)**	**(19)**	**141**
Net finance costs													(71)
Income tax expense													(44)
Underlying earnings													**26**
Earnings adjustments													(1,775)
Profit/(loss) after taxation													**(1,749)**
Capital expenditure	22	8	5	9	42	111	41	7	12	15	13	(48)	237
Investments accounted for using the equity method [(c)]	-	-	-	-	15	-	-	-	-	-	-	528	543
Total assets[(c)]	**3,627**	**1,347**	**687**	**890**	**697**	**1,751**	**631**	**537**	**921**	**391**	**2,163**	**(686)**	**12,956**
Total liabilities[(c)]	**334**	**285**	**94**	**101**	**735**	**211**	**255**	**182**	**172**	**153**	**1,817**	**(686)**	**3,653**

(a) Third party product sold comprises US$138 million for aluminium, US$50 million for freight services, US$28 million for coal, US$11 million for alumina and US$63 million for other.
(b) Share of profit/(loss) of equity accounted investments includes the impacts of earnings adjustments to Underlying EBIT.
(c) Total segment assets and liabilities represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances.

H1 FY15 PRO FORMA SEGMENT INFORMATION

H1 FY15 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment	Total South32
Revenue													
Group production	319	823	340	268	683	425	339	231	340	486	-	(569)	3,685
Third party products[(a)]	-	-	-	-	-	-	-	-	-	-	404	-	404
Inter-segment revenue	332	-	-	-	-	-	-	-	-	-	(332)	-	-
Total revenue	**651**	**823**	**340**	**268**	**683**	**425**	**339**	**231**	**340**	**486**	**72**	**(569)**	**4,089**
Underlying EBITDA	**155**	**203**	**94**	**140**	**93**	**122**	**151**	**40**	**115**	**187**	**(33)**	**(140)**	**1,127**
Depreciation and amortisation	(76)	(34)	(18)	(39)	(92)	(100)	(56)	(27)	(27)	(29)	(2)	83	(417)
Underlying EBIT	**79**	**169**	**76**	**101**	**1**	**22**	**95**	**13**	**88**	**158**	**(35)**	**(57)**	**710**
Comprising:													
Group production	79	169	76	101	(2)	22	95	13	88	158	(65)	(108)	626
Third party products[(a)]	-	-	-	-	-	-	-	-	-	-	30	-	30
Share of profit/(loss) of equity accounted investments[(b)]	-	-	-	-	3	-	-	-	-	-	-	51	54
Underlying EBIT	**79**	**169**	**76**	**101**	**1**	**22**	**95**	**13**	**88**	**158**	**(35)**	**(57)**	**710**
Net finance cost[(c)]													(88)
Income tax expense													(162)
Underlying earnings													**460**
Earnings adjustments													(121)
Profit/(loss) after taxation													**339**
Capital expenditure	27	10	5	5	58	180	34	22	18	14	-	(56)	317

(a) Third party product sold comprises US$358 million for aluminium, US$46 million for coal and US$ nil for other. Underlying EBIT on third party products comprises US$17 million for aluminium, US$13 million for coal and US$ nil for other.
(b) Share of profit/(loss) of equity accounted investments includes the impacts of earnings adjustments to Underlying EBIT.
(c) Excludes interest income and interest expense on borrowings with BHP Billiton.

NOTES

(1) Controllable costs are measured on a cash basis (including equity accounted investments) and exclude significant items, inter-segment sales, foreign exchange rate movements, country specific inflation, price-linked costs and discontinued/suspended operations. Any controllable cost movement is defined in absolute terms compared to H1 FY15 and is not a measure of unit cost performance.

(2) 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.

(3) Redundancy and restructuring charges are pre-tax. These charges will be excluded from the Group's Underlying earnings measures.

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

(5) Percentage change has not been disclosed for statutory results on the basis that the variances between H1 FY16 and H1 FY15 are substantially different due to the impact of the Internal Restructure prior to demerger. Information in respect of the demerger is detailed in note 3 to the Financial Information.

(6) Revenue includes revenue from third party products.

(7) Pro forma H1 FY15 basic earnings per share is calculated as pro forma Profit/(loss) after taxation from continuing operations divided by the number of shares on issue at 31 December 2014. Pro forma H1 FY15 basic Underlying earnings per share is calculated as pro forma Underlying earnings divided by the number of shares on issue at 31 December 2015.

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

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

In addition, items that do not reflect the underlying operations of South32, and are individually significant to the financial statements, are excluded to determine Underlying earnings. Significant items are detailed in note 4(iii) to the Financial Information.

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

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

(11) Return on invested capital (ROIC) is a key measure that South32 uses to assess performance. ROIC is calculated as annualised Underlying EBIT (annualised pro forma Underlying EBIT for H1 FY15) less the discount on rehabilitation provisions included in net finance cost, tax effected by the Group's Underlying ETR, divided by the sum of fixed assets (excluding any rehabilitation asset and other non-cash adjustments) and inventories. Manganese is included in the calculation on a proportional consolidation basis.

(12) Underlying effective tax rate (ETR) is the Underlying income tax expense (pro forma Underlying income tax expense for H1 FY15) excluding royalty related taxation divided by Underlying profit before tax (pro forma Underlying profit before tax for H1 FY15); both the numerator and denominator exclude equity accounted investments.

(13) South32's interest in South Africa Energy Coal is accounted at 100% until employee share ownership plan (ESOP) and broad-based black economic empowerment (B-BBEE) vendor loans are repaid.

(14) Projected operating unit costs, including Sustaining capital expenditure, and Sustaining capital expenditure for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: an alumina price of US$255/t; an average blended coal price of US$65/t for Illawarra Metallurgical Coal; a manganese ore price of US$2.00/dmtu for 44% manganese product; a nickel price of US$3.75/lb; an AUD:USD exchange rate of 0.68; a USD:ZAR exchange rate of 14.12; and a USD:COP exchange rate of 3,170; all of which reflect forward markets at the end of the period or our internal expectations.

(15) Underlying net finance cost and Underlying taxation expense are actual H1 FY16 results, not year-on-year variances.

(16) Third party product sold comprises US$138M for aluminium (H1 FY15: US$358M), US$50M for freight services (H1 FY15: nil), US$28M for coal (H1 FY15: US$46M), US$11M for alumina (H1 FY15: nil) and US$63M for others (H1 FY15: nil). Underlying EBIT on third party products for H1 FY16 was nil. H1 FY15 Underlying EBIT on third party products comprised US$17M for aluminium, US$13M for coal and nil for other.

(17) The South32 Group acquired each of the following operations on the respective dates in parentheses: Worsley Alumina (8 May 2015), South Africa Aluminium (2 February 2015), Mozal Aluminium (27 March 2015), Brazil Alumina (3 July 2014), South Africa Energy Coal (2 February 2015), Australia Manganese (8 May 2015), South Africa Manganese (3 February 2015), Cerro Matoso (2 February 2015), and Cannington (31 January 2015).

(18) The following abbreviations may be used throughout this report: US$ million (US$M); US$ billion (US$B); half year (H1), for example first half of 2015 financial year is abbreviated to H1 FY15; financial year (FY), 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); dry metric tonne unit (dmtu); pound (lb); megawatt (MW); Australian Securities Exchange (ASX); London Stock Exchange (LSE); and Johannesburg Stock Exchange (JSE).

DISCLAIMER

FORWARD LOOKING STATEMENTS

Certain statements in this document relate to the future, and may include forward looking statements relating to South32's financial position; strategy; dividends; trends in commodity prices and currency exchange rates; demand for commodities; closure or divestment of certain operations or facilities (including associated costs); anticipated production or construction commencement dates; capital costs and scheduling; operating costs and shortages of materials and skilled employees; anticipated productive lives of projects, mines and facilities; provisions and contingent liabilities; tax and regulatory developments.

Forward looking statements can be identified by the use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'could', 'will', 'continue' or other similar words. These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond South32's control, and which may cause the actual results to differ materially from those expressed in the statements contained in this document. Readers are cautioned not to put undue reliance on forward looking statements.

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

Except as required by law, South32 disclaims any obligation or undertaking to publicly update or revise any forward looking statement in this document, whether as a result of new information or future events.

NON-IFRS FINANCIAL INFORMATION

This release includes certain non-IFRS financial measures, including Underlying earnings, Underlying EBIT and Underlying EBITDA, Underlying basic earnings per share, Underlying effective tax rate, Underlying EBIT margin, Underlying EBITDA margin, Underlying return on capital, Free cash flow, net debt, net operating assets and ROIC. These measures are used internally by management to assess the performance of South32's business, make decisions on the allocation of its 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 construed as either an offer to sell or a solicitation of an offer 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

Leng Lau
T +61 8 9324 9008
M +61 (0) 408 202 698
E Leng.Lau@south32.net

Alex Volante
T +61 8 9324 9029
M +61 (0) 403 328 408
E Alex.Volante@south32.net

Rob Ward
T +61 8 9324 9340
M +61 (0) 431 596 831
E Robert.Ward@south32.net

MEDIA RELATIONS

Jill Thomas
T +61 8 9324 9191
M +61 (0) 423 259 190
E Jill.Thomas@south32.net

Tony Johnson
T +61 8 9324 9190
M +61 (0) 439 500 799
E Tony.Johnson@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
25 February 2016

SOUTH32 FINANCIAL INFORMATION

For the half year ended 31 December 2015

CONSOLIDATED INCOME STATEMENT

for the half year ended 31 December 2015

US$M	Note	H1 FY16	H1 FY15
Continuing operations			
Revenue			
Group production		**2,691**	641
Third party products		**290**	8
		2,981	649
Other income		**122**	114
Expenses excluding net finance cost		**(4,334)**	(676)
Share of profit/(loss) of equity accounted investments		**(356)**	–
Profit/(loss) from continuing operations		**(1,587)**	87
Comprising:			
Group production		**(1,587)**	88
Third party products		**–**	(1)
Profit/(loss) from continuing operations		**(1,587)**	87
Finance expenses		**(57)**	(34)
Finance income		**12**	10
Net finance cost	7	**(45)**	(24)
Profit/(loss) before taxation		**(1,632)**	63
Income tax (expense)/benefit		**(117)**	(57)
Royalty-related taxation (net of income tax)		**–**	(96)
Total tax (expense)/benefit	5	**(117)**	(153)
Profit/(loss) after taxation from continuing operations		**(1,749)**	(90)
Discontinued operations			
Profit/(loss) from discontinued operations, net of taxation		**–**	7
Profit/(loss) for the period		**(1,749)**	(83)
Attributable to:			
Equity holders of South32 Limited		**(1,749)**	(83)
Profit/(loss) from continuing operations attributable to the ordinary equity holders of South32 Limited			
Basic earnings per ordinary share (cents)	6	**(32.9)**	(2.8)
Diluted earnings per ordinary share (cents)	6	**(32.9)**	(2.8)
Profit/(loss) for the period attributable to the ordinary equity holders of South32 Limited			
Basic earnings per ordinary share (cents)	6	**(32.9)**	(2.6)
Diluted earnings per ordinary share (cents)	6	**(32.9)**	(2.6)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 31 December 2015

US$M	H1 FY16	H1 FY15
Profit/(loss) for the period	**(1,749)**	(83)
Other comprehensive income		
Items that may be reclassified subsequently to the income statement:		
Equity accounted investments – share of other comprehensive income/(loss)	**–**	–
Available for sale investments:		
Net gain/(loss) taken to equity	**(28)**	–
Net (gain)/loss transferred to the income statement	**23**	
Taxation benefit/(expense) recognised within other comprehensive income	**5**	–
Total items that may be reclassified subsequently to the income statement	**–**	–
Items not to be reclassified to the income statement:		
Equity accounted investments – share of other comprehensive income/(loss)	**1**	–
Actuarial gain/(loss) on pension and medical schemes	**6**	(9)
Taxation benefit/(expense) recognised within other comprehensive income	**(2)**	3
Total items not to be reclassified to the income statement	**5**	(6)
Total other comprehensive income/(loss)	**5**	(6)
Total comprehensive income/(loss)	**(1,744)**	(89)
Attributable to:		
Equity holders of South32 Limited	**(1,744)**	(89)

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2015

US$M	Note	H1 FY16	FY15
ASSETS			
Current assets			
Cash and cash equivalents	8	**697**	644
Trade and other receivables	8	**625**	1,162
Other financial assets	8	**59**	14
Inventories		**814**	953
Current tax assets		**18**	77
Other		**48**	18
Total current assets		**2,261**	2,868
Non-current assets			
Trade and other receivables	8	**420**	185
Other financial assets	8	**282**	417
Inventories		**60**	60
Property, plant and equipment		**8,678**	9,550
Intangible assets		**304**	306
Investments accounted for using the equity method		**543**	1,707
Deferred tax assets		**391**	376
Other		**17**	20
Total non-current assets		**10,695**	12,621
Total assets		**12,956**	15,489
LIABILITIES			
Current liabilities			
Trade and other payables	8	**613**	921
Interest bearing liabilities	8	**186**	364
Other financial liabilities	8	**4**	4
Current tax payable		**38**	11
Provisions		**324**	398
Deferred income		**3**	6
Total current liabilities		**1,168**	1,704
Non-current liabilities			
Trade and other payables	8	**17**	30
Interest bearing liabilities	8	**627**	682
Other financial liabilities	8	**20**	–
Deferred tax liabilities		**590**	554
Provisions		**1,214**	1,479
Deferred income		**17**	5
Total non-current liabilities		**2,485**	2,750
Total liabilities		**3,653**	4,454
Net assets		**9,303**	11,035
EQUITY			
Share capital		**14,958**	14,958
Reserves		**(3,545)**	(3,557)
Retained earnings/(accumulated losses)		**(2,109)**	(365)
Total equity attributable to:			
Equity holders of South32 Limited		**9,304**	11,036
Non-controlling interests		**(1)**	(1)
Total equity		**9,303**	11,035

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

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 December 2015

US$M	H1 FY16	H1 FY15
Operating activities		
Profit/(loss) before taxation from continuing operations	**(1,632)**	63
Adjustments for:		
Non-cash significant items	**37**	–
Depreciation and amortisation expense	**401**	133
Net loss/(gain) on sale of non-current assets	**1**	–
Impairments of property, plant and equipment, financial assets and intangibles	**594**	–
Impairments of equity accounted investments	**790**	–
Employee share awards expense	**12**	–
Net finance cost	**45**	24
Share of (profit)/loss of equity accounted investments	**356**	–
Other non-cash or non-operating items	**33**	5
Changes in assets and liabilities:		
Trade and other receivables	**162**	9
Inventories	**119**	–
Trade and other payables	**(296)**	(55)
Provisions and other liabilities	**(196)**	(21)
Cash generated from continuing operations	**426**	158
Interest received	**12**	10
Interest paid	**(30)**	(29)
Income tax (paid)/received	**37**	90
Dividends received	**1**	4
Dividends received from equity accounted investments	**19**	–
Net cash flows from continuing operating activities	**465**	233
Net cash flows from discontinued operating activities	**–**	23
Net cash flows from operating activities	**465**	256
Investing activities		
Purchases of property, plant and equipment	**(237)**	(184)
Exploration expenditure	**(7)**	(2)
Exploration expenditure expensed and included in operating cash flows	**5**	2
Purchase of intangibles	**(14)**	–
Investment in financial assets	**(80)**	(7)
Investment in subsidiaries, operations and joint operations, net of their cash, as part of the Internal Restructure	**–**	(1,533)
Cash outflows from investing activities	**(333)**	(1,724)
Proceeds from sale of property, plant and equipment	**1**	–
Proceeds from financial assets	**112**	–
Proceeds from divestment of subsidiaries, operations and joint operations, net of their cash, as part of the Internal Restructure	**–**	172
Net cash flows from continuing investing activities	**(220)**	(1,552)
Net cash flows from discontinued investing activities	**–**	(9)
Net cash flows from investing activities	**(220)**	(1,561)
Financing activities		
Proceeds from interest bearing liabilities	**2**	–
Repayment of interest bearing liabilities	**(190)**	(703)
Deposits with BHP Billiton as part of the Internal Restructure	**–**	(5,899)
Proceeds from ordinary shares	**–**	8,000
Net cash flows from continuing financing activities	**(188)**	1,398
Net cash flows from discontinued financing activities	**–**	–
Net cash flows from financing activities	**(188)**	1,398
Net increase/(decrease) in cash and cash equivalents	**57**	93
Cash and cash equivalents, net of overdrafts, at the beginning of the period	**644**	145
Foreign currency exchange rate changes on cash and cash equivalents	**(8)**	(3)
Cash and cash equivalents, net of overdrafts, at the end of the period	**693**	235

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2015

	Attributable to equity holders of South32 Limited					
US$M	Share capital	Reserves	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
Balance as at 1 July 2015	**14,958**	**(3,557)**	**(365)**	**11,036**	**(1)**	**11,035**
Profit/(loss) for the period	**–**	**–**	**(1,749)**	**(1,749)**	**–**	**(1,749)**
Other comprehensive income/(loss)	**–**	**–**	**5**	**5**	**–**	**5**
Total comprehensive income	**–**	**–**	**(1,744)**	**(1,744)**	**–**	**(1,744)**
Transactions with owners:						
Accrued employee entitlement for unexercised awards	**–**	**12**	**–**	**12**	**–**	**12**
Balance as at 31 December 2015	**14,958**	**(3,545)**	**(2,109)**	**9,304**	**(1)**	**9,303**
Balance as at 1 July 2014	561	–	552	1,113	–	1,113
Profit/(loss) for the period	–	–	(83)	(83)	–	(83)
Other comprehensive income/(loss)	–	–	(6)	(6)	–	(6)
Total comprehensive income	–	–	(89)	(89)	–	(89)
Transactions with owners:						
Proceeds from issue of shares	8,000	–	–	8,000	–	8,000
Acquisition and divestment of subsidiaries and operations	–	(451)	–	(451)	–	(451)
Balance as at 31 December 2014	8,561	(451)	463	8,573	–	8,573

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS – ABOUT THIS REPORT

The consolidated financial statements of South32 Limited referred to as the “Company” and its subsidiaries and joint operations (collectively, the “South32 Group”) for the half year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 25 February 2016.

1. Reporting entity

South32 Limited is a for-profit company limited by shares incorporated in Australia with a primary listing on the Australian Securities Exchange, a standard listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. The nature of the operations and principal activities of the South32 Group are described in note 4 Segment information.

2. Basis of preparation

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

- Have been prepared in accordance with AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act 2001
- Have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities which are required to be measured at fair value
- Are presented in US dollars, which is the functional currency of the majority of the Group’s operations, and all values are rounded to the nearest million dollars (US$M or US$ million) unless otherwise stated, in accordance with ASIC Class Order 98/100
- Present reclassified comparative information where required for consistency with the current period’s presentation and
- Have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2015 annual financial statements.

In preparing these half year financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2015.

For a full understanding of the financial performance and financial position of the South32 Group it is recommended that the half year financial statements be read in conjunction with the annual financial statements for the year ended 30 June 2015. Consideration should also be given to any public announcements made by the Company during the half year ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

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

	Average for the half year ended 31 December 2015	Average for the half year ended 31 December 2014	As at 31 December 2015	As at 30 June 2015	As at 31 December 2014
Australian dollar[(a)]	0.72	0.89	0.73	0.77	0.82
Brazilian real	3.69	2.40	3.90	3.14	2.66
Colombian peso	2,999	2,037	3,149	2,585	2,392
South African rand	13.60	10.99	15.56	12.28	11.55

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

3. South32 Limited demerger

Effective 15 May 2015, BHP Billiton shares ceased trading with an entitlement to South32 shares. On 18 May 2015 South32 Limited was listed as a separate standalone entity on the Australian Securities Exchange on a deferred settlement basis, on the London Stock Exchange on a when-issued basis and on the Johannesburg Stock Exchange on a normal settlement basis. The demerger resulted in economic separation at the close of business London time on 22 May 2015 (being 23 May 2015 Melbourne time) with the settlement of intercompany balances between the South32 Group and the BHP Billiton Group. South32 shares were transferred to eligible BHP Billiton Limited and BHP Billiton Plc shareholders on 24 May 2015 and 25 May 2015, respectively. Economic separation and distribution of South32 shares to shareholders became effective from 25 May 2015. Further information on businesses acquired and disposed, as well as the change in control with respect to the manganese operations is disclosed in the South32 Group’s 2015 Annual Report.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information

(i) Description of segments

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

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

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

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

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

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

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

It is the South32 Group's policy that inter-segment transactions are made on a commercial basis.

The following tables present revenue and profit information about the operations for the half year ended 31 December 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information (continued)

Half year ended 31 December 2015 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese [(a)]	South Africa Manganese [(a)]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment [(a)]	Group
Revenue													
Group production	286	596	208	186	542	284	226	110	166	423	–	(336)	2,691
Third party products[(b)]	–	–	–	–	–	–	–	–	–	–	291	(1)	290
Inter-segment revenue	254	–	–	–	–	–	–	4	–	–	(254)	(4)	–
Total revenue	**540**	**596**	**208**	**186**	**542**	**284**	**226**	**114**	**166**	**423**	**37**	**(341)**	**2,981**
Underlying EBITDA	**108**	**53**	**8**	**110**	**116**	**50**	**72**	**(28)**	**(5)**	**169**	**(7)**	**(104)**	**542**
Depreciation and amortisation	(75)	(32)	(18)	(36)	(70)	(87)	(62)	(23)	(43)	(28)	(12)	85	(401)
Underlying EBIT	**33**	**21**	**(10)**	**74**	**46**	**(37)**	**10**	**(51)**	**(48)**	**141**	**(19)**	**(19)**	**141**
Comprising:													
Group Production	33	21	(10)	74	44	(37)	10	(51)	(48)	141	(19)	41	199
Third party products	–	–	–	–	–	–	–	–	–	–	–	–	–
Share of profit/(loss) of equity accounted investments[(e)]	–	–	–	–	2	–	–	–	–	–	–	(60)	(58)
Underlying EBIT	**33**	**21**	**(10)**	**74**	**46**	**(37)**	**10**	**(51)**	**(48)**	**141**	**(19)**	**(19)**	**141**
Net finance cost													(71)
Income tax (expense)/benefit													(44)
Underlying earnings													**26**
Earnings adjustments[(c)]													(1,775)
Profit/(loss) after taxation from continuing operations													**(1,749)**
Capital expenditure[(f)]	**22**	**8**	**5**	**9**	**42**	**111**	**41**	**7**	**12**	**15**	**13**	**(48)**	**237**
Investments accounted for using the equity method[(d)]	**–**	**–**	**–**	**–**	**15**	**–**	**–**	**–**	**–**	**–**	**–**	**528**	**543**
Total assets[(d)]	**3,627**	**1,347**	**687**	**890**	**697**	**1,751**	**631**	**537**	**921**	**391**	**2,163**	**(686)**	**12,956**
Total liabilities[(d)]	**334**	**285**	**94**	**101**	**735**	**211**	**255**	**182**	**172**	**153**	**1,817**	**(686)**	**3,653**

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

(b) Third party product sold comprises US$138 million for aluminium, US$50 million for freight services, US$28 million for coal, US$11 million for alumina and US$63 million for other.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information (continued)

Half year ended 31 December 2014 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese [(d)]	South Africa Manganese [(d)]	Cerro Matoso	Cannington	New Mexico Coal [(a)]	Group and unallocated items/ elimination	Statutory adjustment	Group
Revenue														
Group production	–	–	–	230	–	411	–	–	–	–	133	–	–	774
Third party products[(b)]	–	–	–	–	–	–	–	–	–	–	–	8	–	8
Inter-segment revenue	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total revenue	**–**	**–**	**–**	**230**	**–**	**411**	**–**	**–**	**–**	**–**	**133**	**8**	**–**	**782**
Underlying EBITDA	**–**	**–**	**–**	**120**	**–**	**105**	**–**	**–**	**–**	**–**	**22**	**(1)**	**–**	**246**
Depreciation and amortisation	–	–	–	(33)	–	(100)	–	–	–	–	(12)	–	–	(145)
Underlying EBIT	**–**	**–**	**–**	**87**	**–**	**5**	**–**	**–**	**–**	**–**	**10**	(1)	**–**	**101**
Comprising:														
Group Production	–	–	–	87	–	5	–	–	–	–	10	–	–	102
Third party products	–	–	–	–	–	–	–	–	–	–	–	(1)	–	(1)
Share of profit/(loss) of equity accounted investments	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Underlying EBIT	**–**	**–**	**–**	**87**	**–**	**5**	**–**	**–**	**–**	**–**	**10**	**(1)**	**–**	**101**
Underlying EBIT from discontinued operations														(10)
Underlying EBIT from continuing operations														**91**
Net finance cost														(18)
Income tax (expense)/benefit														(16)
Underlying earnings from continuing operations														**57**
Earnings adjustments[(c)]														(147)
Profit/(loss) after taxation from continuing operations														**(90)**
Capital expenditure	**–**	**–**	**–**	**5**	**–**	**179**	**–**	**–**	**–**	**–**	**9**	–	**–**	**193**
Investments accounted for using the equity method[(d)]	**–**	**–**	**–**	**–**	**12**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,695**	**1,707**
Total assets[(d)]	**3,720**	**1,475**	**730**	**1,039**	**1,414**	**1,782**	**1,649**	**748**	**997**	**453**	**–**	**2,271**	**(789)**	**15,489**
Total liabilities[(d)]	**359**	**324**	**104**	**111**	**1,019**	**264**	**265**	**218**	**234**	**173**	**–**	**2,202**	**(819)**	**4,454**

(a) The New Mexico Coal segment was transferred from the South32 Group to the BHP Billiton Group as part of the demerger process during the year ended 30 June 2015.

(b) Third party product sold comprises US$8 million for aluminium.

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

(d) Total segment assets and liabilities are as at 30 June 2015 and represent operating assets and liabilities which predominately exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances. Information for manganese operations is presented on a proportional consolidation basis.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information (continued)

(ii) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

Earnings adjustments		
US$M	**H1 FY16**	**H1 FY15**
Adjustments to Underlying EBIT		
Significant items[a]	**92**	–
Exchange rate (gains)/losses on restatement of monetary items[b]	**(87)**	(3)
Impairment losses[b]	**1,384**	–
Fair value (gains)/losses on derivative instruments[b]	**36**	7
Major corporate restructures[b]	**5**	–
Impairment losses included in profit/(loss) of equity accounted investments [c]	**287**	–
Earnings adjustments included in profit/(loss) of equity accounted investments [c]	**11**	–
Total adjustments to Underlying EBIT	**1,728**	4
Adjustments to net finance cost		
Exchange rate variations on net debt	**(26)**	6
Total adjustments to net finance cost	**(26)**	6
Adjustments to income tax expense		
Significant items[a]	**39**	96
Tax effect of earnings adjustments to Underlying EBIT	**(152)**	(1)
Tax effect of earnings adjustments to net finance cost	**8**	(2)
Exchange rate variations on tax balances	**178**	44
Total adjustments to income tax expense	**73**	137
Total earnings adjustments	**1,775**	147

(a) Refer to note 4(iii) Significant items.

(b) The amount was recognised in "expenses excluding net finance cost" in the consolidated income statement.

(c) The amount was recognised in "share of profit/(loss) of equity accounted investments" in the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information (continued)

(ii) Earnings adjustments (continued)

Impairments recognised

As a result of significant and continued weakening of commodity markets, the Group recognised the following impairments and associated tax effect at 31 December 2015. The forecast weakening of commodity prices has also impacted the probability of generating longer term taxable income for certain South32 operations and therefore resulted in the derecognition of specific deferred tax asset balances in the half year ended 31 December 2015. An impairment at Brazil Alumina recognised at 31 December 2015 was as a result of the continued and indefinite suspension of smelting operations. The following table shows the categorisation of the amounts within earnings adjustments:

	Adjustments to Underlying EBIT				Adjustments to income tax expense	
31 December 2015 US$M	**Impairments**	**Significant items**	**Earnings adjustments included in (profit)/loss of equity accounted investments**	**Total**	**Significant items**	**Tax effect of earnings adjustments to Underlying EBIT**
Australia Manganese equity accounted investment	**726**	–	**190**	**916**	–	–
South Africa Manganese equity accounted investment	–	–	**97**	**97**	–	–
Manganese Marketing equity accounted investment	**64**	–	–	**64**	–	–
South Africa Energy Coal - Wolvekrans Middelburg Complex	**322**	–	–	**322**	–	**(89)**
South Africa Energy Coal - Klipspruit	**120**	–	–	**120**	–	**(33)**
Available for sale investments	**76**	–	–	**76**	–	**(18)**
South Africa Energy Coal deferred tax asset derecognition	**–**	**–**	–	**–**	**126**	–
Brazil Alumina smelter	**65**	**32**	–	**97**	**(11)**	**(22)**
Other	**11**	–	–	**11**	–	**(1)**
Total	**1,384**	**32**	**287**	**1,703**	**115**	**(163)**

Australia Manganese (equity accounted investment)

The Australia Manganese equity accounted investment impairment of US$916 million includes full impairment of the remaining fair value uplift applied in advance of the demerger of US$726 million, impairment of the Group's share of property, plant and equipment of US$228 million and the recognition of an associated tax benefit of US$91 million. The Group's share of deferred tax assets of US$53 million associated with provisions for future restoration and rehabilitation were derecognised as utilisation is no longer probable. The recoverable amount of the equity accounted investment was determined as US$376 million based on its fair value less cost of disposal ("FVLCD").

South Africa Manganese (equity accounted investment)

The South Africa Manganese equity accounted investment impairment of US$97 million includes impairment of the Group's share of property, plant and equipment of the equity accounted investment of US$45 million, impairment of the Group's share of available for sale investments of the equity accounted investment of US$36 million and recognition of an associated tax benefit on the impairments of US$10 million. The Group's share of deferred tax assets of US$26 million associated with provisions for future restoration and rehabilitation were derecognised as utilisation is no longer probable. The recoverable amount of the equity accounted investment was determined as US$321 million based on its FVLCD.

4. Segment information (continued)

(ii) Earnings adjustments (continued)

Manganese Marketing (equity accounted investment)

The Manganese Marketing equity accounted investment (Samancor AG) impairment of US$64 million relates to impairment of the fair value uplift. The recoverable amount of the equity accounted investment was determined as US$81 million based on its FVLCD.

South Africa Energy Coal

The South Africa Energy Coal impairment of US$442 million includes US$322 million for property, plant and equipment at the Wolvekrans Middelburg Complex (tax benefit of US$89 million) and US$120 million for property, plant and equipment at the Klipspruit Colliery (tax benefit of US$33 million). The recoverable amount of the Wolvekrans Middelburg Complex and Klipspruit Colliery cash generating units were determined as -US$57 million and US$77 million respectively, and were determined based on the FVLCD of each cash generating unit.

The available for sale investments impairment of US$76 million is associated with South African coal activities (tax benefit of US$18 million). A charge has been recognised in the income statement rather than in Other Comprehensive Income as a prolonged reduction in fair value is judged to represent an impairment.

South Africa Energy Coal deferred tax assets of US$126 million associated with provisions for future restoration and rehabilitation were derecognised as utilisation is no longer probable.

Brazil Alumina

The Brazil Alumina smelter impairment of US$97 million includes US$65 million for property, plant and equipment and US$32 million relating to smelter consumables and indirect tax assets (tax benefit of US$33 million). The recoverable amount of the Brazil Alumina smelter cash generating unit was determined as -US$11 million based on its FVLCD. The valuation specifically considered the likelihood of restarting smelting operations, taking into account the continued and indefinite suspension of smelting operations.

Basis of fair value measurements

The above fair value measurements are categorised as Level 3 fair values based on the inputs in the valuation models. In determining the FVLCD, a real post tax discount rate of 8.5%, and a country risk premium of up to 2%, were applied to the post tax forecast cash flows expressed in real terms. The cash flows are forecast to the end of the life of operation and include future projects which are risked for uncertainties. The key assumptions used for commodity prices are comparable to market consensus forecasts at the date of testing, and foreign exchange rates are aligned with forward market rates.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

4. Segment information (continued)

(iii) Significant items

Significant items are those items, not separately identified in note 4(ii) Earnings adjustments, where their nature and amount is considered material to the consolidated financial statements.

Half year ended 31 December 2015			
US$M	**Gross**	**Tax**	**Net**
Set-up costs[(a)]	60	(17)	**43**
Derecognition of deferred tax assets	–	126	**126**
Adjustment to Australian tax balances post-demerger including reset of tax assets	–	(59)	**(59)**
Brazil Alumina impairment – other items[(b)]	32	(11)	**21**
Total significant items	**92**	**39**	**131**

(a) The amount was recognised in "expenses excluding net finance cost" in the consolidated income statement.

(b) Refer to note 4(ii) Earnings adjustments

Half year ended 31 December 2014			
US$M	**Gross**	**Tax**	**Net**
Repeal of Minerals Resource Rent Tax Legislation	–	96	96
Total significant items	–	96	96

Set-up costs

Set-up costs related to the ongoing establishment of South32's corporate and regional offices following the demerger. The costs primarily relate to transitionary contractor and consultant support, information technology infrastructure and system support. The amount recognised is inclusive of US$30 million paid to BHP Billiton under an agreement for information technology services. Those costs relate to all operating segments. All remaining set-up costs relate to group and unallocated items within the segment note.

Derecognition of deferred tax assets

As a result of the significant and continued weakening of commodity markets, certain deferred tax assets associated with provisions for restoration and rehabilitation were derecognised as utilisation is no longer probable.

Adjustment to Australian tax balances post-demerger including reset of tax assets

The tax basis of South32 wholly owned Australian operations was reset on demerger from BHP Billiton. The net increase to tax assets is charged to income tax expense during the half year ended 31 December 2015.

Repeal of Minerals Resource Rent Tax Legislation

On 2 September 2014, legislation to repeal the Minerals Resource Rent Tax ("MRRT") in Australia received the support of both Houses of Parliament. The repeal took effect on 30 September 2014 and as a result, the South32 Group derecognised a MRRT deferred tax asset in relation to Illawarra Metallurgical Coal. The impact of this derecognition and all other MRRT related amounts resulted in an income tax expense of US$96 million.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

5. Taxation

The major components of income tax expense in the income statement for the half year ended are:

US$M	H1 FY16	H1 FY15
Current tax expense/(benefit)	**36**	29
Deferred tax expense/(benefit)	**81**	124
Total tax expense/(benefit) attributable to continuing operations	**117**	153
Australia	**(35)**	121
Southern Africa	**92**	–
Rest of world	**60**	32
Total tax expense/(benefit) attributable to the geographical jurisdiction	**117**	153

Reconciliation of prima facie tax expense to income tax expense	H1 FY16		H1 FY15	
	%	US$M	%	US$M
Profit/(Loss) before taxation from continued operations		**(1,632)**		63
Tax on profit/(loss) at standard rate of 30%	**(30.0)**	**(490)**	30.0	19
Tax rate differential on foreign income	**0.6**	**10**	(21.5)	(14)
Exchange rate variations on tax balances	**10.9**	**178**	69.8	44
Tax effect of share of profit/(loss) of equity accounted investments	**6.3**	**104**	–	–
Adjustment to Australian tax balances post-demerger	**(3.6)**	**(59)**	–	–
Non-deductible impairment expense	**14.7**	**240**	–	–
Derecognition of future tax benefits	**7.7**	**126**	–	–
Other	**0.5**	**8**	11.8	8
Income tax expense/(benefit)	**7.1**	**117**	90.1	57
Royalty-related taxation expense/(benefit)	**–**	**–**	152.1	96
Total tax expense/(benefit)	**7.1**	**117**	242.2	153

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE PERIOD

6. Earnings per share

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

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

The following reflects the income and share data used in the basic and diluted EPS computations:

Profit/(loss) attributable to ordinary equity holders		
US$M	**H1 FY16**	**H1 FY15**
Profit/(loss) attributable to ordinary equity holders of South32 Limited		
Continuing operations	**(1,749)**	(90)
Discontinued operations	**–**	7
Profit/(loss) attributable to ordinary equity holders of South32 Limited (basic)	**(1,749)**	(83)
Profit/(loss) attributable to ordinary equity holders of South32 Limited (diluted)	**(1,749)**	(83)

Weighted average number of shares		
Million	**H1 FY16**	**H1 FY15**
Basic earnings per ordinary share denominator(a)(c)	**5,324**	3,212
Shares and options contingently issuable under employee share ownership plans(b)(c)	**4**	–
Diluted earnings per ordinary share denominator	**5,328**	3,212

(b) The calculation of the number of ordinary shares used in the computation of basic earnings per share is the aggregate of the weighted average number of ordinary shares of South32 Limited outstanding during the period.

(b) Included in the calculation of diluted earnings per share are shares contingently issuable under employee share ownership plans.

(c) Due to the share split in May 2015, the number of ordinary shares outstanding during the half year ended 31 December 2014 was retrospectively adjusted.

Earnings per share		
US cents	**H1 FY16**	**H1 FY15**
Earnings per share – continuing operations		
Basic earnings per ordinary share	**(32.9)**	(2.8)
Diluted earnings per ordinary share	**(32.9)**	(2.8)
Earnings per share – attributable to ordinary equity holders of South32 Limited		
Basic earnings per ordinary share	**(32.9)**	(2.6)
Diluted earnings per ordinary share	**(32.9)**	(2.6)

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

7. Net finance cost

US$M	H1 FY16	H1 FY15
Finance expenses		
Interest on bank loans and overdrafts	**1**	–
Interest on all other borrowings	**4**	25
Finance lease interest	**25**	–
Discounting on provisions and other liabilities	**49**	3
Net interest expense on post-retirement employee benefits	**4**	–
Exchange rate variations on net debt	**(26)**	6
	57	34
Finance income		
Interest income	**12**	10
Net finance cost	**45**	24

8. Financial assets and financial liabilities

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

31 December 2015 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	697	–	–	–	**697**
Trade and other receivables[(a)]	512	–	13	–	**525**
Derivative contracts	–	–	59	–	**59**
Loans to equity accounted investments	379	–	–	–	**379**
Interest bearing loans receivable	40	–	–	–	**40**
Shares	–	180	–	–	**180**
Other investments	–	102	–	–	**102**
Total	**1,628**	**282**	**72**	**–**	**1,982**
Financial liabilities					
Trade and other payables[(b)]	–	–	5	590	**595**
Derivative contracts	–	–	24	–	**24**
Unsecured bank overdrafts	–	–	–	4	**4**
Unsecured bank loans	–	–	–	14	**14**
Finance leases	–	–	–	595	**595**
Unsecured other	–	–	–	200	**200**
Total	**–**	**–**	**29**	**1,403**	**1,432**

(a) Excludes input taxes of US$101 million included in other receivables.

(b) Excludes input taxes of US$35 million included in other payables.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

8. Financial assets and financial liabilities (continued)

30 June 2015 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	644	–	–	–	644
Trade and other receivables[(a)]	725	–	25	–	750
Derivative contracts	–	–	71	–	71
Loans to equity accounted investments	323	–	–	–	323
Interest bearing loans receivable	148	–	–	–	148
Shares	–	229	–	–	229
Other investments	–	131	–	–	131
Total	1,840	360	96	–	2,296
Financial liabilities					
Trade and other payables[(b)]	–	–	9	918	927
Derivative contracts	–	–	4	–	4
Unsecured bank loans	–	–	–	104	104
Finance leases	–	–	–	631	631
Unsecured other	–	–	–	311	311
Total	–	–	13	1,964	1,977

(a) Excludes input taxes of US$126 million included in other receivables.

(b) Excludes input taxes of US$24 million included in other payables.

8. Financial assets and financial liabilities (continued)

Measurement of fair value

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

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

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

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

31 December 2015 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	13	–	**13**
Trade and other payables	–	(5)	–	**(5)**
Derivative contracts	–	–	35	**35**
Investments – available for sale	–	102	180	**282**
Total	**–**	**110**	**215**	**325**

30 June 2015 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	25	–	25
Trade and other payables	–	(9)	–	(9)
Derivative contracts	–	–	67	67
Investments – available for sale	–	131	229	360
Total	**–**	147	296	443

Level 3 financial assets and liabilities

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

US$M	H1 FY16
As at 1 July 2015	296
Unrealised gains/(losses) recognised in the income statement[(a)]	(65)
Unrealised gains/(losses) recognised in other comprehensive income[(b)]	(16)
As at 31 December 2015	**215**

(a) Unrealised gains and losses recognised in "expenses excluding net finance cost" in the consolidated income statement.

(b) Unrealised gains and losses recognised in other comprehensive income are recorded in the "net gain/(loss) taken to equity".

US$M	H1 FY15
As at 1 July 2014	–
Acquisition of subsidiaries and operations as part of the demerger[(a)]	99
Unrealised gains/(losses) recognised in the income statement[(b)]	(7)
As at 31 December 2014	92

(a) Refer to financial statements for the year ended 30 June 2015 for details.

(b) Unrealised gains and losses recognised in "expenses excluding net finance cost" in the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

8. Financial assets and financial liabilities (continued)

Sensitivity analysis

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

31 December 2015			Profit before taxation		Equity	
US$M	Carrying amount	Significant input	10% increase in input	10% decrease in input	10% increase in input	10% decrease in input
Financial assets and liabilities						
Derivative contracts	35	Aluminium price as quoted on the LME	(123)	121	(88)	86
Investments – available for sale[(a)]	180	Aluminium price as quoted on the LME Foreign exchange rate	–	(2)	43	(45)
Total	**215**		**(123)**	**119**	**(45)**	**41**

(a) To the extent that available for sale investments have been impaired, any further losses are recognised in the consolidated income statement.

30 June 2015			Profit before taxation		Equity	
US$M	Carrying amount	Significant input	10% increase in input	10% decrease in input	10% increase in input	10% decrease in input
Financial assets and liabilities						
Derivative contracts	67	Aluminium price as quoted on the LME	(64)	64	(43)	43
Investments – available for sale	229	Aluminium price as quoted on the LME Foreign exchange rate	–	–	60	(69)
Total	296		(64)	64	17	(26)

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

9. Employee share ownership plans

The South32 Group established new employee long term incentive plans during the half year ended 31 December 2015.

Awards were granted to Executive Committee members on 4 December 2015 under the following plans:

- the FY16 Long Term Incentive Plan (LTI)
- the FY15 Deferred Short Term Incentive Plan (STI) and
- the FY16 Transitional Award Plan (TSP)

Awards were granted to eligible employees on 30 October 2015 under the following plans:

- the FY16 Management Share Plan (MSP)
- the FY16 Advance Award Plan (AAP)
- the FY16 Transition Award Plan (TAP)
- the FY15 Deferred Shares Plan (GSTIP)
- the FY15 MAP Replacement Plan (MAP) and
- the 2015 AllShare Plan (ASP)

Description of general share-based payment conditions

Awards take the form of rights to receive one ordinary share in South32 Ltd for each right granted, subject to performance (LTI, TSP, MSP, AAP and TAP awards) and service conditions being met. A portion of the 2015 AllShare Plan awards (participants located in Colombia and Mozambique) take the form of rights to receive a cash payment equivalent to the value of South32 Ltd ordinary shares at the time of payment.

Performance rights fair value are measured using a Monte Carlo methodology and retention rights are measured using a Black Scholes methodology.

Performance conditions are based on the South32 Group's Total Shareholder Return (TSR) measured separately against two comparator indexes over the performance period as follows:

- One third of performance rights are measured against the Morgan Stanley Capital Index World and
- Two thirds of performance rights are measured against the Euromoney Global Mining Index (constrained by company and sector).

Performance rights vest when South32's TSR equals or outperforms the comparator index. Full vesting of performance rights occur if South32's TSR outperforms both indexes by at least 5.5% per annum. To the extent that the performance conditions are not met, awards are forfeited and no retesting is performed.

Awards do not confer any dividend or voting rights until they convert into ordinary shares at vesting. In addition, the awards do not confer any rights to participate in a share issue, however, there is discretion under the plans to adjust the awards in response to a variation in South32 Ltd's share capital.

Further detail of each award is provided below. Details of other incentive plans established by South32 subsequent to demerger can be found in the South32 Group 2015 Annual Report.

Description of recurring share-based payment arrangements

The awards listed below are subject to the general conditions noted above and may be granted annually subject to approval by shareholders at the annual general meeting for awards to the CEO and by the board of directors for all other awards.

FY16 Long Term Incentive Plan (LTI)

The LTI is South32's long term incentive plan for Executive Committee members. Awards have a four year performance period from 1 July 2015 to 30 June 2019.

FY15 Deferred Short Term Incentive Plan (STI)

The STI is South32's short term incentive plan for Executive Committee members. Awards vest on 30 June 2017 provided participants remain employed by South32.

FY16 Management Share Plan (MSP)

The MSP is South32's long term incentive plan for eligible employees below the Executive Committee. The MSP comprises two elements:

- Retention Rights vesting on 30 June 2018 provided participants remain employed by South32 and
- Performance Rights vesting on 30 June 2019 subject to performance conditions.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

9. Employee share ownership plans (continued)

2015 AllShare Plan (ASP)

The ASP is South32's employee share plan for employees not eligible to participate in the other employee share plans. Awards will vest provided participants remain employed by South32. The vesting period depends on the participants' location at the grant date:

- Participants in Africa: August 2018 and
- Participants elsewhere: August 2017.

Awards to the value of at least US$1,250 per employee will be granted annually.

Description of transitional share-based payment arrangements

The awards listed below are subject to the general conditions noted above and will not be granted on an ongoing basis.

FY16 Transitional Award Plan (TSP)

The TSP is a one-off grant made to Executive Committee members in recognition of their adjustment from a three year LTI plan under the BHP Billiton incentive structure to a four year LTI Plan at South32. Awards have a three year performance period from 1 July 2015 to 30 June 2018.

FY16 Advance Award Plan (AAP)

The AAP is a one-off grant made to all MSP participants in recognition of the different vesting periods under the MSP retention rights and MSP performance rights. The awards have a three year performance period from 1 July 2015 to 30 June 2018.

FY16 Transition Award Plan (TAP)

The TAP is a grant made to certain eligible employees to bridge the gap between their total target reward at BHP Billiton and their total target reward at South32. Transition Awards will be made for a maximum of five years post demerger (FY2020).

The TAP has the same conditions as the MSP and comprises both service and performance conditions.

FY15 Deferred Shares Plan (GSTIP)

The GSTIP is a one-off grant made to individuals who were participating in the BHP Billiton Group Short Term Incentive Plan (GSTIP) prior to demerger. Since the BHP Billiton STI plan was in place for FY2015, the STI outcomes for participants who have joined South32 have been delivered in accordance with the BHP Billiton plan (i.e. 50% of the outcome in cash, 50% in share awards) except the awards are rights to South32 Ltd ordinary shares, not BHP Billiton ordinary shares.

There are no performance conditions attached to the GSTIP awards. Awards vest on 30 June 2017 provided participants remain employed by South32.

FY15 MAP Replacement Plan (MAP)

The MAP is a one-off grant which has been made to eligible employees to replace the BHP Billiton MAP award they would have received in March 2015 had they remained employed by BHP Billiton. Awards are made at an equivalent value, on equivalent terms and conditions and with the same vesting date as for the BHP Billiton MAP Award. There are no performance conditions attached to the awards. Awards will vest at the end of the vesting period (three years from grant of the original BHP Billiton award) provided participants remain employed by South32.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

9. Employee share ownership plans (continued)

Measurement of fair values

The fair value at grant date of equity-settled share awards is charged to the income statement over the period for which the benefits of employee services are expected to be derived. The corresponding accrued employee entitlement is recorded in the employee share awards reserve.

	Fair value at grant date (US$) (weighted average)	Share price at grant date (US$) (weighted average)	Expected volatility[(a)]	Expected life (weighted-average in years)	Risk-free interest rate based on government bonds (weighted average)
Recurring plans					
Long Term Incentive Plan	0.41	0.86	40%	4.00	2.45%
Short Term Incentive Plan	0.83	0.86	40%	2.00	n/a
Management Share Plan - Retention Rights	0.99	1.06	40%	2.68	n/a
Management Share Plan - Performance Rights	0.57	1.06	40%	4.00	3.36%
AllShare Plan	1.03	1.05	40%	2.68	n/a
Transitional plans					
Transitional Plans - Performance Rights (TSP, AAP, TAP)	0.55	1.04	40%	3.21	3.56%
Transitional Plans – Retention Rights (TAP, GSTIP, MAP)	1.01	1.06	40%	2.46	n/a

(a) Expected volatility is based on the historical South32 share price volatility at the grant date.

Reconciliation of outstanding share awards

The following table details the total movement in awards granted by South32 Ltd during the period ended 31 December 2015:

	Rights at beginning of period	Granted during the period	Vested during the period	Forfeited during the period	Rights at end of the period	Vesting at 30 June 2016
Recurring plans						
Long Term Incentive Plan	–	7,220,731	–	–	7,220,731	–
Short Term Incentive Plan	–	2,415,867	–	–	2,415,867	–
Management Share Plan - Retention Rights	–	5,300,101	–	–	5,300,101	–
Management Share Plan - Performance Rights	–	13,250,383	–	–	13,250,383	–
AllShare Plan	–	17,487,600	(462,000)	(110,400)	16,915,200	–
Transitional plans						
Transitional Plans - Performance Rights (TSP, AAP, TAP)	–	18,642,012	–	(17,607)	18,624,405	–
Transitional Plans - Retention Rights (TAP, GSTIP, MAP)	–	6,158,326	(8,057)	–	6,150,269	–

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

10. Subsequent events

On 4 February 2016 the Group announced that it had completed a strategic review of the Samancor Manganese Joint Venture following the suspension of mining activity at the Hotazel Manganese Mines in November 2015. As a result, mining activity restarted at South Africa Manganese, but at a substantially reduced rate and with greater flexibility, with optimised mine plans, redundancies and other restructuring initiatives being undertaken. One of four furnaces will continue to operate at the Metalloys smelter.

On 25 February 2016 the Group announced major restructuring initiatives that will reset the cost base of its Worsley Alumina, Illawarra Metallurgical Coal, Australia Manganese and Cerro Matoso operations.

11. Contingent liabilities

There have been no material change to the Group's contingent liabilities as reported in the annual financial statements for the year ended 30 June 2015.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of the South32 Group, we state that:

In the opinion of the directors:

(a) The consolidated financial statements and notes that are set out on pages 36 to 59 for the half year ended 31 December 2015 are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the South32 Group's financial position as at 31 December 2015 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 South32 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

Dated 25 February 2016

DIRECTORS' REPORT

The directors of the South32 Group present the consolidated financial report for the half year ended 31 December 2015 and the auditor's review report thereon.

Directors

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

David Crawford AO
Graham Kerr
Frank Cooper AO
Peter Kukielski
Xolani Mkhwanazi (appointed 2 July 2015)
Ntombifuthi (Futhi) Mtoba
Wayne Osborn
Keith Rumble

The office of the company secretary is held by Nicole Duncan and Sue Wilson.

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 34.

Principal Risks and Uncertainties

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

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

- Fluctuations in commodity prices, interest rates, currencies and ongoing global economic volatility;
- Actions by governments, political events or tax authorities;
- Breaches of information technology security processes;
- Cost inflation of production inputs and labour;
- Failure to access third party infrastructure required for operations;
- Failure to access water and power resources for operations;
- Unexpected operational or natural catastrophes;
- Failure of our commercial counterparties to meet their obligations;
- Fraud and corruption;
- Failure to retain and attract employees with the right expertise;
- Failure to maintain, realise or enhance existing reserves;
- Deterioration in liquidity and cash flow;
- Changes to government regulations on dividends or capital extraction;
- Health and safety impacts in respect of South32's activities;
- Environmental impacts in respect of South32's activities including those related to water and waste water;
- Dissatisfied communities in which our businesses are located; and
- Climate change and greenhouse gas regulations adversely impacting operations.

Further information on these risks and how they are managed can be found on pages 22 to 25 of the Annual Report for the year ended 30 June 2015, a copy of which is available on South32's website at www.south32.net.

Events subsequent to the balance date

On 4 February 2016 the Group announced that it had completed a strategic review of the Samancor Manganese Joint Venture following the suspension of mining activity at the Hotazel Manganese Mines in November 2015. As a result, mining activity restarted at South Africa Manganese, but at a substantially reduced rate and with greater flexibility, with optimised mine plans, redundancies and other restructuring initiatives being undertaken. One of four furnaces will continue to operate at the Metalloys smelter.

On 25 February 2016 the Group announced major restructuring initiatives that will reset the cost base of its Worsley Alumina, Illawarra Metallurgical Coal, Australia Manganese and Cerro Matoso operations.

DIRECTORS' REPORT

UK Responsibility Statements

The Directors state that to the best of their knowledge:

- The Financial Results and Outlook on pages 3 to 34, includes a fair review of important events during the first six months of the current financial year and their impact on the half year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- That disclosure has been made for related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the South32 Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect.

Lead Auditor's Independence Declaration

A copy of the lead auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 63.

Rounding

The amounts shown in this report and in the financial statements have been rounded to the nearest million dollars (US$M or US$ million) unless otherwise stated, in accordance with ASIC Class Order 98/100 dated 10 July 1998.

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

David Crawford AO

Chairman

Graham Kerr

Chief Executive Officer

Dated 25 February 2016

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the Directors of South32 Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2015 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

25 February 2016

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SOUTH32 LIMITED

We have reviewed the accompanying condensed half year financial report of South32 Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2015, consolidated statement of comprehensive income, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half year period ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half year's end or from time to time during the half year period.

Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report 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 report is 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 2015 and its performance for the half year period 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 a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SOUTH32 LIMITED

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

KPMG

Denise McComish
Partner

Perth

25 February 2016