2017 ANNUAL REPORT

SOUTH32

WHO WE ARE

Our purpose

Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources.

Our strategy

Our business strategy is to invest in high-quality metals and mining operations that allow our distinctive capabilities and regional model to stretch performance in a sustainable way.

We will continue to:

- Optimise the performance of our existing operations
- Unlock their potential by converting high value resource into reserve
- Identify new opportunities to compete for capital

By maintaining financial discipline, we will deliver sector leading total shareholder returns.

Our values

Care

We care about people, the communities we're a part of and the world we depend on.

Trust

We deliver on our commitments and rely on each other to do the right thing.

Togetherness

We value difference and we openly listen and share, knowing that together we are better.

Excellence

We are courageous and challenge ourselves to be the best in what matters.

CONTENTS

This Annual Report is a summary of the operations, activities and performance of South32 Limited (ABN 84 093 732 597) for the period ended 30 June 2017 and its financial position as at 30 June 2017.

South32 Limited is the parent company of the South32 Group of companies. In this report, unless otherwise stated, references to South32 and the South32 Group, the Company, we, us and our, refer to South32 Limited and its controlled entities, as a whole. South32 Limited shares trade on the ASX, JSE and LSE under the listing code of S32.

Monetary amounts in this document are reported in US dollars, unless otherwise stated.

Metrics describing health, safety, environment and community (HSEC) performance apply to "operated assets" that have been wholly owned and operated by South32, or that have been operated by South32 in a joint venture operation, from 1 July 2016 to 30 June 2017 (FY17). We align to the International Council on Mining and Metals (ICMM) Sustainable Development Framework and we report our sustainability information in accordance with the Global Reporting Initiative (GRI) G4 'Core', including the GRI Mining and Metals Sector Disclosures. The GRI Navigator and Sustainability data tables are available at *www.south32.net.*

KPMG has provided independent assurance on our sustainability information, as presented in this Annual Report and on our website. A copy of the assurance opinion is located in our GRI Navigator, available at *www.south32.net*.

South32 is conscious of its environmental footprint associated with the production of this Annual Report.

This Annual Report is printed on paper that is FSC (Forest Stewardship Council) certified and manufactured from plantation-grown timber. Both the paper manufacturer and printer are certified to the highest possible internationally recognised standard for environmental management. Printed copies of this Annual Report will only be posted to those shareholders who have requested to receive a printed copy. Other shareholders are notified when the Annual Report becomes available and given details of where to access it electronically.

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

For information or to contact South32, visit *www.south32.net*.

SOUTH32

YEAR AT A GLANCE

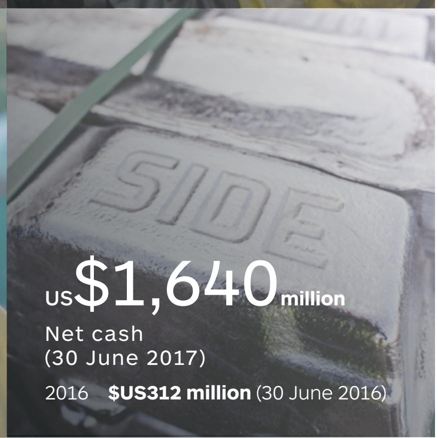
6.02
Total Recordable Injury Frequency (TRIF) per million hours worked
2016 **7.7**

US$2,411 million
Underlying EBITDA
2016 **$US1,131 million**

US$1,931 million
Free cash flow incl. EAI distributions
2016 **$US616 million**

1.26
Total Recordable Illness Frequency (TRILF)
2016 **1.29**

16.2%
Female workforce employed
2016 **15.7%**



US$1,640 million
Net cash (30 June 2017)
2016 **$US312 million** (30 June 2016)

2.8%
Voluntary turnover rate

27%
Female workforce in management positions

US$211 million
In on-market share buybacks (up to 30 June 2017)

22.6 million tonnes
CO_2-e emissions
2016 **23.4 million tonnes**

US$14.3 million
Community contributions
2016 **US$16.5 million**

US$244 million
Dividends paid
2016 **US$0**

OUR OPERATIONS

AUSTRALIA REGION

The Australia region comprises operations within Australia and South America. These operations mine or produce alumina, bauxite, metallurgical and energy coal, manganese, silver, lead, zinc and nickel. The Australia region office is located in Perth, Western Australia.

AFRICA REGION

The Africa region includes operations located in South Africa and Mozambique. These operations produce aluminium, energy coal and manganese. The Africa region office is located in Johannesburg, South Africa.

GLOBAL OFFICES

The South32 corporate office is located in Perth, Western Australia. Our global shared services centre is based in Johannesburg with our marketing activities managed through Singapore and London. Brazil Alumina is managed from an office in Rio de Janeiro, Brazil.

KEY

Aa	Alumina	Ni	Nickel
Al	Aluminium	Ag	Silver
EC	Energy Coal	Zn	Zinc
Pb	Lead		Corporate Office
Mn	Manganese		Regional Office
MC	Metallurgical Coal		Marketing Office

(1) Non-operated joint venture
(2) Manganese is shown on a proportionally consolidated basis

COMMODITIES

BAUXITE AND ALUMINA/ALUMINIUM

Large integrated alumina refineries with high quality bauxite resources and an aluminium producer with large, low cost aluminium smelters.

MANGANESE

World's largest producer of manganese ore and a top producer of alloy.

ENERGY COAL

One of the largest coal exporters and domestic suppliers in South Africa.

METALLURGICAL COAL

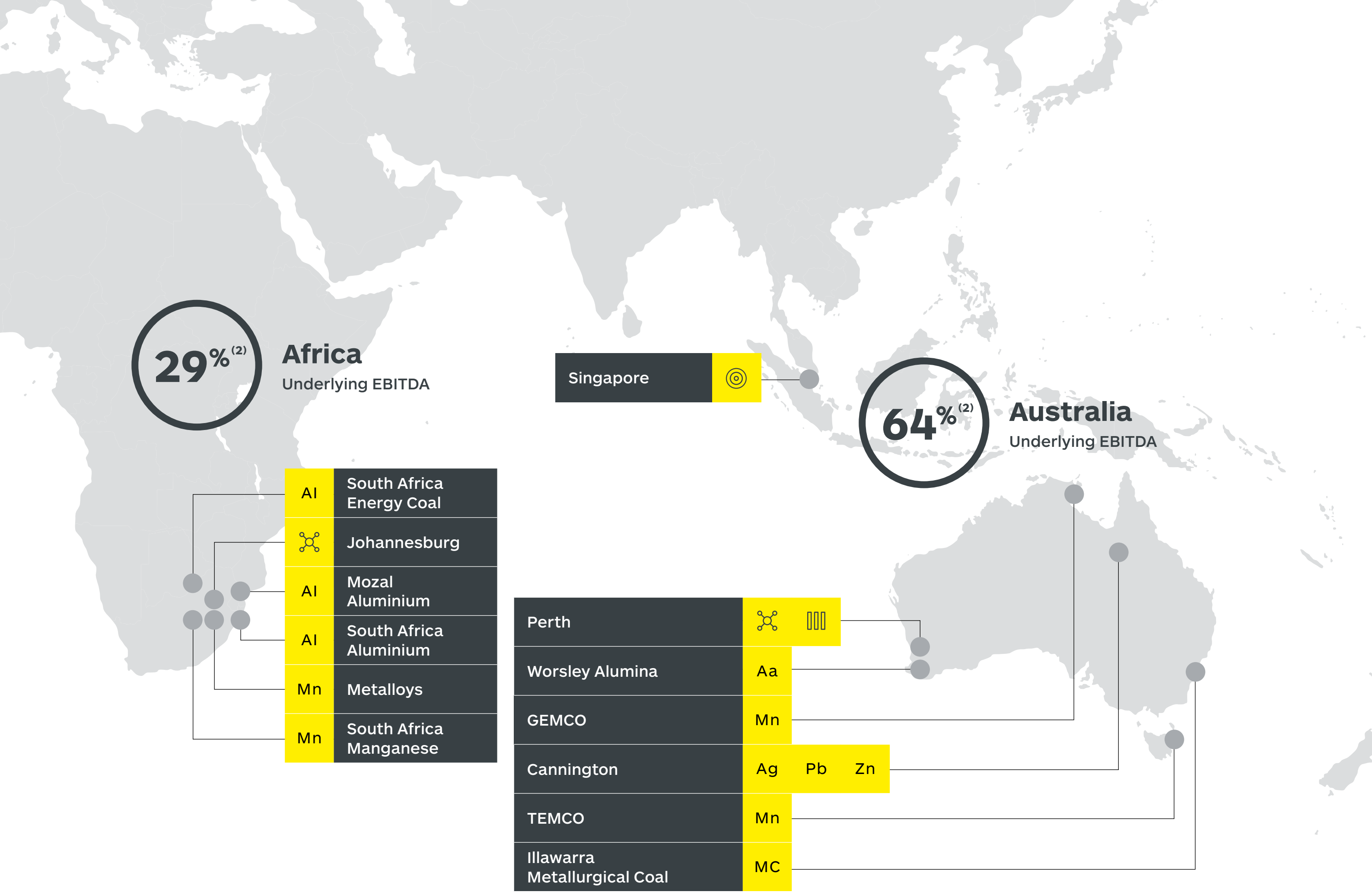
A major exporter of high quality metallurgical coal.

NICKEL

One of the world's largest and lowest cost ferronickel producers.

SILVER, LEAD, ZINC

One of the world's largest producers of silver and lead.



FOCUSED ON LONG-TERM SUCCESS

On behalf of the Board, I am pleased to present you with our 2017 Annual Report.

This year we have continued to embed our strategy, focusing on the long-term success and sustainability of our business. Through our hard work, we have established a strong foundation and created value for our people, our communities and our shareholders.

As we reflect on the achievements of the past year it is important to note areas for growth and improvement. One area that we must improve is safety. Any fatality is unacceptable and it is with regret that we experienced fatalities this past year. The Board, Lead Team and Management are focused on delivering measurable change and we continue to work hard embedding our culture of care across the Company. We are committed to ensuring our employees go home safe and well each day.

The combination of our high operating leverage and stronger commodity prices delivered a substantial increase in our financial performance.

We generated revenue of US$6.95 billion and Underlying earnings before interest, tax and depreciation of US$2.4 billion, with a statutory profit of US$1.2 billion. We more than tripled our free cash flow to US$1.9 billion. We strengthened our balance sheet, finishing the year with a net cash position of US$1.6 billion, an increase of US$1.3 billion from the end of last financial year.

We delivered a significant increase in return on invested capital to 11.4 per cent. And we continued to seek efficiencies across the business, reducing controllable costs by US$360 million for a cumulative saving of approximately US$700 million over two years.

The strong improvement in financial performance and the disciplined application of our capital management framework has allowed us to substantially increase returns to shareholders this year. In March, we announced a US$500 million capital management program in the form of an on-market share buy-back. We recently increased this program to US$750 million, which equals six per cent of our current market capitalisation. This complemented the US$192 million interim dividend paid in April this year and the final fully franked dividend at year end of US$334 million, which is in line with our clear dividend policy.

We value difference. Success relies on a strong team made up of a diverse range of experiences and perspectives. By working together with openness, trust and respect, we demonstrate that together we are better.

We have set ambitious diversity targets, particularly focused on gender and ethnicity, and we are pleased to report our progress. During the year we spent US$1.8 million addressing the gender pay gap and we ran campaigns to improve the gender and ethnic diversity of our workforce, particularly in core disciplines such as engineering.

We also implemented policies and practices to enable a more flexible work environment. Employee survey results showed 78 per cent of our employees felt they have appropriate control over the way they complete their work, which includes working flexible hours.

We are focused on strengthening the long-term capability of the Board. We are committed to broadening our Board's combined skills, diversity and experience, and will appoint two new female directors in the next 12 months.

Peter Kukielski stepped down from his role as Non-Executive Director in June. On behalf of the Board, I would like to thank Peter for his valuable contribution to the formation and operation of the Board.

This year we have not increased Fixed Remuneration for any of our Non-Executive Directors or Key Management Personnel. Our Short-Term Incentives focus on rewarding the Executive KMP for elements that they can influence. This year STI outcomes are generally lower than last year, to reflect the overall performance of the business, including lower than expected production volumes.

During the year, in line with recommendations on climate-related financial disclosures, we assessed the resilience of our commodity portfolio in a world that avoids more than two degrees of warming. Pleasingly, our commodity exposure, the position of our assets within their industries and our strong balance sheet creates financial resilience.

We continue to operate in challenging times but our strong foundation provides us with flexibility to adapt to external influences.

On behalf of all shareholders, I would like to thank Chief Executive Officer, Graham Kerr, and his Lead Team, along with our dedicated employees, for their hard work in establishing the sustainable footing South32 enjoys today. We are pleased to share this journey with you, our shareholders, and we look forward to your continued support.

David Crawford AO
Chairman

EMBEDDING OUR COMPANY STRATEGY

During the year we continued our work towards creating a diverse and inclusive workplace with a strong culture of care and accountability. In this workplace, work is well-designed with a focus on continuously improving and learning.

It is with deep regret that we lost one of our colleagues during the year as a result of a workplace incident and, tragically, a security contractor who was guarding an area of our Klipspruit Extension Project was victim to an attack and fatally injured.

Nothing is more important to us than creating a work environment where everyone goes home safe and well every day. We are committed to the safety of our people and to a workplace without significant incident and we are investing the time, energy and leadership to make a meaningful step change in our safety performance.

We have continued to focus our efforts on creating a strong culture of care and accountability. To us this means a workplace where we look after each other and feel comfortable raising any concerns.

Our people are essential to our success and we have been working towards creating a diverse workplace where everyone is recognised, valued and contributing to our success. This year, we have made progress towards our diversity targets, driving the change that is needed to ensure our business reflects the diversity of the communities where we operate.

By focusing on our company strategy we have continued to optimise our operations, unlock their potential and pursue investment opportunities beyond our current portfolio.

We achieved record annual production at Mozal Aluminium and strong performance at our aluminium smelters and alumina refineries. We demonstrated the flexibility of our Australian and South African manganese operations by increasing production volumes to take advantage of higher prices.

During the year, we faced challenges at some of our operations. Our focus has been on resolving these and finding ways to run these operations better. At Illawarra Metallurgical Coal we have recommenced production and are continuing to review the operation's systems and processes to ensure a return to stable and reliable production. At South Africa Energy Coal, production was impacted by seasonal weather and scheduled maintenance.

In line with our strategy to unlock the potential of our operations we pursued a range of efficiency projects across the aluminium value chain, entered an agreement with Alcoa to access the West Marradong mining area at Worsley Alumina and delivered the first higher-grade ore from our La Esmeralda deposit at Cerro Matoso.

We started exploration at the Southern Areas of GEMCO and progressed the Klipspruit Life Extension project towards a final investment decision.

We see a real opportunity to utilise technology and innovation to deliver both safety and productivity improvements across the business and, in response, we created the role of Chief Technology Officer as part of our Lead Team. We have also announced two new roles, being Chief Sustainability Officer and Chief Marketing Officer. The creation of these roles reflect the direction of our company and the importance we place on our people, the communities in which we operate, the environment and our customers.

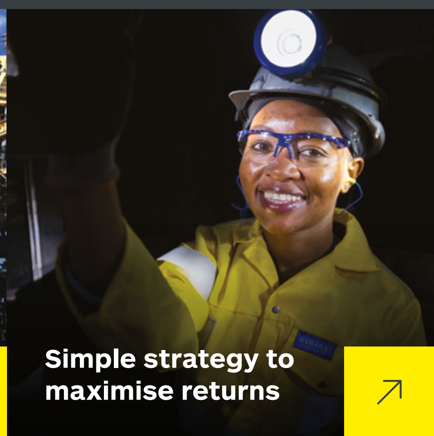
We continue to look for options outside our current portfolio, creating a pipeline of opportunities to compete for capital. Working with credible partners gives us access to attractive greenfield exploration opportunities, allowing us to maximise our technical skills, while minimising the operating exploration risk.

This year, we entered an early-stage exploration alliance with AusQuest with an initial focus on prospects in base metals in Australia and Peru. We executed an option agreement with Trilogy Metals to test the extension of the high-grade copper resource at the Bornite deposit in Alaska. We also made a strategic investment in Arizona Mining, a Canadian company developing the Hermosa zinc, lead and silver project in Arizona.

Looking ahead, we remain focused on running our operations well and ensuring we are setting them up for the long-term. Our strong balance sheet provides us with the flexibility to unlock value across the business, while continuing to look for options outside our current portfolio. As we have demonstrated this year, we continue to run our business in a way that will make a difference for our people as well as the communities where we operate, while maximising returns to shareholders.

Graham Kerr
Chief Executive Officer

KNOW US IN 32 SECONDS



OUR APPROACH

OUR APPROACH

South32 is a globally diversified metals and mining company. We mine and produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc in Australia, Southern Africa and South America.

OUR STRUCTURE

We operate a regional model with our headquarters in Perth, Australia. Our regional office in Johannesburg, South Africa supports our African operations, with our Perth office supporting our Australian and South American operations. All marketing activities are managed from Singapore and London.

Securities for South32 trade under the listing code S32 on the Australian Securities Exchange (ASX), Johannesburg Stock Exchange (JSE), London Stock Exchange (LSE) and American Depositary Receipts are traded over-the-counter in the United States.

OUR PURPOSE AND VALUES

Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources.

Each day our business and operational decisions are informed by our values:

Care

We care about people, the communities we're a part of and the world we depend on.

Trust

We deliver on our commitments and rely on each other to do the right thing.

Togetherness

We value difference and we openly listen and share, knowing that together we are better.

Excellence

We are courageous and challenge ourselves to be the best in what matters.

OUR STRATEGY

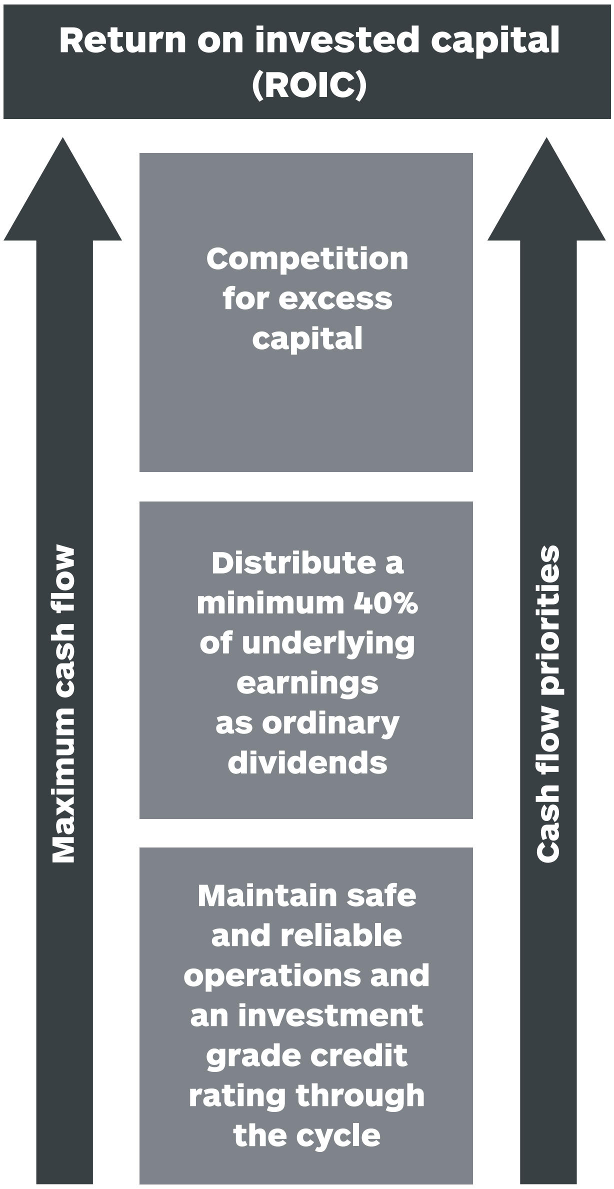
Our business strategy is to invest in high-quality metals and mining operations that allow our distinctive capabilities and regional model to stretch performance in a sustainable way.

In practice, this means that we will continue to:

- Optimise the performance of our existing operations
- Unlock their potential by converting high value resource into reserve
- Identify new opportunities to compete for capital

By maintaining financial discipline, we will deliver sector leading total shareholder returns.

Diagram 2.1 Our capital management framework



OUR OPERATING MODEL

By providing us with a foundation to deliver on our strategy and purpose, our operating model clearly defines:

- How we are organised – Our operations are combined into regions. This reduces layers of management, combines regional functional support and facilitates greater alignment with our stakeholders. We have a lean corporate centre, global shared services and a centralised marketing model
- The values that guide us – Care, Trust, Togetherness and Excellence govern how we act, how we speak to each other and how we evaluate our own behaviour; they guide every decision we make
- The way we work – Together we want to create an inclusive workplace with a strong culture of care and accountability. We ensure all work is well-designed and reliably delivers safe outcomes, with a focus on continuously improving and learning

OUR STRATEGY IN ACTION

During FY17 South32 delivered strong financial performance as a result of our high operating leverage and a broad recovery in commodity prices. Our net cash balance continued to build, giving us the financial strength and flexibility to invest in existing operations, increase returns to shareholders and pursue opportunities where we can create value.

Throughout the year, we continued to focus on value creation and investment returns. This involved reducing controllable costs by US$360 million, which brings our cumulative controllable costs savings to approximately US$700 million over two years.

The year saw a significant improvement in free cash flow from operations to US$1.5 billion, excluding equity accounted investments. This is an increase of 149 per cent on the previous year, bringing our year end net cash position to US$1.6 billion.

Our simple capital management framework is designed to reward shareholders as our financial performance improves. In December 2016, we declared our first interim dividend of US$192 million, followed by a final fully-franked dividend of US$334 million. Shareholders were also rewarded in March 2017 with the announcement of a US$500 million capital management program, increased to US$750 million at year-end. This equated to six per cent of our market capitalisation as at 18 August 2017, demonstrating our disciplined approach to capital management and confidence in the Group's cash generating capacity.

In response to favourable market conditions, in FY17, we brought 22 pots back online at our Hillside aluminium smelter in South Africa and boosted manganese ore production. This ability to scale our operations in response to market dynamics demonstrates the flexibility we've built into our business. We achieved record production at Mozal Aluminium during the year and near record production at our Hillside aluminium smelter. Worsley Alumina and Brazil Alumina operated at their maximum technical capability, on the back of a record FY16. The strong performance of these operations is the benefit of an integrated aluminium supply chain, from the input of raw materials through to the sale of our product.

Throughout this year we have also:

- Delivered the first ore from the higher-grade La Esmeralda deposit at Cerro Matoso
- Finalised the access agreement for Worsley Alumina's West Marradong mining area
- Completed the feasibility study for South Africa Energy Coal's Klipspruit Life Extension project
- Commenced exploration in the Southern Areas at GEMCO
- Funded exploration for copper-nickel-platinum mineralisation at Huckleberry, Canada as part of our agreement with Northern Shield Resources

During the year we faced challenges at some of our operations. The combination of a delay in development activity due to challenging weather conditions and depletion of the northern area, affected production at South Africa Energy Coal's Wolvekrans Middelburg Complex. At our Cannington operation, a scheduled high-grade stope was only partially extracted and mine stocks were run down following an underground fire, while challenging ground conditions and two extended outages at Illawarra Metallurgical Coal's Appin mine, also affected FY17 performance.

In looking beyond our portfolio we partnered with credible juniors on a number of greenfields exploration opportunities:

- A strategic alliance with AusQuest to advance exploration programs for new nickel and copper projects in Western Australia and Peru
- An option agreement with Trilogy Metals to fund testing the extension of a high-grade copper resource
- Acquired a 15 per cent stake in Arizona Mining, owner of the high-grade zinc, lead and silver Taylor deposit

We continue to look at opportunities to enhance our portfolio and, should the right opportunity arise, we are well positioned.

SUSTAINABILITY

We have a responsibility to ourselves and to those around us to ensure that, at a local and global level, our organisation makes a positive difference to the community and the environment. Our Sustainability Policy defines our economic, environmental, social and governance principles and affirms our commitment to sustainable development. The Policy is available at *www.south32.net*.

We are a member of the International Council on Metals and Mining (ICMM) and align to their Sustainable Development Framework. We are also aligned to the objectives in the United Nations (UN) Global Compact and contribute to specific targets of the UN Sustainable Development Goals.

To provide sustainability information in an integrated manner, we are reporting on our material sustainability issues within the Annual Reporting Suite on our website, in accordance with the Global Reporting Initiative (GRI) G4 'Core'. The GRI Navigator, which provides all the reported topics and their locations, is available at *www.south32.net*.

SAFETY AND HEALTH

It is deeply regrettable that we lost one of our colleagues during the year in a work-related incident. In November 2016, a contractor was fatally injured during relining activities at the Oxygen Blown Converter at our Metalloys Manganese Smelter in South Africa. Our immediate response was to ensure that family and colleagues were offered our full support. We conducted a detailed investigation led by a member of our Lead Team, which was reviewed by the Sustainability Committee of the Board, the CEO, and the Management team to ensure we learn from what happened.

In May 2017, a security contractor was attacked and fatally injured in a brutal crime while guarding an area of the Klipspruit Extension Project near our Klipspruit colliery in South Africa. Although this did not occur at our workplace, it had an impact on all of us, and an investigation was conducted to identify lessons that could be incorporated into our planning as we look to commence development activity over the coming six months.

Nothing is more important to us than creating an environment where everyone goes home safe and well every day. Through our Care Strategy we are building an inclusive workplace with a strong culture of care and accountability, where work is well-designed and we continuously improve and learn. This focus has delivered an improvement in both our Total Recordable Injury Frequency (TRIF)[(1)(2)] and Total Recordable Illness Frequency (TRILF)[(1)(3)] during the financial year.

Occupational injury

Our FY17 TRIF was 6.02 per million hours worked, representing an improvement on last year's TRIF of 7.74 per million hours worked. TRIF decreased in both the Australia and Africa regions in FY17.

Table 2.1 Total recordable injury frequency

Total Recordable Injury Frequency (TRIF)	FY16	FY17
Africa region	3.52	2.43
Australia region	15.14	13.33
South32	7.74	6.02

Occupational illness

Our FY17 TRILF was 1.26, an increase compared to our previously reported TRILF of 1.07 in FY16. During FY17, it was found that 11 cases of noise-induced hearing loss for the Australia region had not been reported in FY16. Taking these cases into account, the revised Total Recordable Illness Frequency (TRILF) for FY16 is 1.29 (from 1.07).

Our FY17 TRILF is a slight improvement on the restated FY16 TRILF.

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

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

(3) Total Recordable Illness Frequency (TRILF): The sum of total occupational illness x 1,000,000 ÷ actual hours worked, for employees and contractors. Stated in units of per million hours worked.

Table 2.2 Employee occupational illness

Employee Occupational Illness	% Change from FY16
Total employee occupational illnesses	25% increase
Employee musculoskeletal disease	40% increase
Employee noise-induced hearing loss	41% decrease

There was a 25 per cent increase in employee occupational illnesses per million hours worked for FY17 compared to FY16, from 40 illness cases in FY16 to 50 cases in FY17. This increase is predominantly attributed to musculoskeletal disease, from 23 cases in FY16 to 31 cases in FY17 across the Company. Our sites facilitate medical treatment and, where necessary, support the rehabilitation of workers who have suffered from a work-related injury or illness.

Occupational exposures

In FY17, there was a significant reduction in the number of workers potentially exposed to an airborne contaminant or carcinogen. The reduction has been driven by a combination of projects to reduce exposure at the source and an improved understanding of our exposure risk profiles.

Table 2.3 Occupational exposures

Occupational Exposures	% Change from FY16
Potential exposures to carcinogens	47% decrease
Potential exposures to airborne contaminants	24% decrease
Potential exposures to noise	10% increase

Further reporting on Safety and Health can be found on our website.

PEOPLE

Our people are the foundation of our success. To attract and retain talent we focus on creating an environment where everyone is able to perform to their full potential every day. We do this by building an inclusive workplace, making sure we have the right people in the right roles, and ensuring our people are engaged, empowered and rewarded for demonstrating the desired performance and behaviours that build our company.

In FY17, we employed 14,002 people across seven countries. Of these, 96 per cent were permanent and four per cent were temporary or fixed-term employees. In addition to our employees, approximately 9,974 full-time equivalent contractors contributed to the success of our business. Our voluntary turnover rate for FY17 remains low at 2.8 per cent.

We have set ambitious diversity targets that focus on gender and ethnicity, taking into account emerging trends in the jurisdictions in which we operate.

Further reporting on People can be found on our website.

Table 2.4 Progress against our measurable diversity objectives

Measurable objectives		Target		Actual	
		%	By when	FY16	FY17
Improve representation of women in total workforce	Total Employees[1]	Continuing improvement		15.7%	16.2%
Improve representation of women in leadership teams	Board	30%	30-Jun-18	13%	14%[2]
	South32 Lead Team	30%	30-Jun-18	17%	17%
	Africa Region Lead Team	40%	30-Jun-20	15%	27%
	Australia Region Lead Team	40%	30-Jun-20	29%	33%
	Corporate Functions Lead Team	40%	30-Jun-20	48%	33%
	Africa Operations Lead Teams	30%	30-Jun-18	10%	18%
	Australia Operations Lead Teams	30%	30-Jun-18	11%	19%
Improve representation of Black People in South Africa[3]	Management Roles	70%	30-Jun-20	45%	42%
	Total Employees	85%	30-Jun-20	79%	79%
Achieve gender pay equity	Funds allocated to address the gender pay gap				US$1.8m

(1) Total number of employees as at 30 June 2017.
(2) A change in one per cent resulted from the total number of Directors being reduced from eight to seven at the end of FY17.
(3) Black People is a term meaning Africans, Coloureds and Indians who are citizens of the Republic of South Africa by birth or descent (as more fully defined in the Broad-Based Black Economic Empowerment Amendment Act 2013 (South Africa)).

ENVIRONMENT

We strive to be a responsible steward of the environment and treat natural resources with care so they are available for future generations. Through our internal standards, we manage key risks and monitor our performance.

Land and Water

Our fully integrated business planning process minimises biodiversity impacts and we aim to restore land through effective rehabilitation programs. We continue to manage our material water-related risks, with a desalination plant commissioned at Hillside aluminium smelter in South Africa and a pipeline constructed at Worsley Alumina in Australia to secure water supply.

Climate Change

Our Climate Change Strategy addresses three avenues: opportunity, mitigation and resilience. Our emission reduction projects and energy studies will help reduce our contribution to climate change.

In FY17, our Scope 1 and Scope 2 emissions totalled 22.6 million tonnes of carbon dioxide equivalent (CO_2-e). This is a reduction in emissions of three per cent or 748 kilotonnes (kt) of CO_2-e compared to FY16.

Our Scope 1 greenhouse gas emissions decreased by four per cent in FY17, to 10,601 ktCO_2-e. We, therefore, continue to progress towards our target of staying below our FY15 Scope 1 emission baseline in FY21.

Our Intelligent Land Management (ILM) initiatives are integrated projects that deliver economic, social and environmental value to stakeholders, including future generations and the natural environment. We have initiated two ILM projects in FY17, at Illawarra, New South Wales in Australia, and at Chrissiesmeer, Mpumalanga in South Africa.

This year, we completed our first assessment of climate change impacts in alignment with the recommendations of the Task Force on Climate-related Disclosures. Detail on this assessment is included in the 'Our Approach to Climate Change' document on our website.

Tailings

During FY17, the International Council on Mining and Metals (ICMM) released their position statement on preventing catastrophic failure of tailings storage facilities. We have endorsed and fully support this statement and, in response, have developed internal frameworks to ensure that all our tailings and water holding dams operate in accordance with this statement.

Further reporting on Environment can be found on our website.

COMMUNITY AND SOCIETY

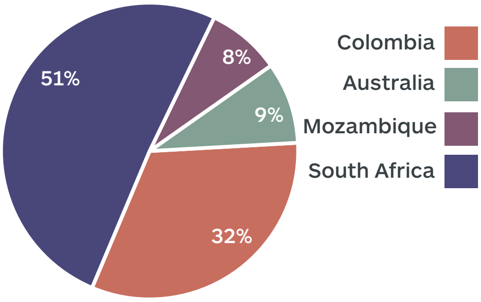
We want to generate shared value and develop trusting relationships with the communities in which we operate and will achieve this by being transparent, investing in communities and respecting human rights. We also support practices that enable people to make choices that give them control over the development of their lives, beliefs, institutions and wellbeing.

We recognise the traditional rights and values of Indigenous Peoples, respect their cultural heritage and aim to provide sustainable benefits and opportunities. Some of our operations and exploration sites are located on or near Indigenous lands and we provide cultural awareness and competency training for relevant employees. We have implemented engagement programs consistent with the ICMM Position Statement on Indigenous Peoples and Mining, which commits us to respecting rights, having appropriate and meaningful engagement, and working to obtain their consent.

Community contributions

During FY17, we contributed US$14.3 million to our local communities through a combination of cash and in-kind support. This amount also includes administrative costs.

Diagram 2.2 Community investment by country



Human rights

We understand that respecting human rights is not only the right thing to do, but it aligns with our company values and expectations. We have a core value of Care, which means we care about people, the communities we are part of and the world we depend on. This extended view of our responsibility means we take care of, and take care not to damage, those who are vulnerable and marginalised, and we make business decisions that work to avoid the creation of circumstances where human rights could be impacted.

At a practical level, we set appropriate labour conditions in our workplace in line with national laws and the appropriate International Labour Organisation (ILO) conventions. We manage the activities of our security teams, support local community programs and work with our suppliers to identify and manage human rights related risks and opportunities.

In FY17, we published our first Modern Slavery Statement under section 54 of the UK Modern Slavery Act 2015, outlining how we address modern slavery risks within our business and relationships. As part of the commitments under this Statement, we have provided modern slavery training to relevant employees, are identifying our high-risk suppliers and are proactively engaged in active due diligence of our higher risk suppliers. Our Modern Slavery Statement can be found at *www.south32.net*.

Transparency

We support the transparent disclosure of taxes, royalties and fees in order for people to understand how companies contribute to their economy. We comply with all transparency requirements relating to our operations, which currently includes Chapter 10 of the European Union Accounting Directive, the Australian Voluntary Tax Transparency Code and the Global Reporting Initiative requirements. We also support the Extractive Industries Transparency Initiative and provide financial contribution through our membership of the ICMM. We include all payments to governments in our Tax Transparency report, which is published on our website. A full list of South32 subsidiaries including their country of tax residency can be found in note 28 to the financial statements on page 160 of the Annual Report.

Transformation

Transformation is central to our efforts to make a meaningful contribution to the social and economic development of South Africa. The publication, in June 2017, of Mining Charter III has created some uncertainty, however, its implementation has been suspended pending a judicial review initiated by the South African Chamber of Mines. We will continue to find ways that contribute to us delivering our objectives, ensuring that our employees and communities are part of the process.
In FY17, we worked on ways to improve our empowerment levels, we held workshops at every South African operation across all business areas to discuss ways to support our transformation strategy.

Further reporting on Community and Society can be found on our website.

GOVERNANCE

In developing our corporate governance framework, the Board considered the standards of corporate governance applicable in each of the jurisdictions in which South32 is listed. We commit to the higher standard of corporate governance applicable to us across these jurisdictions, which leads to the best outcome from a governance perspective for our stakeholders.

We have a strong framework in place to ensure compliance with applicable anti-corruption and competition laws.

Our corporate governance practices and a description of our approach to promoting responsible and ethical behaviour are set out in the Corporate Governance Statement available at *www.south32.net*[1].

OUR YEAR AHEAD

Production guidance for FY18 is unchanged for the majority of our operations, other than Cannington and South Africa Energy Coal, where we expect lower volumes for the year. At Illawarra Metallurgical Coal's Appin colliery we are reviewing our operating systems and practices. Our focus is on a safe restart of operations and guidance will be provided following an assessment of our initial ramp-up performance.

We achieved unit cost guidance at most of our operations during FY17 and our scrutiny of cost and capital expenditure is being maintained as we seek to mitigate inflationary pressure in FY18.

We remain focused on running our operations well and will look to see where technology and innovation can continue to improve our safety and productivity.

We're committed to paying a minimum of 40 per cent of Underlying earnings as dividends and our strong financial position provides the flexibility to continue to look for opportunities to compete for capital and increase value for our shareholders.

(1) *www.south32.net/who-we-are/corporate-governance*.

OUR COMPANY

BOARD OF DIRECTORS

The Board of Directors is committed to representing shareholders and protecting the interests of South32.

Underpinned by strong corporate governance practices, the Board believes South32 has the right people and the right strategy to prosper.

Seven Directors currently serve on the South32 Board, six are Non-Executive Directors and five are Independent Directors. The names, qualifications, experience and special responsibilities of each person holding the position of Director at the date of this Annual Report are set out below.

1. DAVID CRAWFORD

AO, BCOMM, LLB, FCA, FCPA, FAICD, 73

- Chairman and Independent Non-Executive Director
- Chairman, Nomination and Governance Committee; Member, Risk and Audit Committee

Location: Australia

Director since 2 February 2015

Skills and experience:

Mr Crawford has extensive experience in risk management and business reorganisation. He has acted as a consultant, scheme manager, receiver, manager and liquidator to very large and complex companies. Mr Crawford was previously Australian National Chairman of KPMG, Chartered Accountants.

Other directorships and offices (current and recent):

- Chairman, Lendlease Corporation Limited (ASX listed) since May 2003 and Director since July 2001
- Chairman, Australia Pacific Airports Corporation Limited
- Advisory Board Member, Bank of America Merrill Lynch Australia, Allens and Evans & Partners
- Former Director, BHP Billiton Limited (ASX listed) from May 1994 to November 2014 and BHP Billiton Plc (LSE listed) from June 2001 to November 2014

2. GRAHAM KERR

BBUS, FCPA, 46

- Chief Executive Officer and Managing Director

Location: Australia

Director since 21 January 2015

Skills and experience:

Mr Kerr has been Chief Executive Officer (CEO) of South32 since October 2014.

Responsible for running all facets of the business, Mr Kerr successfully led the establishment of the Company and its public listing in three countries in May 2015.

Mr Kerr has a strong track record in global resource development and is passionate about health, safety and sustainability. Before joining South32, Mr Kerr worked in a wide range of roles across the BHP Billiton Group, including as Chief Financial Officer (CFO) from 2011 to 2014 and President of Diamonds and Specialty Products.

As President of Diamonds and Specialty Products, Mr Kerr was accountable for the Ekati Diamond Mine in Canada, the Richards Bay Minerals Joint Venture in South Africa, diamond exploration in Angola, the Corridor Sands Project in Mozambique and the development of BHP's potash portfolio in Canada. In 2004, Mr Kerr left BHP for a two-year period when he was General Manager Commercial for Iluka Resources.

Mr Kerr has a Business degree from Edith Cowan University and studied at Deakin University to become a Certified Practicing Accountant.

3. FRANK COOPER

AO, BCOM, FCA, FAICD, 61

- Independent Non-Executive Director
- Chairman, Risk and Audit Committee; Member, Remuneration Committee; Member, Nomination and Governance Committee

Location: Australia

Director since 7 May 2015

Skills and experience:

Mr Cooper has more than 35 years' experience in the accounting profession, specialising in the mining, energy and utilities sector before taking on a number of Non-Executive Director roles from 2012.

Other directorships and offices (current and recent):

- Director, Woodside Petroleum Limited (ASX listed) since February 2013
- Director, St John of God Australia Limited and Trustee, St John of God Health Care
- Commissioner and Chairman, Insurance Commission of Western Australia
- Member, Senate of the University of Western Australia
- President, Western Australia division of the Australian Institute of Company Directors

4. XOLANI MKHWANAZI

BSC, MSC and PHD (APPLIED PHYSICS), 62

- Non-Independent Non-Executive Director
- Member, Sustainability Committee

Location: South Africa

Director since 2 July 2015

Skills and experience:

Dr Mkhwanazi was previously President and Chief Operations Officer (COO) South Africa Aluminium with BHP Billiton (from February 2005). Dr Mkhwanazi was Chairman of BHP Billiton in South Africa from 2009 to 2015. He has served as CEO of Bateman Africa Ltd and the National Electricity Regulator. Prior to that, he held senior positions at the Council for Scientific and Industrial Research. During this period he played a key role in the formulation of the South African National Science and Technology Policy. In his early career, Dr Mkhwanazi was a Senior Scientist at the Atomic Energy Corporation and Head of the Physics Department at the University of Swaziland.

Other directorships and offices (current and recent):

- Director, Murray and Roberts Ltd (JSE listed) since August 2015
- Deputy Chairman, The Public Investment Corporation
- Chairman, Gibela Rail Transport Consortium RF (Pty) Ltd
- Chairman, Odgers Berndtson SA (Pty) Ltd
- Chairman, Private Label Promotion (Pty) Ltd

5. NTOMBIFUTHI (FUTHI) MTOBA
DCOM (HONORIS CAUSA)
CB.COMPT, BA, 62

- Independent Non-Executive Director
- Member, Risk and Audit Committee; Member, Nomination and Governance Committee

Location: South Africa

Director since 7 May 2015

Skills and experience:

Dr Mtoba was Chair of the Board at Deloitte Southern Africa, where her industry specialisation was in financial services. Dr Mtoba is a Past President of Business Unity South Africa (BUSA) and a past member of the Board of United Nations Global Compact. Dr Mtoba's numerous awards include Business Woman of the Year (Nedbank and Business Women's Association, 2004) and International Woman of the Year (Organisation of Women in International Trade, 2005). Through her work on the Board of UN Global Compact she brings valuable sustainability and environmental experience to the Board.

Other directorships and offices (current and recent):

- Director, New Discovery Limited and Discovery Purpose Holdings Limited
- Chair, WBD Trust
- Chair of Council, University of Pretoria
- Council Member/Director, African Union Foundation
- Founding Trustee, ZM Foundation
- Trustee, Allan Gray Orbis Endowment
- Trustee, Nelson Mandela Foundation

6. WAYNE OSBORN
DIP ELECT ENG, MBA, FAICD, 66

- Independent Non-Executive Director
- Chairman, Remuneration Committee; Member, Sustainability Committee; Member, Nomination and Governance Committee

Location: Australia

Director since 7 May 2015

Skills and experience:

Mr Osborn has more than 35 years of experience in the Australian mining, resources and manufacturing sectors. Mr Osborn joined Alcoa in 1979 and worked in a variety of roles and locations across the Australian business, prior to being appointed Managing Director, Alcoa of Australia in 2001. He retired from Alcoa of Australia in 2008.

Other directorships and offices (current and recent):

- Director, Wesfarmers Limited (ASX listed) since March 2010
- Former Director, Alinta Holdings Pty Ltd (March 2011 to April 2017)
- Former Director, Iluka Resources Limited (March 2010 to May 2016)

7. KEITH RUMBLE
BSC, MSc (GEOLOGY), 63

- Independent Non-Executive Director
- Chairman, Sustainability Committee; Member, Remuneration Committee; Member, Nomination and Governance Committee

Location: South Africa

Director since 27 February 2015

Skills and experience:

Mr Rumble was previously CEO of SUN Mining, a wholly-owned entity of the SUN Group, and a principal investor and private equity fund manager in Russia, India and other emerging and transforming markets. Mr Rumble has more than 30 years of experience in the resources industry, specifically in titanium and platinum mining.

He was formerly the CEO of Impala Platinum (Pty) Ltd and CEO of Rio Tinto Iron and Titanium Inc in Canada. Mr Rumble began his career at Richards Bay Minerals in 1980 and held various management positions before becoming CEO in 1996.

Other directorships and offices (current and recent):

- Director, Acetologix Pty Limited
- Director, Enzyme Technologies (Pty) Limited
- Director, Elite Wealth (Pty) Limited
- Board of Governors of Rhodes University
- Trustee, World Wildlife Fund, South Africa
- Former Director, BHP Billiton Limited (ASX listed) and BHP Billiton Plc (LSE listed) from September 2008 to May 2015

LEAD TEAM

The names, qualifications and experience of members of the South32 Lead Team are:

Graham Kerr BBUS, FCPA, 46

Chief Executive Officer

See page 15 for Mr Kerr's qualifications and experience.

Brendan Harris BSc, 45
Chief Financial Officer

Mr Harris commenced as Chief Financial Officer of South32 in November 2014 and had an integral role in the establishment, Demerger and listing of South32.

Mr Harris is accountable for Financial Reporting, Management Reporting, Treasury, Business Evaluation, Tax, Corporate Affairs and Investor Relations, Risk and Assurance and Brazil Alumina.

Prior to South32, Mr Harris was Head of Investor Relations at BHP between 2011 and 2014, having been Vice President Investor Relations Australasia from July 2010. He previously held various roles in investment banking, including Executive Director Metals and Mining Research at Macquarie Equities.

Mr Harris holds a Bachelor of Science in geology and geophysics from Flinders University.

Paul Harvey BEng, 53
President and Chief Operating Officer, Australia

Mr Harvey was appointed President and Chief Operating Officer for the Australia region in April 2017.

Prior to this, Mr Harvey held the role of Chief Transformation Officer where he was responsible for Information Technology, Sustainability, Enterprise Resource Planning, Corporate Human Resources and Shared Services. During his tenure as Chief Transformation Officer, Mr Harvey was seconded for six months to lead the implementation of our Care Strategy in the Africa region.

Prior to South32, Mr Harvey was the Asset President of Nickel West in Australia and Asset President at BHP's Ekati diamond mine in Canada. He has held roles in operations management, major capital project directorships, business planning, strategy and growth leadership across uranium, base metals, diamonds and specialty products, and has worked across Africa, Australia and Canada.

Mr Harvey holds a Bachelor of Engineering (Mining) from the Western Australian School of Mines.

Mike Fraser BCom, MBL, 52
President and Chief Operating Officer, Africa

Mr Fraser was appointed President and Chief Operating Officer, Africa in January 2015 and was responsible for establishing the Africa region for South32.

Prior to South32, Mr Fraser was President, Human Resources and a member of BHP's Group Management Committee, having first joined in 2000. During his career, Mr Fraser was Asset President of Mozal Aluminium Smelter in Mozambique from 2009 to 2012, having also worked in various roles in BHP's coal, manganese and aluminium businesses. During his career, Mr Fraser held a variety of leadership roles in a large internationally diversified industrial business and has worked in the United Kingdom, South Africa, Mozambique and Australia.

Mr Fraser holds a Master of Business Leadership and a Bachelor of Commerce from the University of South Africa.

Nicole Duncan BA (Hons), LLB, MAICD, FGIA, FCIS, 45
Chief People and Legal Officer

Ms Duncan commenced in the role of Chief Legal Officer in December 2014 and was appointed Company Secretary in January 2015. Ms Duncan is accountable for the Human Resources functions across South32, as well as the Company Secretariat, Legal and Compliance teams.

Prior to South32, Ms Duncan was Vice President, Company Secretariat for BHP. Ms Duncan also held the position of Vice President, Supply, Group Information Management from 2011 to 2013. During her career, she held various legal roles in Australia, the United States and the Netherlands.

Ms Duncan graduated from the Australian National University with a Bachelor of Laws and a Bachelor of History (Hons).

Peter Finnimore BCom, LLB, 52
Chief Marketing Officer

Mr Finnimore was appointed Chief Marketing Officer in August 2017 after having been Head of Marketing for South32 since May 2015. He has over 25 years of global experience in the field of logistics and marketing.

Prior to joining South32, Mr Finnimore held various roles in BHP Billiton, starting in The Hague in 2008 as Vice President Marketing Aluminium. He then led the consolidation of the Aluminium and Stainless Steel Materials Marketing teams in August 2012. In 2013, he was appointed Vice President Marketing Aluminium, Manganese & Nickel based out of Singapore. Previously, Mr Finnimore worked in various marketing roles in Japan, Australia, Russia, Cyprus and Switzerland, including for Rio Tinto and Rusal.

Mr Finnimore completed degrees in Commerce and Law at the University of Queensland.

Rowena Smith BCom, 50
Chief Sustainability Officer

Ms Smith was appointed Chief Sustainability Officer in August 2017 and has overall responsibility for Health, Safety, Environment, Sustainability and Security.
Ms Smith has been Vice President Supply, Australia region for South32 since March 2015 heading up a large team of people in Australia and South America providing commercial, sourcing and logistical services to our operations.

Prior to joining South32, Ms Smith worked with BHP Billiton Nickel West as Head of Resource Planning and Development. In her 14 years with BHP, Ms Smith also held senior roles in marketing and operations, including General Manager, Kwinana Nickel Refinery. Prior to that she worked in operational leadership roles within Rio Tinto's aluminium smelting business.

Ms Smith holds a Bachelor of Commerce degree from the University of Western Australia and is the Chair of Board for the Women and Infants Research Foundation, Western Australia.

Johan Coetzee BEng (Chemical), MBL, 45
Chief Technology Officer (Acting)

Mr Coetzee was appointed to the position of Chief Technology Officer in August 2017 in an acting capacity. Prior to this, Mr Coetzee was the Vice President of Planning and Development, Africa, for South32.

Before joining South32, Mr Coetzee held the roles of General Manager, Operations at Mozal Alumina and Vice President Health, Safety, Environment and Community from 2009 to 2011 at BHP.

Mr Coetzee's career has included both Operational and Commercial roles, spanning Health, Safety, Environment, Business Development and Marketing across Africa, Singapore and London.

Mr Coetzee has a Chemical Engineering Degree from the University of Stellenbosch and a Masters in Business Leadership from the University of South Africa.

RISK MANAGEMENT

RISK MANAGEMENT

Risk is inherent in our business. To maintain our social licence to operate, remain a valued member of our communities and ensure our continued success, we actively manage our risks. Our risk management framework sets out our overall approach to risk management including how we identify, monitor and manage material risks associated with our activities. This framework applies to all employees, Directors and contractors of South32 and its subsidiaries.

More information about our risk management framework can be found at *www.south32.net*.

The following information outlines the most significant risks identified across the Group and provides an indicative trend towards increasing or decreasing risk (depicted with the accompanying arrow). The list is not exhaustive, nor listed in any particular order.

STRATEGIC AND EXTERNAL RISKS

Fluctuations in commodity prices, exchange rates, interest rates and the global economy

Risk: Our earnings, balance sheet and cash flows are affected by the volatility of commodity prices, exchange rates and interest rates. Significant deterioration in commodity prices or unfavourable currency movements have the potential to adversely impact the value of our operations and our ability to declare dividends. Financing costs, currency, input costs and commodity prices are managed based on floating indices. Prices are determined by the balance of supply and demand for commodities. Costs are impacted by the local currencies of operations.

Mitigation: We expect commodity prices and exchange rates to remain volatile. The quality of our operations and commitment to a strong balance sheet mitigates against this volatility. In addition, our diverse commodity and geographical exposure reduces the impact of volatility relative to a single commodity, single geography producer. We also actively monitor the markets in which we operate and continuously review our operating and capital expenditure plans.

Political events, actions by governments or tax authorities

Risk: New regulations, such as changes to taxation policy or controls on imports, exports and prices have the potential to adversely impact our business. We make long-term investments that depend on long-term fiscal and regulatory stability. Risks of nationalisation, renegotiation or nullification of contracts, leases, permits or agreements vary by jurisdiction.

Mitigation: We are committed to creating shared value. Whilst regulatory complexity and associated costs of compliance are increasing, we regularly engage with regulators in a transparent way to ensure potential changes are identified, understood and incorporated into our risk management approach. We publish an annual Tax Transparency and Payments to Governments report which outlines our approach to tax governance and details our tax payments to governments on a country-by-country and project by project basis. This report can be found at *www.south32.net*.

Cost inflation and labour disputes could impact operating margins and expansion opportunities

Risk: Price inflation of key inputs has the potential to negatively impact operating margins. Labour is a significant operating cost and varies depending on the underlying demand for people. An increase in capital costs or scheduling delays could also impact financial returns on capital investments.

Mitigation: Our people are our most valuable resource. We aspire to have constructive relationships with our employees and trade unions across our business. We monitor the markets in which we operate to understand cost inflation impacts. Investment decisions are governed by our capital management framework and all discretionary investments compete, based on the assessed risk and key financial criteria.

Climate change

Risk: Climate change can impact a business' revenue and expenditure in several ways. This could result in exposure to carbon pricing, litigation, changes in technology, changing demand and supply conditions, reputational impacts and physical impacts from climate change, depending on how we and broader society respond.

Mitigation: To mitigate or adapt to climate change risks, take advantage of opportunities and support global action, our Climate Change Strategy focuses on:

- Climate change opportunity
- Climate resilience
- Emissions reduction

We also undertake climate change scenario analysis, which supports our business strategy and capital allocation decisions. Our operations carry out exploration as well as research and development necessary to support these activities. We support climate action and the transition to a lower carbon future. We have also chosen not to develop any new greenfield energy coal basins and there is no material risk to the book value of our current assets. More information can be found in Our Approach to Climate Change report, which is on our website.

Failure to maintain, realise or enhance existing reserves

Risk: Mineral/Coal Resource and Ore/Coal Reserve estimates are based on our knowledge of deposits using generally accepted industry practice through appropriate data collection, analytical assessment and studies. Our value is limited to the known resource and reserve position. Failure to take the right opportunities to optimise and enhance our resource and reserve position could detrimentally impact long-term shareholder returns. Our understanding of the resource and reserve position also impacts how we value and report our operations and our decision making on investment opportunities.

Mitigation: We have a number of initiatives in place to optimise our operations, unlock their potential and identify new options that may compete for capital. Our capital management framework and capital prioritisation process is designed to maximise total shareholder returns. We report Mineral/Coal Resources and Ore/Coal Reserves as required by the ASX Listing Rules and rely on Competent Persons with sufficient relevant experience to provide these estimates. We apply a comprehensive program of review and audit aimed at providing assurance in respect of Mineral/Coal Resources and Ore/Coal Reserves estimates.

Deterioration in liquidity and cash flow

Risk: External factors may adversely impact cash flows, liquidity and cash reserves. As a result, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.

Mitigation: We have committed to maintain an investment grade credit rating and strong liquidity throughout economic cycles. We manage our balance sheet and cash flow within strict financial criteria and will not combine undue financial and commodity price leverage.

OPERATIONAL RISKS

Health and safety risks in respect of our activities

Risk: Health and safety events that have the potential to adversely impact our people and operations are covered in detail within the Sustainability documents of the Annual Reporting Suite, which is published on our website.

Mitigation: The health and safety of our employees is paramount and underpins everything we do. Our operations have comprehensive health and safety policies with associated performance requirements that are designed to prevent and mitigate exposures. Our Care Strategy is focused on reducing the exposure of our people to health and safety risk through creating an inclusive workplace, where work is well-designed and we continuously learn and improve to deliver safe outcomes.

Access to water and power

Risk: Water and power are critical to our operations. Continued access to water and power to support our existing activities on current terms is not guaranteed. Underlying factors can change, such as the climate, counterparties, contractual arrangements or government policy.

Mitigation: We work closely with suppliers of water and power, engaging on a long-term, mutually beneficial basis. We also work to secure energy and water resources within our control, noting that the risk of access to power in Africa has decreased, while the risk of access to water for our operations has increased, subject to seasonal variations. Where appropriate, we are diversifying our energy supply sources and investing in desalination facilities.

Water and waste water management, and environmental risks

Risk: Our operations have the potential to impact biodiversity, land, water and related ecosystems. Scrutiny in this area is increasing and regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased mitigation costs or compensatory actions. The sustainability of operations may also be impacted.

Mitigation: We are committed to excellence in water and waste water management and use water responsibly, taking into account natural supply variations. Whilst regulatory complexity and the associated costs of compliance are increasing, our policies and standards are designed to prevent, monitor and reduce the impact of our operations on the environment.

Unexpected operational or natural catastrophes

Risk: Our operations and transport networks can be exposed to incidents such as fire, explosion, flooding, geotechnical failures, loss of power supply, mechanical equipment failures and unexpected natural catastrophes. The frequency and severity of these incidents may be exacerbated by climate change.

Mitigation: Our operations use tools to analyse risks and design plans that prevent or limit impacts. This includes incorporating the most up-to-date climate parameters into our planning, risk and valuation models. Contingency, business continuity and disaster recovery plans facilitate rapid response to significant events and ensure the safe restoration of operations. Where available and cost effective, we purchase insurance to mitigate financial consequences.

Counterparties that we transact with may not meet their obligations

Risk: We contract with commercial, government and financial counterparties, including customers, suppliers and financial institutions who may fail to perform against contracts and obligations, impacting cost or price performance. Non-supply or changes to the quality of key inputs may impact both production volumes and costs at our operations.

Mitigation: We proactively engage with all counterparties to manage instances of non-supply or quality control prior to occurrence. Our operations use counterparty credit ratings and manage within set counterparty limits. Our insurance program mitigates the financial consequences of supply disruption, subject to availability and cost.

Risks of fraud and corruption

Risk: We are exposed to the risks of fraud and corruption, both within and external to our organisation. Fraud and corruption may lead to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage.

Mitigation: Our people are trained to assess potentially fraudulent or corrupt activities. Our Code of Business Conduct, policies and procedures mandate expectations aligned with legislative and regulatory requirements. We provide our employees and third parties with mechanisms to safely report suspected fraud or corruption.

Breaches of information technology security

Risk: Our information technology systems could be subject to security breaches resulting in theft, disclosure or corruption of information. Security breaches could also result in misappropriation of funds or disruption to operations. Cyber security risk is increasing due to the continued deployment of technology in our industry and operations as well as the number and sophistication of cyberattacks.

Mitigation: Cyber security risk is managed by our network and physical control frameworks, together with anti-virus software. Monitoring of networks, ethical hacking and data analysis is undertaken to identify suspicious activity and potential exposures. The Risk and Audit Committee reviews the management of cyber security risk twice a year.

Failure to retain and attract key employees

Risk: The loss of key personnel or the failure to attract, train and retain sufficiently qualified employees could affect our operations, financial position and growth.

Mitigation: The attraction and retention of key personnel is a priority and fundamental to our long-term success. Our people approach guides how we attract, employ, develop, engage and retain talented people. We focus on having an inclusive workplace, developing future leaders and investing in our people.

OPERATING AND FINANCIAL REVIEW

INTRODUCTION

The following operating and financial review is intended to convey the Directors' perspective of the Group's operating performance and financial position, likely development and future prospects.

The following information forms part of this operating and financial review:

- Our Strategy on page 8 of the Annual Report
- Risk Management on pages 19 to 22 of the Annual Report, which includes the most significant risk factors and mitigation thereof

The Group uses a number of non-International Financial Reporting Standards (IFRS) financial measures in addition to those reported in accordance with IFRS. The Directors believe that these non-IFRS measures are important when assessing the underlying financial and operating performance of the Group and its operations as set out below.

Underlying earnings, Underlying EBIT and Underlying EBITDA are defined below and these measures are included on page 110 in note 4 to the financial statements, in accordance with AASB 8 'Operating Segments'. We believe that Underlying earnings, Underlying EBIT and Underlying EBITDA provide useful information, but should not be considered as an indication of, or an alternative to, profit/(loss) after tax as an indicator of actual operating performance or as an alternative to cash flow as a measure of liquidity.

In calculating Underlying earnings and Underlying EBIT we adjust for certain items each period, irrespective of materiality. In addition, South32 management retains the discretion to adjust for other significant non-recurring items that are not considered reflective of the underlying performance of the Group's operations.

We believe that these non-IFRS measures, listed below, are important when assessing the underlying financial and operating performance of the Group and the Group's operations.

Segment Measure	Definition
Underlying EBIT	Profit from continuing operations before net finance cost, tax and after any earnings adjustment items, including impairments. Underlying EBIT is reported inclusive of the Group's share of net finance cost and tax of equity accounted investments.
Underlying EBITDA	Underlying EBIT before depreciation and amortisation.
Underlying earnings	Profit after tax and earnings adjustment items. Earnings adjustments represent items that do not reflect the underlying operations of South32.

In discussing the operating results of the Group, the focus is on Underlying earnings. Underlying earnings is the key measure that is used to assess the performance of the Group, make decisions on the allocation of resources and assess senior management's performance. In addition, the performance of each of the Group operations and operational management are assessed based on Underlying EBIT. Management uses this measure because financing structures and tax regimes differ across the Group's operations and substantial components of tax and interest charges are levied at a group level rather than an operation level.

In order to calculate Underlying earnings, Underlying EBIT and Underlying EBITDA, the following items are adjusted as applicable each period, irrespective of materiality:

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

Items that do not reflect the underlying operations of the Group, and are individually significant to the financial statements, are excluded to determine Underlying earnings. Significant items are detailed on page 117 in note 4(b)(ii) to the financial statements.

Additional non-IFRS measures definitions:

Non-IFRS measure	Definition
Underlying effective tax rate (ETR)	Comprises underlying income tax expense excluding royalty related tax divided by underlying profit before tax; both the numerator and denominator exclude equity accounted investments.
Underlying EBIT margin	Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.
Underlying EBITDA margin	Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.
Margin on third party products	Comprises Underlying EBIT on third party products, divided by third party product revenue.

Non-IFRS measure	Definition
Net debt	Comprises interest bearing liabilities, including finance leases, less cash and cash equivalents.
Net operating assets	Represents operating assets net of operating liabilities, which predominantly exclude the carrying value of equity accounted investments, cash, interest bearing liabilities and tax balances.
Return on invested capital (ROIC)	Calculated as Underlying EBIT less the discount on rehabilitation provisions included in net finance cost, tax effected by the Group's ETR, divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories. Manganese is included in the calculation on a proportional consolidation basis.

FINANCIAL KEY PERFORMANCE INDICATORS FOR FY17

The two key measures used to monitor financial performance are Underlying earnings for the Group as a whole and Underlying EBIT for the performance of each of the Group operations.

Financial highlights

US$M	FY17	FY16	% Change
Revenue(1)	**6,950**	5,812	20%
Profit/(loss)	**1,795**	(1,441)	N/A
Profit/(loss) after tax	**1,231**	(1,615)	N/A
Basic earnings per share (US cents)(2)	**23.2**	(30.3)	N/A
Ordinary dividends per share (US cents)(3)	**10.0**	1.0	900%
Other financial measures			
Underlying EBITDA	**2,411**	1,131	113%
Underlying EBITDA margin	**38.9%**	21.5%	17.4%
Underlying EBIT	**1,648**	356	363%
Underlying EBIT margin	**26.6%**	6.7%	19.9%
Underlying earnings	**1,146**	138	730%
Basic Underlying earnings per share (US cents)(2)	**21.6**	2.6	731%
ROIC	**11.4%**	1.7%	9.7%

(1) Revenue includes revenue from third party products.

(2) FY17 basic earnings per share is calculated as Profit/(loss) after tax divided by the weighted average number of shares for FY17 (5,307 million). FY17 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for FY17. FY16 basic earnings per share is calculated as Profit/(loss) after tax divided by the weighted average number of shares for FY16 (5,324 million). FY16 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for FY16.

(3) FY17 dividend per share is calculated as the total dividend announced (US$192 million) in the first half of FY17 divided by the number of shares on issue at 31 December 2016 (5,324 million) plus the total dividend announced (US$334 million) in the second half of FY17 divided by the number of shares on issue at 30 June 2017 (5,218 million).

EXTERNAL FACTORS AND TRENDS AFFECTING THE GROUP'S RESULTS

The following describes the main external factors and trends that have had a material impact on the Group's financial position and results of operations. Details of the Group's most significant risk factors, and mitigation thereof, can be found in Risk Management on page 19 to 22 of the Annual Report.

Management monitors particular trends arising from external factors with a view to managing the potential impact on the Group's future financial position and results of operations.

Commodity prices and changes in product demand and supply

South32 produces metals and ores, prices of which are largely driven by global demand and supply for each of these commodities. Commodity markets were higher in FY17 as most physical markets improved on the back of stronger demand and tighter supply, especially in China. The prices the Group obtains for its products are a key driver of its business and fluctuations in these commodity prices affect its results, including cash flows and asset values.

Estimated impact on Underlying EBIT of a +/-10 per cent change in commodity price

US$M	FY17
Aluminium[1]	**156**
Alumina	**147**
Manganese ore[2]	**98**
Metallurgical coal	**97**
Energy coal	**84**
Nickel	**33**
Lead	**29**
Silver	**27**
Manganese alloy[2]	**24**
Zinc	**17**

(1) Aluminium sensitivity shown without any associated increase in Alumina pricing.
(2) The sensitivity impacts for manganese ore and manganese alloy are on a pre-tax basis. The Group's manganese operations are reported as an equity accounted investment. As a result, the profit after tax for manganese is included in the Underlying EBIT of South32.

The following table shows prices of the Group's most significant commodities for FY17 and FY16. These prices represent quoted prices from the relevant sources as indicated. These prices differ from the realised prices on the sale of production due to contracts to which the Group is a party, differences in quotational periods, quality of products, delivery terms and the range of quoted prices that are used for contracting sales in different markets.

Quoted Commodity Prices

	Average Value			Closing Value		
Year ended 30 June	**FY17**	**FY16**	**Change**	**FY17**	**FY16**	**Change**
Aluminium (LME Cash)[1] (US$/t)	**1,771**	1,544	15%	**1,909**	1,635	17%
Alumina[2] (US$/t)	**294**	250	18%	**307**	240	28%
Energy coal[3] (US$/t)	**76.9**	53.2	45%	**77.2**	59.1	31%
Metallurgical coal[4] (US$/t)	**190.0**	81.8	132%	**148.5**	91.5	62%
Manganese ore[5] (US$/dmtu)	**5.77**	2.87	101%	**5.87**	3.11	89%
Manganese alloy[6] (US$/t)	**1,160**	755	54%	**1,407**	770	83%
Nickel (LME Cash)[1] (US$/t)	**10,152**	9,328	9%	**9,280**	9,415	(1%)
Silver[7] (US$/oz)	**17.9**	15.3	17%	**16.5**	18.4	(10%)
Lead (LME Cash)[1] (US$/t)	**2,113**	1,715	23%	**2,274**	1,780	28%
Zinc (LME Cash)[1] (US$/t)	**2,535**	1,764	44%	**2,754**	2,103	31%

(1) LME Cash represents the Official Seller price for nickel, zinc and lead and the A.M. Official price for aluminium.
(2) Platts Alumina Index (PAX) Free on Board (FOB) Australia – market price assessment of calcined metallurgical/smelter grade alumina.
(3) Richards Bay Coal Terminal (RBCT) FOB (API4).
(4) Platts Low-Vol Hard Coking Coal Index FOB Australia – representative of high-quality hard coking coals.
(5) Metal Bulletin Manganese Ore 44 per cent CIF China.
(6) Bulk Ferro Alloy high-carbon ferromanganese (HCFeMn) Western Europe DDP.
(7) Daily London Bullion Market Association (LBMA) Silver Fix.

The following summarises the pricing trends of our most significant commodities for FY17. The price change reflects the average of FY17 over FY16.

Aluminium: The average LME cash settlement price for the year was 15 per cent higher than FY16. The price increase was driven by ongoing supply capacity curtailment and higher raw materials costs.

Alumina: The average FOB Australia price for the year was 18 per cent higher than FY16. Prices were supported by strong demand, higher raw materials and transportation costs, amidst more stringent environmental inspections.

Energy coal: The FY17 average API4 FOB Richards Bay price was 45 per cent higher than FY16. The price increase was driven by higher Chinese seaborne imports as a result of policy-induced domestic coal production cuts.

Metallurgical coal: The FY17 average Platts Low-Vol Hard Coking Coal price was 132 per cent higher than FY16. The price increase was driven by a steel sector recovery across most regions, policy-induced coal production cuts in China and supply disruptions in Australia.

Manganese: The average Manganese Ore Metal Bulletin 44 per cent CIF China price was 101 per cent higher than FY16. A recovery in demand growth and tight ore supply led to a rebound in prices in the first half of FY17, whilst the market balance loosened in the second half with an increase in South African supply. The Western Europe spot high-carbon ferromanganese average price increased by 54 per cent during FY17 due to higher demand and raw materials costs.

Nickel: The average LME nickel cash settlement price was nine per cent higher than FY16. The price increase was driven by rising Chinese stainless steel demand and supply-side policy changes which moved the market into deficit.

Silver: The FY17 average LBMA silver price was 17 per cent higher than FY16. Throughout the year, price volatility was driven by uncertainty in the global economy, political developments in the United States and United Kingdom and speculation over the pace of United States interest rate rises.

Lead: The FY17 average LME cash settlement price was 23 per cent higher than FY16. Strong Chinese demand and tight supply led to rising prices in the first half of the financial year, but prices were suppressed in the second half due to weaker demand amidst high inventories.

Zinc: The FY17 average LME cash settlement price was 44 per cent higher than FY16. Prices recovered in the first half of the financial year, driven by strong Chinese demand and supply cut backs. However, the market balance weakened slightly in the second half of the year with a slowdown in Chinese demand.

EXCHANGE RATES

The Group is exposed to exchange rate risk on foreign currency sales, purchases and expenses, as no active currency hedging is undertaken. As the majority of sales are denominated in US dollars, and the US dollar plays a dominant role in the Group's business, funds borrowed and held in US dollars provide a natural hedge to currency fluctuations. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Australian dollar, South African rand, Brazilian real and Colombian peso.

The Group is also exposed to exchange rate translation risk in relation to net monetary liabilities, being foreign currency denominated monetary assets and liabilities, including debt, tax and other long-term liabilities. Details of the exposure to foreign currency fluctuations are set out in note 19 to the financial statements on pages 136 to 143.

The following table indicates the estimated impact on FY17 Underlying EBIT of a change in the principal currencies to which the Group is exposed against the US dollar. The sensitivities give the estimated impact on Underlying EBIT based on the exchange rate movement in isolation. The sensitivities assume all variables except for exchange rate remain constant. There is an inter-relationship between currencies and commodity prices where movements in exchange rates can cause movements in commodity prices and vice versa. This is not reflected in the sensitivities below. These sensitivities should, therefore, be used with care.

Estimated impact on Underlying EBIT of a +/-10 per cent change in producer currencies relative to the US dollar

US$M	FY17
Australian dollar	**159**
South African rand	**93**
Colombian peso	**21**
Brazilian real	**11**

The following table shows the average and period end closing exchange rates of the most significant currencies that affect the Group's results:

Exchange rates[1]

	Average Value			Closing Value		
Year ended 30 June	**FY17**	**FY16**	**Change**	**FY17**	**FY16**	**Change**
Australian dollar[2]	**0.75**	0.73	3%	**0.77**	0.74	4%
Brazilian real	**3.22**	3.70	13%	**3.30**	3.24	(2%)
Colombian peso	**2,953**	3,060	3%	**3,038**	2,916	(4%)
South African rand	**13.61**	14.51	6%	**13.00**	14.85	12%

(1) Positive percentage change in FX indicates strengthening currency relative to US$.
(2) Displayed as US$ to A$ based on common convention; all other currencies are local currency to US$.

Local economic conditions, commodity prices and US monetary policy remain key drivers of our producer currencies. In FY17, the Australian dollar, Brazilian real, Colombian peso and South African rand all strengthened against the US dollar on the back of improved economic fundamentals, higher commodity prices and expectations of a more gradual interest rate rise in the US.

OPERATING COSTS

As the prices for Group products are determined by the global commodity markets in which the Group operates, controlling operating costs is key. FY17 and FY16 comparative underlying operating costs are set out below, excluding earnings adjustment items impacting operating costs. Earnings adjustment items are detailed on page 116 in note 4(b)(i) to the financial statements.

Operating costs

US$M	**FY17**	**FY16**
Operating cash costs	**4,356**	4,404
Third party commodity purchases	**778**	579
Depreciation and amortisation expense	**763**	775
Total expenses included in Underlying EBIT	**5,897**	5,758

CAPITAL EXPENDITURE

Capital expenditure continues to be scrutinised in every location as we seek to sustainably grow ROIC.

Capital expenditure

US$M	**FY17**	**FY16**
Major projects	**16**	32
Stay in business, Minor discretionary and Deferred stripping (including underground development)	**300**	351
Group share of equity accounted investments	**37**	79
Total	**353**	462

2017 FINANCIAL YEAR RESULTS

US$M	FY17	FY16
Profit/(loss) from continuing operations	**1,795**	(1,441)
Net finance cost	**(171)**	(104)
Tax expense	**(393)**	(70)
Profit/(loss) after tax	**1,231**	(1,615)
Basic earnings per share (US cents)	**23.2**	(30.3)
Other financial information		
Profit/(loss) from continuing operations	**1,795**	(1,441)
Earnings adjustments to derive Underlying EBIT	**(147)**	1,797
Underlying EBIT	**1,648**	356
Depreciation and amortisation	**763**	775
Underlying EBITDA	**2,411**	1,131
Profit/(loss) after tax	**1,231**	(1,615)
Earnings adjustments after tax	**(85)**	1,753
Underlying earnings	**1,146**	138
Basic Underlying earnings per share (US cents)	**21.6**	2.6

EARNINGS ADJUSTMENTS

The following table notes the various earnings adjustments and comparative earnings adjustments that are excluded from the Group's underlying measures.

Earnings adjustments

US$M	FY17	FY16
Adjustments to Underlying EBIT		
Exchange rate (gains)/losses on restatement of monetary items	**37**	(43)
Impairment losses	**-**	1,386
Fair value (gains)/losses on derivative instruments	**(194)**	60
Major corporate restructures	**2**	63
Impairment losses included in operating profit/(loss) of equity accounted investments	**-**	291
Earnings adjustments included in operating profit/(loss) of equity accounted investments	**8**	16
Significant items	**-**	24
Total adjustments to Underlying EBIT	**(147)**	1,797
Adjustments to net finance cost		
Exchange rate variation on net debt	**35**	(30)
Significant items	**-**	9
Total adjustments to net finance cost	**35**	(21)
Adjustments to income tax expense		
Significant items	**-**	31
Tax effect of earnings adjustments to Underlying EBIT	**42**	(187)
Tax effect of earnings adjustments to net finance cost	**(9)**	9
Exchange rate variations to tax balances	**(6)**	124
Total adjustments to income tax expense	**27**	(23)
Total earnings adjustments after tax	**(85)**	1,753

EXCHANGE RATE GAINS/LOSSES ON RESTATEMENT OF MONETARY ITEMS

The Group's functional and reporting currency is the US dollar. Realised and unrealised gains and losses on restatement of monetary items denominated in local currencies are recorded in profit or loss for the year.

IMPAIRMENT LOSSES

Impairment losses in FY16 of US$1,386 million (pre-tax) includes adjustments to the carrying value of the Australia Manganese equity accounted investment of US$726 million, the Manganese Marketing equity accounted investment of US$64 million, the Wolverkrans Middelburg Complex (South Africa Energy Coal) of US$322 million and the Klipspruit Colliery (South Africa Energy Coal) of US$120 million, available for sale investments of US$76 million, the Brazil Aluminium Smelter of US$65 million and other impairments of US$13 million.

Impairment losses in FY16 included in our share of (profit)/loss of equity accounted investments of US$291 million (pre-tax) includes Australia Manganese of US$190 million, South Africa Manganese of US$97 million and other impairments of US$4 million.

FAIR VALUE GAINS/LOSSES ON DERIVATIVE INSTRUMENTS

Hillside sources power from Eskom, the South African state utility, under long-term contracts, with prices linked to the LME price of aluminium. The embedded derivatives in the host contracts are accounted for at fair value. The gain or loss on changes in the fair value of these derivatives is recorded in profit or loss for the year.

EARNINGS ADJUSTMENTS TO NET FINANCE COST

Exchange rate variations on net debt are excluded from Underlying earnings, consistent with exchange variations excluded from Underlying EBIT.

EARNINGS ADJUSTMENTS TO INCOME TAX EXPENSE

The earnings adjustments to income tax expense include the tax effect of the adjustments to Underlying EBIT and net finance cost. Exchange rate variations on tax balances relate to the impact on income tax expense for companies in the Group where the functional currency for tax purposes is not the US dollar. As a result, exchange gains and losses are calculated differently for accounting and tax purposes.

FY17 SEGMENT INFORMATION

Year ended 30 June 2017 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese[(1)]	South Africa Manganese[(1)]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[(1)]	Group
Revenue													
Group production	630	1,324	521	304	1,103	1,133	851	387	377	768	-	(1,238)	6,160
Third party products[(2)]	-	-	-	-	-	-	-	-	-	-	792	(2)	790
Inter-segment revenue	476	-	-	81	-	-	-	4	-	-	(557)	(4)	-
Total revenue	**1,106**	**1,324**	**521**	**385**	**1,103**	**1,133**	**851**	**391**	**377**	**768**	**235**	**(1,244)**	**6,950**
Underlying EBITDA	**326**	**287**	**113**	**123**	**273**	**548**	**521**	**140**	**74**	**364**	**(21)**	**(337)**	**2,411**
Depreciation and amortisation	(167)	(68)	(37)	(57)	(61)	(190)	(54)	(30)	(90)	(56)	(37)	84	(763)
Underlying EBIT	**159**	**219**	**76**	**66**	**212**	**358**	**467**	**110**	**(16)**	**308**	**(58)**	**(253)**	**1,648**
Comprising:													
Group production	159	219	76	66	216	358	467	110	(16)	308	(70)	(577)	1,316
Third party products[(2)]	-	-	-	-	-	-	-	-	-	-	12	-	12
Share of profit/(loss) of equity accounted investments[(3)]	-	-	-	-	(4)	-	-	-	-	-	-	324	320
Underlying EBIT	**159**	**219**	**76**	**66**	**212**	**358**	**467**	**110**	**(16)**	**308**	**(58)**	**(253)**	**1,648**
Net finance cost													(136)
Income tax (expense)/ benefit													(366)
Underlying earnings													**1,146**
Earnings adjustments[(4)]													85
Profit/(loss) after tax													**1,231**
Capital expenditure[(5)]	**43**	**15**	**6**	**20**	**64**	**112**	**28**	**9**	**14**	**36**	**6**	**(37)**	**316**
Equity accounted investments	**-**	**-**	**-**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**559**	**569**
Total assets[(6)]	**3,564**	**1,478**	**630**	**860**	**936**	**1,667**	**597**	**493**	**800**	**371**	**4,011**	**(674)**	**14,733**
Total liabilities[(6)]	**521**	**273**	**96**	**169**	**1,020**	**261**	**278**	**186**	**189**	**156**	**2,017**	**(668)**	**4,498**

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

(2) Third party products sold comprise US$282 million for aluminium, US$133 million for alumina, US$169 million for coal, US$113 million for freight services and US$93 million for aluminium raw materials. Underlying EBIT on third party products comprise US$13 million for aluminium, (US$4) million for alumina, US$2 million for coal, nil for freight services and US$1 million for aluminium raw materials.

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

(4) Refer to earnings adjustments on page 29.

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

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

FY16 SEGMENT INFORMATION

Year ended 30 June 2016 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese[(1)]	South Africa Manganese[(1)]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[(1)]	Group
Revenue													
Group production	542	1,161	431	323	1,009	642	476	230	333	786	-	(706)	5,227
Third party products[(2)]	-	-	-	-	-	-	-	-	-	-	587	(2)	585
Inter-segment revenue	469	-	-	23	-	-	-	4	-	-	(492)	(4)	-
Total revenue	**1,011**	**1,161**	**431**	**346**	**1,009**	**642**	**476**	**234**	**333**	**786**	**95**	**(712)**	**5,812**
Underlying EBITDA	**199**	**147**	**35**	**140**	**182**	**132**	**154**	**(11)**	**2**	**330**	**(13)**	**(166)**	**1,131**
Depreciation and amortisation	(157)	(65)	(35)	(62)	(87)	(193)	(89)	(36)	(90)	(56)	(30)	125	(775)
Underlying EBIT	**42**	**82**	**-**	**78**	**95**	**(61)**	**65**	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
Comprising:													
Group production	42	82	-	78	94	(60)	65	(47)	(88)	274	(49)	(18)	373
Third party products[(2)]	-	-	-	-	-	-	-	-	-	-	6	-	6
Share of profit/(loss) of equity accounted investments[(3)]	-	-	-	-	1	(1)	-	-	-	-	-	(23)	(23)
Underlying EBIT	**42**	**82**	**-**	**78**	**95**	**(61)**	**65**	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
Net finance cost													(125)
Income tax (expense)/ benefit													(93)
Underlying earnings													**138**
Earnings adjustments[(4)]													(1,753)
Profit/(loss) after tax													**(1,615)**
Capital expenditure[(5)]	**44**	**19**	**7**	**12**	**63**	**185**	**68**	**11**	**18**	**27**	**8**	**(79)**	**383**
Equity accounted investments	**-**	**-**	**-**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**557**	**570**
Total assets[(6)]	**3,647**	**1,334**	**656**	**874**	**728**	**1,745**	**577**	**517**	**889**	**401**	**2,654**	**(648)**	**13,374**
Total liabilities[(6)]	**439**	**275**	**91**	**167**	**827**	**229**	**236**	**175**	**206**	**159**	**1,796**	**(648)**	**3,952**

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

(2) Third party product sold comprise US$264 million for aluminium, US$59 million for alumina, US$72 million for coal, US$90 million for freight services and US$100 million for aluminium raw materials. Underlying EBIT on third party products comprise US$3 million for aluminium, (US$3) million for alumina, US$5 million for coal, US$1 million for freight services and nil for aluminium raw materials.

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

(4) Refer to earnings adjustments on page 29.

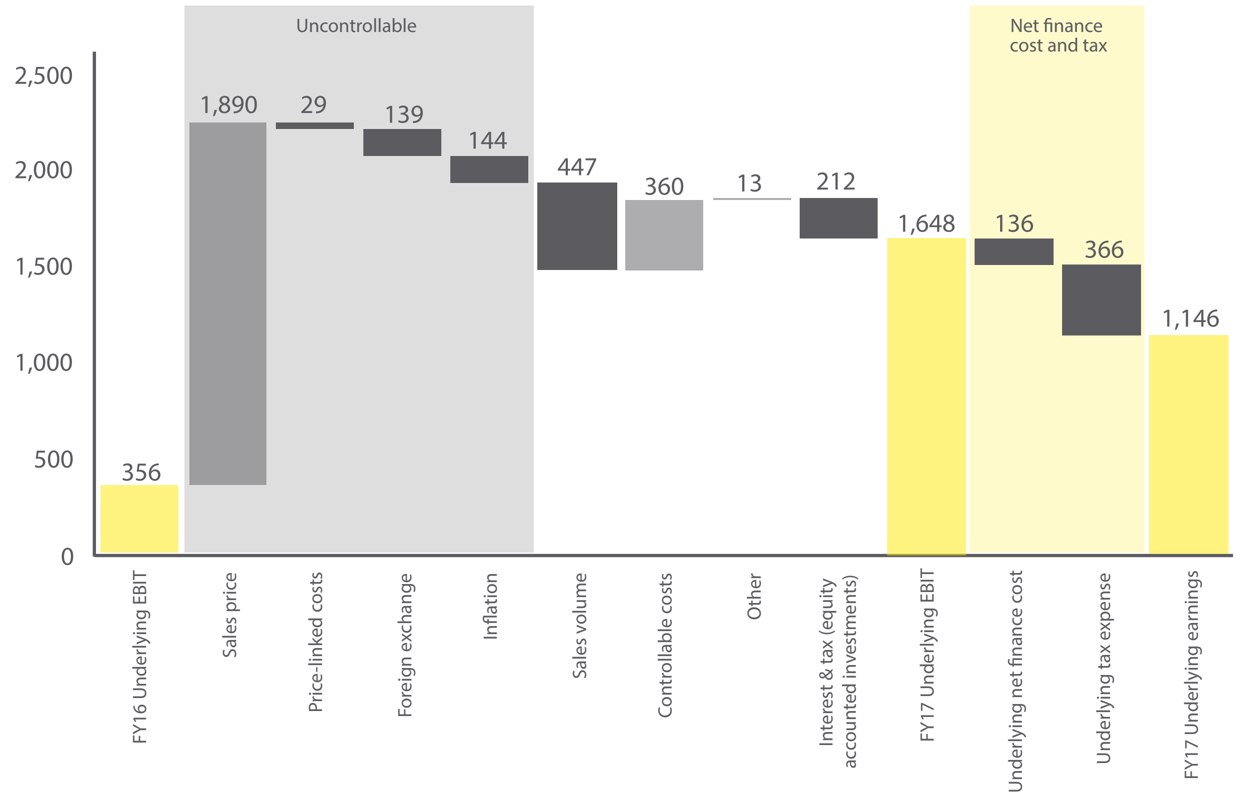
(5) Capital expenditure excludes the purchase of intangibles and capitalised exploration expenditure.

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

EARNINGS ANALYSIS

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

Reconciliation of movements in Underlying EBIT (US$M)[(1)(2)]



(1) Sales price variance reflects the revenue impact of changes in commodity prices, based on the current period's sales volume. Price-linked costs variance reflects the change in royalties together with the change in input costs driven by changes in commodity prices or market traded consumables. Foreign exchange reflects the impact of exchange rate movements on local currency denominated costs and sales. Volume variance reflects the revenue impact of sales volume changes, based on the comparative period's sales prices. Controllable costs variance represents the impact from changes in the Group's controllable local currency cost base, including the variable cost impact of production volume changes on expenditure, and period-on-period movements in inventories. The controllable cost variance excludes earnings adjustments including significant items.

(2) Underlying net finance cost and Underlying tax expense are actual FY17 results, not year-on-year variances.

Earnings analysis	US$M	Commentary
FY16 Underlying EBIT	**356**	
Change in sales price	1,890	Higher average realised prices for our commodities: Metallurgical coal (+US$576 million). Manganese ore (+US$484 million).
Net impact of price-linked costs	(29)	Higher royalties (-US$67 million). Higher LME-linked electricity costs at South Africa Aluminium (-US$21 million). Higher raw material input costs (-US$8 million), including caustic soda. Lower treatment and refining charges for Cannington concentrates (+US$43 million).
Change in exchange rates	(139)	Stronger Australian dollar (-US$58 million) and South African rand (-US$57 million).
Change in inflation	(144)	Broader inflation pressure, primarily in Southern Africa (-US$94 million).
Change in sales volume	(447)	Cannington (-US$175 million). South Africa Energy Coal (-US$158 million). Illawarra Metallurgical Coal (-US$85 million).
Controllable costs	360	South Africa Energy Coal (+US$107 million). Worsley Alumina (+US$97 million). South Africa Manganese (+US$35 million).
Other	13	Lower depreciation and amortisation (+US$53 million). Favourable movement in rehabilitation provisions (+US$11 million). The net effect of a reduction in power sales at Brazil Alumina (-US$58 million).
Interest & tax (equity accounted investments)	(212)	Stronger profitability in our jointly controlled manganese operations.
FY17 Underlying EBIT	**1,648**	

Further analysis of operations performance is outlined on pages 38 to 47.

NET FINANCE COST

The Group's Underlying net finance costs, excluding equity accounted investments, were US$136 million in FY17 and largely reflect the unwinding of the discount applied to our restoration and rehabilitation provisions (US$98 million) and finance lease interest (US$52 million), primarily at Worsley Alumina.

Underlying net finance cost reconciliation

US$M	FY17	FY16
Unwind of discount applied to closure and rehabilitation provisions	**(98)**	(96)
Finance lease interest	**(52)**	(37)
Other	**14**	8
Underlying net finance cost	**(136)**	(125)
Add back earnings adjustment for exchange rate variations on net debt	**(35)**	30
Add back significant items	**-**	(9)
Net finance cost	**(171)**	(104)

TAX EXPENSE

The Group's Underlying income tax expense, which excludes tax associated with equity accounted investments, was US$366 million for an ETR of 30.7 per cent. The tax expense for equity accounted investments was US$221 million, including royalty related tax of US$53 million at GEMCO, for an ETR of 39.5 per cent.

Underlying income tax expense reconciliation and Underlying effective tax rate

US$M	FY17	FY16
Underlying EBIT	**1,648**	356
Include: Underlying net finance cost	**(136)**	(125)
Remove: Share of profit/(loss) of equity accounted investments	**(320)**	23
Underlying profit/(loss) before tax	**1,192**	254
Income tax expense	**393**	70
Tax effect of earnings adjustments to Underlying EBIT	**(42)**	187
Tax effect of earnings adjustments to net finance cost	**9**	(9)
Exchange rate variations on tax balances	**6**	(124)
Tax on significant items	**-**	(31)
Underlying income tax expense	**366**	93
Underlying effective tax rate	**30.7%**	36.6%

OPERATING RESULTS

A broad recovery in commodity prices and our portfolio's operating leverage combined to deliver a significant increase in ROIC to 11.4 per cent and a US$1.3 billion increase in free cash flow to US$1.9 billion, including equity accounted investments. This strong improvement in financial performance and the disciplined application of our capital management framework allowed us to invest in our operations, create future options and substantially increase returns to shareholders.

Specific performance highlights included:

- Strong performance across our aluminium supply chain, including record production at Mozal Aluminium
- A 19 per cent increase in South Africa Manganese ore production as we responded to favourable market conditions
- A US$360 million reduction in controllable costs for a cumulative saving of approximately US$700 million over two years
- The unlocking of additional value with first ore delivered from the higher grade La Esmeralda deposit at Cerro Matoso, conclusion of the access agreement for the West Marradong bauxite mining area at Worsley Alumina and completion of the US$265 million Klipspruit Life Extension (KPSX) project feasibility study
- A US$81 million investment in Arizona Mining (TSX:AZ), owner of the high grade zinc, lead and silver Taylor deposit
- The creation of options beyond our portfolio with finalisation of the Trilogy Metals (TSX:TMQ) and AusQuest (ASX:AQD) greenfield exploration agreements, targeting base metals
- A US$1.3 billion increase in our period end net cash balance to US$1.6 billion
- A US$250 million increase in our approved capital management program to US$750 million, equating to six per cent of our market capitalisation as at 18 August 2017 (calculated as the number of shares on issue (5,218 million) and the South32 closing share price (A$2.95))
- A fully franked final dividend of US$334 million, representing 50 per cent of Underlying earnings in the June 2017 half year

EARNINGS

The Group's statutory profit after tax was US$1.2 billion in FY17. The corresponding period's loss of US$1.6 billion was impacted by the recognition of impairment charges totalling US$1.7 billion (post-tax US$1.7 billion).

Consistent with our accounting policy, various items are excluded from the Group's statutory profit to derive Underlying earnings including: exchange rate losses associated with the restatement of monetary items (US$37 million pre-tax); fair value gains on derivative instruments (US$194 million pre-tax); exchange rate losses associated with the Group's non US dollar denominated net debt (US$35 million pre-tax); the tax expense for all pre-tax earnings adjustments (US$27 million) and significant items (nil).

The Group generated Underlying EBITDA of US$2.4 billion in FY17. Higher prices for the majority of our commodities gave rise to a US$1.1 billion increase in sales revenue, despite lower volumes, for an operating margin of 39 per cent. Underlying EBIT increased by US$1.3 billion (or 363 per cent) to US$1.6 billion, further benefitting from a reduction in depreciation and amortisation following the recognition of non-cash impairment charges in FY16. Underlying earnings subsequently increased by US$1.0 billion to US$1.1 billion.

CASH FLOW

A broad recovery in commodity prices and our portfolio's operating leverage combined to deliver a US$888 million increase in free cash flow from operations, excluding equity accounted investments, to US$1.5 billion. The deferral of activity at South Africa Energy Coal and Illawarra Metallurgical Coal, following the impact of adverse weather and operational outages, contributed to a US$67 million reduction in capital expenditure to US$316 million, excluding equity accounted investments. This included:

- Sustaining capital expenditure, comprising Stay-in-business, Minor discretionary and Deferred stripping (including underground development) of US$300 million
- Major project capital expenditure of US$16 million

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

The KPSX project feasibility study is complete and a final investment decision is expected in the first half of FY18 pending completion of our internal approvals processes. With the associated deferral of land purchases, expenditure on Major projects was lower than planned.

Capital expenditure associated with equity accounted investments of US$37 million included the second phase of the Central Block development project at the Wessels underground mine (South Africa Manganese). The successful commissioning of this project in the March 2017 quarter enables mining activity to relocate closer to critical infrastructure, thereby reducing cycle times.

Total capital expenditure, including equity accounted investments, intangibles and capitalised exploration was US$356 million in FY17.

A US$63 million reduction in provisions predominantly relating to our closure and rehabilitation obligations in South Africa and a US$60 million increase in inventory contributed to a build in working capital of US$105 million. While a component of working capital is expected to unwind in the first half of FY18, this will be more than offset by the payment of shareholder dividends, taxes and our ongoing capital management program.

Free cash flow of operations, excluding equity accounted investments

US$M	FY17	FY16
Profit/(loss)	**1,795**	(1,441)
Non-cash items	**585**	2,190
(Profit)/loss from equity accounted investments	**(312)**	330
Change in working capital	**(105)**	(11)
Cash generated	**1,963**	1,068
Total capital expenditure, excluding equity accounted investments, including intangibles and capitalised exploration	**(319)**	(400)
Operating cash flows before financing activities and tax, and after capital expenditure	**1,644**	668
Interest (paid)/received	**(32)**	(19)
Income tax (paid)/received	**(127)**	(52)
Free cash flow of operations	**1,485**	597

In addition to free cash flow from operations of US$1.5 billion, we received (net) distributions totalling US$446 million from our manganese equity accounted investments in FY17, comprising US$313 million in dividends and US$133 million from the repayment of a shareholder loan. A further US$15 million in dividends were received from other investments, including Mineração Rio de Norte S.A.

BALANCE SHEET AND CAPITAL MANAGEMENT

The Group's net cash balance appreciated considerably during the year to finish the period at US$1.6 billion. The increase in cash and cash equivalents to US$2.7 billion also reflects the cash management activities that the Group undertakes on behalf of the manganese joint venture which are offset by a commensurate increase in other interest bearing liabilities. The US$11 million increase in finance leases is primarily associated with the stronger Australian dollar at the end of FY17.

We continue to believe that a combination of high operating leverage and undue financial leverage delivers a sub-optimal outcome for shareholders. Our simple capital management framework reflects this core principle, whereby, we prioritise investment in our business to maintain the integrity of our operations and an investment grade credit rating. Our dividend policy then intends to distribute a minimum 40 per cent of Underlying earnings to shareholders in each six month period, franking dividends to the maximum extent practicable. Once these core objectives are met, we consider how best to allocate any excess capital to maximise shareholder value.

Our analysis indicates that a net debt position of approximately US$500 million is our optimal capital structure, although we do intend to hold additional cash on the balance sheet in the current environment, as it affords even greater flexibility. Having exceeded our thresholds during the second half of FY17, we announced a US$500 million capital management program and commenced an on-market share buy-back as it was determined to be the most efficient mechanism available to return cash to shareholders at that time. This program has, subsequently, been increased to US$750 million, with 105.8 million shares purchased to 30 June 2017 for a cash consideration of US$211 million (A$2.66 per share).

NET DEBT AND SOURCES OF LIQUIDITY

Our policies on debt and treasury management are as follows:

- Commitment to maintain an investment grade credit rating
- Diversification of funding sources
- Generally maintain borrowings and excess cash in US dollars

GEARING AND NET DEBT

The table below presents net cash/(debt) and net assets of the Group, based on the balance sheet as at 30 June 2017:

US$M	FY17	FY16
Cash and cash equivalents	**2,675**	1,225
Current external debt	**(391)**	(282)
Non-current external debt	**(644)**	(631)
Net cash	**1,640**	312
Net assets	**10,235**	9,422

Given the net cash position of the Group, a gearing ratio is not presented.

FUNDING SOURCES

In addition to cash flow from operations as a primary source of funding, the Group has a US$1.5 billion revolving credit facility, which is a standby arrangement to the Group's US$1.5 billion US commercial paper program.

This borrowing facility is not subject to financial covenants at the Group's current credit rating. Certain financing facilities in relation to specific operations are the subject of financial covenants that vary from facility to facility, however, these are considered normal for such facilities.

As at 30 June 2017, the Group's cash and cash equivalents on hand were US$2.7 billion. Details of major standby and support arrangements are as follows:

US$M	Available FY17	Used FY17
Commercial paper program[1]	1,500	-
Total standby and support arrangements	**1,500**	-

(1) The Group has an undrawn US$1.5 billion revolving credit facility, which is a standby arrangement to the US$1.5 billion commercial paper program. The size of the multi-currency revolving credit facility is US$1.5 billion until February 2021, and then US$1.4 billion from February 2021 until the facility expires in February 2022.

Additional information regarding the maturity profile of the Group's debt obligations and details of the standby and support agreements are included in note 19 to the financial statements on pages 136 to 143.

CREDIT RATING

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Group's financial information requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and the reported revenue and expenses during the periods presented therein. On an ongoing basis, management evaluates its estimates and judgements in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its estimates and judgements on historical experience and on various other factors it believes to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

We have identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods:

- Reserve estimates
- Exploration and evaluation expenditure
- Development expenditure, property, plant and equipment, intangible assets and equity accounted investments – recoverable amount
- Defined benefit pension schemes
- Provision for closure and rehabilitation
- Tax

OPERATIONS ANALYSIS

A summary of the underlying performance of the Group's operations is presented below and more detailed analysis is presented on pages 38 to 47.

Operations table

	Revenue		Underlying EBIT	
US$M	**FY17**	**FY16**	**FY17**	**FY16**
Worsley Alumina	**1,106**	1,011	**159**	42
South Africa Aluminium	**1,324**	1,161	**219**	82
Mozal Aluminium	**521**	431	**76**	-
Brazil Alumina	**385**	346	**66**	78
South Africa Energy Coal(1)	**1,103**	1,009	**212**	95
Illawarra Metallurgical Coal	**1,133**	642	**358**	(61)
Australia Manganese(2)	**851**	476	**467**	65
South Africa Manganese(2)	**391**	234	**110**	(47)
Cerro Matoso	**377**	333	**(16)**	(88)
Cannington	**768**	786	**308**	274
Third party products(3)	**792**	587	**12**	6
Inter-segment / Group and Unallocated	**(557)**	(492)	**(70)**	(49)
Total	**8,194**	6,524	**1,901**	397
Equity accounting adjustment(4)	**(1,244)**	(712)	**(253)**	(41)
Total Group	**6,950**	5,812	**1,648**	356

(1) South32's interest in South Africa Energy Coal is accounted at 100 per cent until broad-based black economic empowerment (B-BBEE) vendor loans are repaid.

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

(3) Third party products sold comprise US$282 million for aluminium, US$133 million for alumina, US$169 million for coal, US$113 million for freight services, US$93 million for aluminium raw materials and US$2 million for manganese. Underlying EBIT on third party products comprise US$13 million for aluminium, (US$4) million for alumina, US$2 million for coal, nil for freight services and US$1 million for aluminium raw materials.

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

WORSLEY ALUMINA
(86% SHARE)

Worsley Alumina is one of the largest and lowest cost bauxite mining and alumina refining operations in the world.

South32 holds an 86 per cent interest in Worsley Alumina, while Japan Alumina Associated owns 10 per cent and Sojitz Alumina Pty Ltd owns four per cent. Worsley Alumina has been mining bauxite, and refining and exporting alumina, since 1984.

Bauxite mining takes place near the town of Boddington, 130 kilometres (km) south-east of Perth, Western Australia.

After crushing, the bauxite is transported to the alumina refinery via an overland conveyor system that stretches more than 50km, making it one of the longest of its kind in the Southern Hemisphere. The refinery extracts alumina using the Bayer process. The four-stage Bayer process – digestion, clarification, precipitation and calcination – turns the red bauxite rock into white alumina powder.

The alumina is then transported by rail 55km from the refinery to the Bunbury Port where it is exported to smelters throughout the world including South32's Hillside and Mozal aluminium smelters in Southern Africa.

VOLUMES

Worsley Alumina saleable production decreased by two per cent (or 69kt) to 3.9Mt in FY17 as performance was impacted by unplanned calciner maintenance in the March 2017 quarter. The refinery finished the year on a strong note, operating at its expanded capacity of 4.6Mtpa (100 per cent basis) in the June 2017 quarter.

Production of approximately 4.0Mt is expected in each of FY18 and FY19, with the refinery expected to sustain record rates of production.

OPERATING COSTS

Operating unit costs decreased by three per cent to US$203/t in FY17 as we optimised the refinery's energy mix and achieved greater energy efficiency. We also reduced maintenance expenditure and contractor costs, offsetting the impact of a stronger Australian dollar and higher caustic soda prices.

The refinery's operating unit cost is expected to rise marginally to US$211/t in FY18 as a result of an assumed 25 per cent year-on-year increase in caustic soda prices. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 50, footnote 2.

FINANCIAL PERFORMANCE

The US$117 million improvement in Underlying EBIT to US$159 million was primarily attributable to a 10 per cent increase in average realised alumina prices (+US$104 million) and a significant reduction in controllable costs (+US$97 million). These benefits were partially offset by higher caustic soda prices (-US$23 million) and a strengthening Australian dollar (-US$19 million).

CAPITAL EXPENDITURE

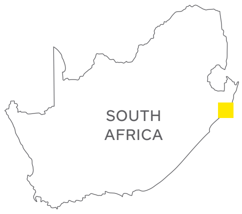
Sustaining capital expenditure of US$43 million remained largely unchanged in FY17 as we continued to invest in water infrastructure. Our investment in bauxite residue disposal capacity and boiler maintenance will result in a modest increase in capital expenditure in FY18 to US$48 million. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	**FY17**	**FY16**
Alumina production (kt)	**3,892**	3,961
Alumina sales (kt)	**3,847**	3,874
Realised alumina sales price (US$/t)(1)	**287**	261
Operating unit cost (US$/t)(2)	**203**	210

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

South32 share (US$M)	**FY17**	**FY16**
Revenue	**1,106**	1,011
Underlying EBITDA	**326**	199
Underlying EBIT	**159**	42
Net operating assets/(liabilities)	**3,043**	3,208
Capital expenditure	**43**	44
Major projects (>US$100M)	**-**	-
All other capital expenditure	**43**	44
Exploration expenditure	**1**	-
Exploration expensed	**1**	-

SOUTH AFRICA ALUMINIUM
(100%)



Hillside is an aluminium smelter in the Southern Hemisphere and has a solid metal production capacity of 720ktpa.

South Africa Aluminium consists of the Hillside aluminium smelter located in Richards Bay in the South African province of KwaZulu-Natal. Hillside is fully owned and operated by South32.

Hillside processes approximately 1.4mtpa of alumina that is imported mainly from Worsley Alumina. Hillside is one of the world's most advanced and efficient smelters and uses the Aluminium Pechiney AP35 technology.

The operation produces high-quality primary aluminium ingot for the export market and supplies a small portion of liquid metal to Isizinda Aluminium which, in turn, supplies aluminium slab to Hulamin, a local company that produces further beneficiated products for the domestic and export markets.

Hillside sources power from Eskom, the South African Government-owned power utility, under long-term contracts.

VOLUMES

South Africa Aluminium saleable production increased by two per cent (or 17kt) to 714kt in FY17 as the smelter continued to achieve benchmark levels of current efficiency and pot line performance, 22 pots were brought back online in the December 2016 quarter and there were fewer load-shedding events. Production is expected to increase to a record 720kt in FY18 and FY19.

OPERATING COSTS

Operating unit costs were largely unchanged in FY17 at US$1,454/t as higher electricity costs linked to the LME aluminium price and the impact of a stronger South African rand were largely offset by a reduction in pot relining costs. A total of 75 pots were relined in FY17 at a cost of approximately US$0.234 million per pot (FY16: 183 pots at US$0.191 million per pot). 139 pots are scheduled to be relined in FY18.

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. The price of electricity supplied to potlines 1 and 2 is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline 3 is South African rand based and linked to South African and United States producer price indices.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$137 million in FY17 to US$219 million. The significant improvement in profitability was underpinned by a 13 per cent increase in the average realised price of aluminium (+US$158 million) and stronger sales volumes (+US$6 million). Higher LME aluminium price-linked electricity costs reduced Underlying EBIT by US$21 million.

CAPITAL EXPENDITURE

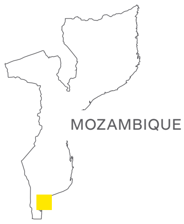
Sustaining capital expenditure decreased by US$4 million in FY17 following a deferral of activity into FY18. Sustaining capital expenditure is expected to increase by US$11 million in FY18 to US$26 million. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Aluminium production (kt)	**714**	697
Aluminium sales (kt)(1)	**713**	709
Realised aluminium sales price (US$/t)(1)	**1,857**	1,638
Operating unit cost (US$/t)(2)	**1,454**	1,430

(1) 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.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.

South32 share (US$M)	FY17	FY16
Revenue	**1,324**	1,161
Underlying EBITDA	**287**	147
Underlying EBIT	**219**	82
Net operating assets/(liabilities)	**1,205**	1,059
Capital expenditure	**15**	19
Major projects (>US$100M)	**-**	-
All other capital expenditure	**15**	19

MOZAL ALUMINIUM
(47.1% SHARE)



Mozal Aluminium is an aluminium smelter located in Mozambique and has a solid metal production capacity of 560ktpa.

South32 has a 47.1 per cent share of Mozal Aluminium, while Mitsubishi Corporation Metals Holding GmbH holds 25 per cent, Industrial Development Corporation of South Africa Limited holds 24 per cent and the Government of the Republic of Mozambique holds 3.9 per cent (through preference shares).

The Mozal aluminium smelter was established in Mozambique in July 1998. Backed by a US$2 billion investment, the smelter was the largest private investment in the country and the first large foreign direct investment in Mozambique.

Mozal is the only aluminium smelter in Mozambique and the second largest aluminium smelter in Africa. Mozal uses Aluminium Pechiney AP35 technology to produce standard aluminium ingots.

VOLUMES

Mozal Aluminium achieved record performance in FY17, increasing production by two per cent (or 5kt) to 271kt as the smelter maintained benchmark levels of current efficiency and pot line performance, while benefitting from fewer load-shedding events. Production is expected to remain largely unchanged at 269kt in FY18 and FY19.

OPERATING COSTS

Operating unit costs decreased by four per cent to US$1,495/t in FY17 as the benefit of stronger sales volumes was partially offset by higher electricity input costs. A total of 94 pots (100 per cent basis) were relined in FY17 at a cost of approximately US$0.204 million per pot (FY16: 109 pots (100 per cent basis) at US$0.207 million per pot). 82 pots (100 per cent basis) are scheduled to be relined in FY18.

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

FINANCIAL PERFORMANCE

Mozal Aluminium became profitable in FY17 as Underlying EBIT increased to US$76 million. Strong sales volumes (+US$32 million) and a 12 per cent increase in the average realised price of aluminium (+US$58 million) were partially offset by higher alumina costs (-US$12 million).

CAPITAL EXPENDITURE

While Sustaining capital expenditure decreased by 14 per cent to US$6 million in FY17, the pending approval of the US$38 million (100 per cent basis) AP3XLE energy efficiency project is expected to result in a modest increase in expenditure in FY18. This project is expected to deliver a strong rate of return on incremental investment by delivering a circa five per cent (or 10kt pa) increase in annual production with no associated increase in power consumption. First production is anticipated in FY20, with the full benefit realised in FY24.

South32 share	**FY17**	**FY16**
Aluminium production (kt)	**271**	266
Aluminium sales (kt)(1)	**273**	254
Realised aluminium sales price (US$/t)(1)	**1,908**	1,697
Operating unit cost (US$/t)(2)	**1,495**	1,559

(1) 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.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.

South32 share (US$M)	**FY17**	**FY16**
Revenue	**521**	431
Underlying EBITDA	**113**	35
Underlying EBIT	**76**	-
Net operating assets/(liabilities)	**534**	565
Capital expenditure	**6**	7
Major projects (>US$100M)	**-**	-
All other capital expenditure	**6**	7

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

Brazil Alumina operations include the MRN mine in the Trombetas Region, Para, and the Alumar refinery and smelter located at Sao Luis, Maranhao.

South32's interests consist of the Mineração Rio do Norte (MRN) mine (14.8 per cent), the Alumar alumina refinery (36 per cent) and Alumar aluminium smelter (40 per cent).

The MRN mine is an open-cut strip mining operation that has an 18Mtpa installed bauxite capacity. Mined ore is hauled to primary crushers and then transported by conveyor belt to the beneficiation plant. The bauxite produced from the MRN mine is sold to its shareholders. South32's share of bauxite produced from the MRN mine is supplied to the Alumar refinery.

At the Alumar refinery, bauxite ore is refined using the Bayer refining process. The alumina produced from the refinery is exported through the Alumar Port. Brazil Alumina is managed from a regional office in Rio de Janeiro.

VOLUMES

Brazil Alumina saleable production of 1.3Mt in FY17 remained largely unchanged from the record rate achieved in the prior period. Production is expected to increase to 1.35Mt in FY18 with the De-bottlenecking Phase One project scheduled to ramp up during the December 2017 quarter.

OPERATING COSTS

Operating unit costs at the non-operated refinery increased by four per cent to US$197/t in FY17 as a stronger Brazilian real and higher caustic soda prices were partially offset by lower bauxite costs.

FINANCIAL PERFORMANCE

Alumina Underlying EBIT increased by US$33 million in FY17 to US$69 million. A 15 per cent increase in the average realised price of alumina (+US$54 million) was partially offset by general inflation (-US$8 million), a rise in caustic soda prices (-US$5 million) and a stronger Brazilian real (-US$16 million). Aluminium Underlying EBIT decreased by US$45 million to a loss of US$3 million as the contribution of power sales declined.

CAPITAL EXPENDITURE

Sustaining capital expenditure at the refinery increased by 67 per cent to US$20 million in FY17 as we invested in additional bauxite residue disposal capacity. Sustaining capital expenditure of US$18 million in FY18 will reflect a continuation of this activity and the completion of the De-bottlenecking Phase One project. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Alumina production (kt)	**1,329**	1,335
Alumina sales (kt)	**1,316**	1,359
Realised alumina sales price (US$/t)(1)	**293**	255
Alumina operating unit cost (US$/t)(2)(3)	**197**	189

(1) Realised sales price is calculated as sales revenue divided by sales volume.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.
(3) Includes cost of acquiring bauxite mainly from MRN.

South32 share (US$M)	FY17	FY16
Revenue	**385**	346
Alumina	**385**	346
Aluminium	**-**	-
Intra-segment elimination	**-**	-
Other income(1)	**143**	191
Underlying EBITDA	**123**	140
Alumina	**126**	89
Aluminium	**(3)**	51
Underlying EBIT	**66**	78
Alumina	**69**	36
Aluminium	**(3)**	42
Net operating assets/(liabilities)	**691**	707
Alumina	**718**	737
Aluminium	**(27)**	(30)
Capital expenditure	**20**	12
Major projects (>US$100M)	**-**	-
All other capital expenditure	**20**	12

(1) Other income in FY17 includes revenue of US$120 million from the sale of surplus electricity (FY16: US$172 million). This revenue was offset by electricity purchases from Eletronorte and the unwind of the onerous contract provision recorded in FY16.

SOUTH AFRICA ENERGY COAL
(92% SHARE)

South Africa Energy Coal operations are located near Emalahleni and Middelburg in the coalfields of Mpumalanga.

South32 owns 92 per cent of South Africa Energy Coal, with the remaining eight per cent held by Phembani Holdings, a South African based industrial holding company. Energy coal operations consist of primary coal mining operations (Khutala Colliery, Klipspruit Colliery and the Wolvekrans Middelburg Complex), as well as three processing plants.

The Khutala Colliery is an underground bord and pillar operation while Klipspruit Colliery is a single dragline, multi seam open-cut mine that is combined with a truck and shovel mini pit. The Wolvekrans Middelburg Complex (WMC) consists of open-cut mines using draglines as well as truck and shovel operations.

VOLUMES

South Africa Energy Coal saleable production decreased by nine per cent (or 2.8Mt) to 28.9Mt in FY17, despite an 11 per cent improvement in performance in the June 2017 quarter as throughput increased at the WMC export plant. Despite the improving trend, a five per cent reduction in total coal production to 27.5Mt is anticipated in FY18 as the prior delay in development activity at the WMC and depletion of the north dump continue to weigh on performance. A seven per cent improvement in total coal production is anticipated in FY19 to 29.3Mt with ongoing development.

OPERATING COSTS

Operating unit costs increased by 12 per cent in FY17 to US$29/t as the operation's high fixed cost base was absorbed by lower sales volumes and the South African rand appreciated.

We expect operating unit costs to increase to US$32/t in FY18 as a result of the further decline in production and general inflation. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 50, footnote 2.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$117 million in FY17 to US$212 million as a higher average realised coal price (+US$230 million) and a favourable movement in working capital (+US$78 million) more than offset the impact of lower sales volumes (-US$158 million) and general inflation (-US$48 million).

CAPITAL EXPENDITURE

Sustaining capital expenditure decreased marginally to US$56 million in FY17. This was US$19 million lower than planned as adverse weather impacted the development schedule in the WMC. Sustaining capital expenditure is expected to rise to US$112 million in FY18 as the rate of investment in the WMC accelerates. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

Major project capital expenditure is expected to increase to US$50 million in FY18. This reflects planned investment in the KPSX project with a final investment decision expected in the first half of FY18, pending our internal approvals processes.

100 per cent terms[1]	**FY17**	**FY16**
Energy coal production (kt)	**28,913**	31,681
Domestic sales (kt)[2]	**16,922**	17,169
Export sales (kt)[2]	**11,797**	15,157
Realised domestic sales price (US$/t)[2]	**21**	18
Realised export sales price (US$/t)[2]	**64**	46
Operating unit cost (US$/t)[3]	**29**	26

(1) South32's interest in South Africa Energy Coal is accounted at 100 per cent until B-BBEE vendor loans are repaid.
(2) 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.
(3) Operating unit cost is Revenue less Underlying EBITDA divided by sales volume.

100 per cent terms (US$M)[1]	**FY17**	**FY16**
Revenue[2]	**1,103**	1,009
Underlying EBITDA	**273**	182
Underlying EBIT	**212**	95
Net operating assets/(liabilities)	**(84)**	(99)
Capital expenditure	**64**	63
Major projects (>US$100M)	**8**	2
All other capital expenditure	**56**	61

(1) South32's interest in South Africa Energy Coal is accounted at 100 per cent until B-BBEE vendor loans are repaid.
(2) Includes domestic and export sales revenue.

ILLAWARRA METALLURGICAL COAL
(100%)

Illawarra Metallurgical Coal operations are located in the southern coal fields of New South Wales, Australia.

Illawarra Metallurgical Coal is 100 per cent owned by South32 and operates two underground metallurgical coal mines, Appin and Dendrobium, and coal preparation plants West Cliff and Dendrobium. Illawarra Metallurgical Coal also manages the Port Kembla Coal Terminal on behalf of a consortium of partners.

Illawarra Metallurgical Coal produces premium-quality, hard coking coal for steelmaking, with small amounts of energy coal as a by-product, from the Bulli and Wongawilli coal seams.

The product is washed and processed at the coal preparation plants to meet the specific criteria required in the production of steel. Road and rail are used to transport the coal to the processing facilities and to the Port Kembla Coal Terminal for distribution to domestic and international customers.

VOLUMES

Illawarra Metallurgical Coal total saleable production decreased by 15 per cent (or 1.3Mt) to 7.1Mt in FY17, despite record run-of-mine performance at Dendrobium, as challenging ground conditions in the new Appin Area 901 longwall panel and two extended outages at the Appin colliery significantly impacted performance. Metallurgical coal sales were four per cent (or 255kt) higher than production in FY17.

We are continuing to review our operating systems and practices at Illawarra Metallurgical Coal, with a specific emphasis on gas drainage and ventilation at the Appin colliery. A staged ramp-up of the Appin 707 longwall is expected to commence in September FY18. The reliability and predictability of its performance, and our associated gas management activities, will inform our future plans and ability to ramp-up to historical rates of production. We will provide a further update when we release our September quarterly results on 19 October 2017.

OPERATING COSTS

Operating unit costs increased by 31 per cent to US$80/t in FY17 as lower production significantly impacted productivity. Additional cost pressure stemmed from higher price-linked royalties and a stronger Australian dollar.

Operating unit cost guidance for Illawarra Metallurgical Coal will be provided when we have finalised our operating plans for FY18.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$419 million to US$358 million in FY17 as the benefit of higher average realised coal prices (+US$576 million) outweighed the impact of lower sales volumes (-US$85 million), higher royalties (-US$32 million) and a stronger Australian dollar (-US$16 million). Our average realised price for FY17 reflected a modest discount to the premium low-volatile hard coking coal index on a volume weighted M-1 basis (one month lag to published pricing) as our shipping schedule was affected by our prior declaration of force majeure and the drawdown of finished goods inventory in the second half.

CAPITAL EXPENDITURE

Total capital expenditure decreased by 39 per cent in FY17 to US$112 million, including underground development of approximately US$63 million.

Sustaining capital expenditure is expected to increase by US$46 million in FY18 to US$150 million. This includes underground development of US$80 million, part of which will provide access to two new longwall panels at Dendrobium. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Metallurgical coal production (kt)	**5,697**	7,059
Energy coal production (kt)	**1,376**	1,307
Metallurgical coal sales (kt)	**5,952**	6,984
Energy coal sales (kt)	**1,344**	1,333
Realised metallurgical coal sales price (US$/t)(1)	**175**	84
Realised energy coal sales price (US$/t)(1)	**69**	43
Operating unit cost (US$/t)(2)	**80**	61

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

South32 share (US$M)	FY17	FY16
Revenue(1)	**1,133**	642
Underlying EBITDA	**548**	132
Underlying EBIT	**358**	(61)
Net operating assets/(liabilities)	**1,406**	1,516
Capital expenditure	**112**	185
Major projects (>US$100M)	**8**	30
All other capital expenditure	**104**	155
Exploration expenditure	**5**	4
Exploration expensed	**5**	4

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

AUSTRALIA MANGANESE
(60% SHARE)

GEMCO mines manganese ore in the Northern Territory, while TEMCO is a manganese alloy plant in Tasmania.

Australia Manganese consists of Groote Eylandt Mining Company (GEMCO) and Tasmanian Electro Metallurgical Company (TEMCO). South32 owns 60 per cent of GEMCO and Anglo American Plc holds the remaining 40 per cent. TEMCO is wholly owned by GEMCO. GEMCO is an open-cut strip mining operation, producing high-grade ore and is located in close proximity to Asian export markets. Using mainly ore shipped from GEMCO, TEMCO produces high-carbon ferromanganese, silicomanganese and sinter, primarily using hydroelectric power.

VOLUMES

Australia Manganese saleable ore production decreased by three per cent (or 77kwmt) to 3.0Mwmt in FY17 as performance was impacted by heavy rainfall and Tropical Cyclone Alfred in the March 2017 quarter. The PC02 circuit operated at approximately 90 per cent of its 500kwmt (100 per cent share) capacity in the June 2017 quarter, contributing six per cent of total production across FY17 (FY16: one per cent). Saleable manganese alloy production increased by 11 per cent (or 14kt) to 147kt in FY17 as third party power supply to TEMCO was restored and all four furnaces ramped-up to full capacity in the June 2017 quarter. Ore production is expected to increase to 3.1Mwmt in FY18. This assumes the low cost PC02 circuit operates at nameplate capacity. Production in FY19 will be adjusted in response to market demand, consistent with our focus on value over volume, albeit we are positioned to deliver an increase in primary concentrator availability.

OPERATING COSTS

FOB manganese ore operating unit costs increased by eight per cent to US$1.52/dmtu in FY17 as a result of a stronger Australian dollar and higher price-linked royalties. Operating unit costs are expected to decline to US$1.50/dmtu in FY18 as the PC02 circuit operates at capacity and a general improvement in productivity is achieved. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 50, footnote 2.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$402 million in FY17 to US$467 million. A significant improvement in average ore and alloy prices (+US$392 million), and a reduction in depreciation and amortisation (+US$35 million) were only partially offset by higher royalties (-US$8 million) and a stronger Australian dollar (-US$8 million). Our average realised price for external sales of Australian ore in FY17 reflected the high grade 44 per cent manganese lump ore index (CIF Tianjin, China) on a volume weighted M-1 basis (one month lag to published pricing), despite the contribution of 40 per cent grade PC02 product to the sales mix.

CAPITAL EXPENDITURE

Sustaining capital expenditure decreased by 59 per cent to US$28 million in FY17 following the completion of the PC02 project, while exploration drilling at GEMCO's Southern Areas commenced in the December 2016 quarter. Sustaining capital expenditure will rise to US$47 million in FY18 as we invest in additional tailings storage capacity at GEMCO. Our FY18 plan also includes investment within our alloys business of US$5 million. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Manganese ore production (kwmt)	**2,994**	3,071
Manganese alloy production (kt)	**147**	133
Manganese ore sales (kwmt)[1]	**3,087**	3,084
External customers	**2,777**	2,771
TEMCO	**310**	313
Manganese alloy sales (kt)[1]	**155**	150
Realised external manganese ore sales price (US$/dmtu, FOB)[1][2]	**5.22**	2.57
Realised manganese alloy sales price (US$/t)[1]	**1,174**	860
Ore operating unit cost (US$/dmtu)[2][3]	**1.52**	1.41
Alloy operating unit cost (US$/t)[3]	**755**	833

(1) Volumes and realised prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as external sales revenue less freight and marketing costs, divided by external sales volume. Realised alloy prices are calculated as sales revenue, including sinter revenue, divided by alloy sales volume. Ore converted to sinter and alloy, and sold externally, is eliminated as an intracompany transaction.

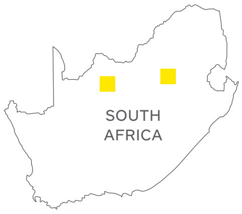
(2) FY17 average manganese content of ore sales was 46.2 per cent on a dry basis (FY16: 47.3 per cent). 95 per cent of FY17 external manganese ore sales (FY16: 94 per cent) were completed on a CIF basis. FY17 realised FOB ore prices and operating unit costs have been adjusted for freight and marketing costs of US$30 million (FY16: US$24 million), consistent with our FOB cost guidance.

(3) FOB ore operating unit cost is Revenue less Underlying EBITDA, freight and marketing costs, divided by ore sales volume. Alloy operating unit costs is Revenue less Underlying EBITDA divided by alloy sales volumes and includes costs associated with sinter sold externally.

South32 share (US$M)	FY17	FY16
Revenue[1]	**851**	476
Manganese Ore	**694**	372
Manganese Alloy	**182**	129
Intra-segment elimination	**(25)**	(25)
Underlying EBITDA	**521**	154
Manganese Ore	**456**	150
Manganese Alloy	**65**	4
Underlying EBIT	**467**	65
Manganese Ore	**406**	67
Manganese Alloy	**61**	(2)
Net operating assets/(liabilities)	**319**	341
Manganese Ore	**313**	338
Manganese Alloy	**6**	3
Capital expenditure	**28**	68
Major projects (>US$100M)	**-**	-
All other capital expenditure	**28**	68
Exploration expenditure	**1**	1
Exploration expensed	**-**	-

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

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



South Africa Manganese comprises Hotazel manganese mines and Metalloys alloy smelter.

South32 holds a 60 per cent interest in Samancor Holdings (Pty) Ltd and Anglo American Plc holds the remaining 40 per cent. Samancor indirectly owns 74 per cent of Hotazel Manganese Mines (HMM), which gives South32 its ownership interest of 44.4 per cent. The remaining 26 per cent of HMM is owned by B-BBEE entities. South32 holds an effective 60 per cent interest in Metalloys alloy smelter. HMM has two operations, the Wessels high-grade underground mine and the Mamatwan medium grade open-pit mine. The Metalloys alloy plant produces high-carbon ferromanganese and medium-carbon ferromanganese alloy and is integrated with HMM.

VOLUMES

South Africa Manganese saleable ore production increased by 19 per cent (or 327kwmt) to 2.0Mwmt in FY17 as we continued to take advantage of stronger demand and pricing by utilising higher cost trucking activity and opportunistically selling fine grained Wessels concentrate. This low cost product, which accounted for nine per cent of sales across FY17 (FY16: four per cent), receives a substantial product discount when referenced to index prices. Manganese alloy saleable production decreased by 20 per cent (or 18kt) to 73kt in FY17 as a result of furnace instability. Metalloys continues to operate one of its four furnaces. In the first half of FY16 we reconfigured the Hotazel mines to operate at a rate of 2.9Mwmt pa (100 per cent basis), but with greater flexibility. Production of 3.1Mwmt (100 per cent basis) is expected in FY18. Production in FY19 will be adjusted in response to market demand, consistent with our focus on value over volume.

OPERATING COSTS

FOB manganese ore operating unit costs increased by nine per cent to US$2.09/dmtu in FY17 as a result of a stronger South African rand, general inflation and higher price-linked royalties. The draw-down of low cost Wessels concentrate stockpiles largely offsets higher costs associated with opportunistic trucking activity. FOB manganese ore operating unit costs are expected to remain largely unchanged at US$2.06/dmtu in FY18 despite a reduction in sales volumes as the ramp-up of the Wessels Central Block is expected to reduce cycle times and improve productivity. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 50, footnote 2.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$157 million in FY17 to US$110 million as a significant improvement in the average ore and alloy price (+US$171 million) and stronger ore sales volumes (+US$10 million) were only partially offset by higher royalties (-US$15 million) and an increase in trucking activity (-US$5 million). Our average realised manganese ore price for external sales reflected a 12 per cent discount to the medium grade 37 per cent manganese lump ore index (FOB Port Elizabeth, South Africa) on a volume weighted M-1 basis (one month lag to published pricing) as a result of the larger discount received for Wessels concentrate.

CAPITAL EXPENDITURE

While Sustaining capital expenditure decreased by 18 per cent to US$9 million in FY17, it is expected to rise to US$23 million in FY18, including US$4 million for alloys. This rise in investment primarily reflects a general increase in mine and equipment maintenance. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Manganese ore production (kwmt)	**2,038**	1,711
Manganese alloy production (kt)	**73**	91
Manganese ore sales (kwmt)[1]	**2,024**	1,834
External customers	**1,866**	1,736
Metalloys	**158**	98
Manganese alloy sales (kt)[1]	**74**	110
Realised external manganese ore sales price (US$/dmtu, FOB)[1][2]	**4.01**	2.09
Realised manganese alloy sales price (US$/t)[1]	**1,027**	682
Ore operating unit cost (US$/dmtu)[2][3]	**2.09**	1.91
Alloy operating unit cost (US$/t)[3]	**1,000**	882

(1) Volumes and prices do not include any third party trading that may be undertaken independently of equity production. Realised ore prices are calculated as external sales revenue less freight and marketing costs, divided by external sales volume. Realised alloy prices are calculated as sales revenue, divided by alloy sales volume. Ore converted to sinter and alloy, and sold externally, is eliminated as an intracompany transaction. Manganese ore sales are grossed-up to reflect a 60 per cent accounting effective interest.

(2) FY17 average manganese content of ore sales was 40.1 per cent on a dry basis (FY16: 39.9 per cent). 63 per cent of FY17 external manganese ore sales (FY16: 57 per cent) were completed on a CIF basis. FY17 realised FOB ore prices and operating costs have been adjusted for freight and marketing costs of US$24 million (FY16: US$17 million), consistent with our FOB cost guidance.

(3) FOB ore operating unit cost is Revenue less Underlying EBITDA, freight and marketing costs, divided by ore sales volume. Alloy operating unit costs is Revenue less Underlying EBITDA divided by alloy sales volumes.

South32 share (US$M)	FY17	FY16
Revenue[1]	**391**	234
Manganese Ore[2]	**328**	166
Manganese Alloy	**76**	75
Intra-segment elimination	**(13)**	(7)
Underlying EBITDA	**140**	(11)
Manganese Ore[2]	**138**	11
Manganese Alloy	**2**	(22)
Underlying EBIT	**110**	(47)
Manganese Ore[2]	**120**	(13)
Manganese Alloy	**(10)**	(34)
Net operating assets/(liabilities)	**307**	342
Manganese Ore[2]	**245**	258
Manganese Alloy	**62**	84
Capital expenditure	**9**	11
Major projects (>US$100M)	**-**	-
All other capital expenditure	**9**	11

(1) Revenues of sales from Hotazel mines to Metalloys are eliminated as part of the consolidation. Internal sales occur on a commercial basis.

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

CERRO MATOSO
(99.9% SHARE)

Cerro Matoso is a producer of Ferronickel and has been operating for more than 30 years.

Cerro Matoso is an integrated nickel laterite mine and smelter located in the Cordoba area of northern Colombia, consisting of a truck and shovel open-cut mine and a processing plant. South32 owns 99.94 per cent of Cerro Matoso. Current and former employees own 0.02 per cent, with the balance of shares held in a reserve account following a buy-back.

Ore mined is blended with ore from stockpiles. The ore is then dried in rotary kilns and smelted in two electric arc furnaces where ferronickel is produced. Cerro Matoso has a water management system that allows it to recycle 95 per cent of the water used in operations.

VOLUMES

Cerro Matoso payable nickel production remained largely unchanged in FY17 as a reduction in furnace availability was offset by the delivery of first ore from the higher grade La Esmeralda deposit in March 2017. Payable nickel production is expected to increase by 14 per cent in FY18 to 41.6kt as a higher proportion of ore feed is sourced from La Esmeralda.

OPERATING COSTS

Operating unit costs decreased by eight per cent in FY17 to US$3.77/lb as contractor activity was curtailed and higher grades and lower throughput led to a modest reduction in variable costs.

The forecast six per cent reduction in operating unit costs to US$3.53/lb in FY18 reflects the increasing contribution of higher grade La Esmeralda ore and the associated increase in payable nickel production. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 50, footnote 2.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$72 million in FY17 to a loss of US$16 million as the average realised price of nickel increased by 14 per cent (+US$45 million) and cost efficiencies delivered a US$32 million benefit.

CAPITAL EXPENDITURE

In FY17, additional sustaining capital expenditure was directed towards the accelerated development of La Esmeralda. The rate of expenditure at Cerro Matoso will rise to US$20 million in FY18 as the permanent bridge that connects La Esmeralda to our processing facilities is completed. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Ore mined (kwmt)	**4,447**	6,009
Ore processed (kdmt)	**2,561**	2,699
Ore grade processed (%, Ni)	**1.59**	1.54
Payable nickel production (kt)	**36.5**	36.8
Payable nickel sales (kt)	**36.6**	36.8
Realised nickel sales price (US$/lb)[1]	**4.67**	4.10
Operating unit cost (US$/lb)[2]	**3.77**	4.08

(1) Inclusive of by-products. Realised sales price is calculated as sales revenue divided by sales volume.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by Payable nickel sales volume

South32 share (US$M)	FY17	FY16
Revenue	**377**	333
Underlying EBITDA	**74**	2
Underlying EBIT	**(16)**	(88)
Net operating assets/(liabilities)	**611**	683
Capital expenditure	**14**	18
Major projects (>US$100M)	**-**	-
All other capital expenditure	**14**	18
Exploration expenditure	**5**	5
Exploration expensed	**4**	2

CANNINGTON
(100% SHARE)

Cannington is a silver, lead and zinc mining and processing operation in North West Queensland.

Cannington is 100 per cent owned by South32 and is one of the world's largest producers of silver and lead.

Cannington consists of an underground hard rock mine and surface processing facility, a road-to-rail transfer facility and a concentrate handling and ship loading facility at the Port of Townsville.

Both open-stope and bench mining methods are used at Cannington. The ore travels to the surface from depths of up to 620 metres via two methods; either by a nine tonne capacity vertical shaft hoisting system or 50t haul trucks. The ore is then stockpiled for processing.

The processes for extracting the silver, lead and zinc from the ore involve grinding, sequential flotation and leaching techniques that produce high-grade, marketable lead and zinc concentrates with a high silver content.

VOLUMES

Cannington silver, lead and zinc payable production decreased by 27 per cent, 24 per cent and 11 per cent, respectively in FY17 as high grade stope 60L was only partially extracted and run-of-mine stocks were consumed to support processing rates following an underground fire in April 2017.

The existing crusher chamber is now expected to become inoperable in September 2017. Commissioning of the replacement crusher is anticipated in March 2018 with shaft haulage to be replaced by additional trucking in the intervening period. The stope sequence within the mine is also being adjusted to re-establish above ground stocks. Mill throughput for FY18 has been revised to 2.6Mt, with payable metal production to decline accordingly. An increase in payable metal production is expected in FY19 as crushing capacity is restored and mill throughput rises to 3.0Mt.

OPERATING COSTS

Operating unit costs decreased by eight per cent in FY17 to US$133/t as treatment and refining charges declined. Operating unit costs are expected to increase by seven per cent in FY18 to US$142/t as a result of a temporary rise in trucking activity and lower mill throughput. Exchange rate and price assumptions for FY18 unit cost guidance are detailed on page 50, footnote 2.

FINANCIAL PERFORMANCE

Underlying EBIT increased by US$34 million in FY17 to US$308 million. Higher average realised prices (+US$158 million), lower treatment and refining charges (+US$43 million), and a reduction in labour costs (+US$11 million) were partially offset by the reduction in sales volumes (-US$175 million). Finalisation adjustments and the provisional pricing of Cannington concentrates increased Underlying EBIT by US$4 million in FY17 (+US$0.5 million in the December 2016 half year; -US$11 million in FY16). Outstanding concentrate sales (containing 2.4Moz of silver, 26.2kt of lead and 4.6kt of zinc) were revalued at 30 June 2017. The final price of these sales will be determined in the first half of FY18.

CAPITAL EXPENDITURE

Sustaining capital expenditure increased by US$9 million in FY17 to US$36 million. Ongoing development of the underground crusher will result in a further rise in expenditure in FY18 to US$42 million. Exchange rate assumptions for FY18 sustaining capital guidance are detailed on page 51, footnote 1.

South32 share	FY17	FY16
Ore mined (kwmt)	**2,909**	3,289
Ore processed (kdmt)	**3,036**	3,149
Ore grade processed (g/t, Ag)	**194**	255
Ore grade processed (%, Pb)	**5.4**	6.6
Ore grade processed (%, Zn)	**3.4**	3.8
Payable silver production (koz)	**15,603**	21,393
Payable lead production (kt)	**132.1**	173.2
Payable zinc production (kt)	**70.4**	79.0
Payable silver sales (koz)	**16,270**	20,852
Payable lead sales (kt)	**138.1**	169.7
Payable zinc sales (kt)	**67.4**	82.6
Realised silver sales price (US$/oz)(1)	**17.6**	16.2
Realised lead sales price (US$/t)(1)	**2,223**	1,780
Realised zinc sales price (US$/t)(1)	**2,601**	1,780
Operating unit cost (US$/t ore processed)(2)	**133**	145

(1) Realised sales price is calculated as sales revenue divided by sales volume.
(2) Operating unit cost is Revenue less Underlying EBITDA divided by ore processed. Periodic movements in finished product inventory may impact operating unit costs as related marketing costs and treatment and refining charges may change.

South32 share (US$M)	FY17	FY16
Revenue	**768**	786
Underlying EBITDA	**364**	330
Underlying EBIT	**308**	274
Net operating assets/(liabilities)	**215**	242
Capital expenditure	**36**	27
Major project (>US$100M)	**-**	-
All other capital expenditure	**36**	27
Exploration expenditure	**2**	3
Exploration expensed	**2**	3

THIRD PARTY SALES

The Group differentiates the sale of its production from the sale of third party products due to the significant difference in profit margin earned on these sales. The table below shows the breakdown between the Group's production and third party products:

US$M	FY17	FY16
Group production		
Revenue	**6,160**	5,227
Related operating costs (net of other income)	**(4,844)**	(4,854)
Group production Underlying EBIT	**1,316**	373
Margin on Group production	**21.4%**	7.1%
Third party products		
Revenue	**790**	585
Related operating costs (net of other income)	**(778)**	(579)
Third party Underlying EBIT	**12**	6
Margin on third party products	**1.5%**	1.0%

The Group engages in third party trading for the following reasons:

- Production variability and occasional shortfalls from the Group operations means that the Group sometimes sources third party materials to ensure a consistent supply of material products to its customers
- To enhance value through product blending and supply chain optimisation, the Group may buy physical product from third parties

OUTLOOK

Information on likely developments in the Group's business strategies, prospects and operations for future financial years and the expected results that could result in unreasonable prejudice to the Group (for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage) has not been included below. The categories of information omitted include forward looking estimates and projections prepared for internal management purposes, information regarding the Group's operations and projects, which is developing and susceptible to change, and information relating to commercial contracts.

Details regarding the most significant risk factors for the Group, and how these are managed, are set out in Risk Management on pages 19 to 22. These include risks that could adversely affect the Group's financial prospects for future financial years. In addition, information regarding external factors and trends that may impact on the Group's performance and position are set out on pages 26 to 28.

PRODUCTION

The Group's production guidance for FY18 is largely unchanged for the majority of our operations. Production at Cannington and South Africa Energy Coal is, however, expected to decline in FY18 in accordance with prior market disclosure. Following regulator intervention at Illawarra Metallurgical Coal we are reviewing our operating systems and practices, with a specific emphasis on gas drainage and ventilation at the Appin colliery. A staged ramp-up of the Appin 707 longwall is expected to commence in September FY18. The reliability and predictability of its performance, and our associated gas management activities, will inform our future plans and ability to ramp-up to historical rates of production. We will provide a further update when we release our September quarterly results on 19 October 2017.

Production guidance (South32's share)[1]

	FY17	FY18e[2]	FY19e[2]	Assumptions
Worsley Alumina				
Alumina production (kt)	3,892	3,975	3,965	Refinery to achieve record production.
South Africa Aluminium				
Aluminium production (kt)	714	720	720	Restarted 22 pots in the December quarter 2016. Smelter to achieve record production.
Mozal Aluminium				
Aluminium production (kt)	271	269	269	Smelter to operate at benchmark levels of efficiency. AP3XLE energy efficiency project to add production from FY20.
Brazil Alumina				
Alumina production (kt)	1,329	1,345	1,355	Production creep from De-bottlenecking Phase One project. Refinery to achieve record production.
South Africa Energy Coal[3]				
Total coal production (kt)	28,913	27,500	29,350	Production impacted by delayed development of new pits. On-going capital investment to add export volume from FY19.
Domestic coal production (kt)	16,717	16,000	15,850	
Export coal production (kt)	12,196	11,500	13,500	
Australia Manganese				
Manganese ore production (kwmt)	2,994	3,125	Subject to demand	PC02 circuit to operate at capacity.
South Africa Manganese				
Manganese ore production (kwmt)	2,038	1,885	Subject to demand	Assumed reversion to optimal rate of ~2.9mwmt[4] pa. Production rate to be adjusted subject to market demand.
Cerro Matoso				
Payable nickel production (kt)	36.5	41.6	38.8	Ramp up of activity at higher grade La Esmeralda deposit.
Cannington				
Ore processed (kdmt)	3,036	2,600	2,950	Existing crusher chamber inoperable from September 2017. Replacement crusher on-track for completion in March 2018. Trucking activity largely replaces shaft haulage in this period. Processing rates further constrained as stocks are re-built. Processing rates recover in FY19 to 3.0Mt.
Payable silver production (koz)	15,603	14,360	15,040	
Payable lead production (kt)	132	115	125	
Payable zinc production (kt)	70	45	65	

(1) South32's ownership share of operations are as follows: Worsley Alumina (86 per cent), South Africa Aluminium (100 per cent), Mozal Aluminium (47.1 per cent share), Brazil Alumina (Alumina 36 per cent share, Aluminium 40 per cent share), South Africa Energy Coal (92 per cent share), Illawarra Metallurgical Coal (100 per cent), Australia Manganese (60 per cent share), South Africa Manganese (60 per cent share), Cerro Matoso (99.9 per cent share), and Cannington (100 per cent).

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

(3) South32's interest in South Africa Energy Coal is accounted at 100 per cent until broad-based black economic empowerment (B-BBEE) vendor loans are repaid.

(4) Presented on a 100 per cent basis.

COSTS AND CAPITAL EXPENDITURE

Despite the impact of lower volumes and the appreciation of foreign exchange rates, we achieved FY17 unit cost guidance at the majority of our operations and will seek to mitigate inflationary pressure again in FY18. Operating unit cost guidance for Illawarra Metallurgical Coal will be provided when we have finalised our operating plans for FY18.

Corporate costs of US$80 million are projected for FY18, with the US$10 million increase largely accounted for by greenfield exploration activity, which is expected to rise by US$7 million to US$20 million. This investment will be directed towards base metals exploration in North and South America, and Australia.

Operating unit cost guidance by upstream operation(1)(2)

	FY16	FY17	FY18e(2)	Assumptions
Worsley Alumina				
(US$/t)	210	203	211	Higher caustic soda prices.
South Africa Energy Coal(3)				
(US$/t)	26	29	32	High fixed cost base with reduced export volumes.
Australia Manganese				
(US$/dmtu)(4)	1.41	1.52	1.50	Higher proportion of PC02 production. Stronger volumes overall.
South Africa Manganese				
(US$/dmtu)(4)	1.91	2.09	2.06	Ramp-up of Wessels Central Block. Reduction in high-cost trucking and logistics costs.
Cerro Matoso				
(US$/lb)	4.08	3.77	3.53	Ramp-up of higher grade La Esmeralda deposit.
Cannington				
(US$/t)(5)	145	133	142	Lower processing rates and temporary truck haulage.

(1) Unless otherwise stated: all metrics reflect South32's share; Operating unit cost is Revenue less Underlying EBITDA and excluding third party sales divided by sales volumes; and Operating cost is Revenue less Underlying EBITDA and excluding third party sales.

(2) FY18e Operating unit cost guidance includes royalties (where appropriate) and the influence of exchange rates, and is predicated on various assumptions for FY18, including: an alumina price of US$299/t; a manganese ore price of US$4.50/dmtu for 44 per cent manganese product; a nickel price of US$4.27/lb; a thermal coal price of US$72/t (API4) for South Africa Energy Coal; a silver price of US$16.82/troy oz; a lead price of US$2,135/t; a zinc price of US$2,555/t; an AUD:USD exchange rate of 0.74; a USD:ZAR exchange rate of 14.17 and a USD:COP exchange rate of 2,961; all of which reflected forward markets as at May 2017 or our internal expectations.

(3) South32's interest in South Africa Energy Coal is accounted at 100 per cent until broad-based black economic empowerment (B-BBEE) vendor loans are repaid.

(4) Manganese operating unit costs are FOB.

(5) US dollar per tonne of ore processed. Periodic movements in finished product inventory may impact operating unit costs as related marketing costs and treatment and refining charges may change.

CAPITAL EXPENDITURE

The deferral of approximately US$50 million of expenditure at South Africa Energy Coal and Illawarra Metallurgical Coal from FY17 into FY18 and a marginally higher rate of investment in our business is expected to result in Sustaining capital expenditure, excluding equity accounted investments, of US$430 million in FY18. Major project capital expenditure is expected to rise to US$50 million. This reflects planned investment in the South Africa Energy Coal KPSX project, pending its approval in the first half of FY18. Capital expenditure associated with equity accounted investments is also expected to increase to US$70 million and includes the construction of additional tailings storage capacity at Australia Manganese (GEMCO).

The higher rate of Sustaining capital expenditure includes the construction of new mining areas at South Africa Energy Coal's WMC, additional underground development at Illawarra Metallurgical Coal to access two new longwall panels at Dendrobium, the continuing development of the higher grade La Esmeralda deposit at Cerro Matoso, and the commencement of the US$38 million (100 per cent basis) AP3XLE energy efficiency project at Mozal Aluminium.

Sustaining capital expenditure (South32 share)

US$M	FY16	FY17	FY18e[1]
Worsley Alumina	44	**43**	48
South Africa Aluminium	19	**15**	26
Mozal Aluminium	7	**6**	14
Brazil Alumina	12	**20**	18
South Africa Energy Coal[2]	61	**56**	112
Illawarra Metallurgical Coal[3]	155	**104**	150
Australia Manganese	68	**28**	47
South Africa Manganese	11	**9**	23
Cerro Matoso	18	**14**	20
Cannington	27	**36**	42
Group & Unallocated	8	**6**	N/A
Sustaining capital expenditure (including equity accounted investments)	430	**337**	500
Equity accounting adjustment[4]	(79)	**(37)**	(70)
Sustaining capital expenditure (excluding equity accounted investments)	351	**300**	430

(1) FY18e Sustaining capital guidance includes the influence of exchange rates, and is predicated on various assumptions for FY18, including: an AUD:USD exchange rate of 0.74; a USD:ZAR exchange rate of 14.17; a USD:COP exchange rate of 2,961 and a USD:BRL exchange rate of 3.33; all of which reflected forward markets as at May 2017 or our internal expectations.

(2) South32's interest in South Africa Energy Coal is accounted at 100 per cent until broad-based black economic empowerment (B-BBEE) vendor loans are repaid.

(3) Sustaining capital expenditure guidance for Illawarra Metallurgical Coal, including underground development, remains subject to the ongoing review of our systems and practices and will be updated, if required, when this process has been completed.

(4) 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.

EXPLORATION EXPENDITURE

During FY17 we invested US$28.8 million in exploration (US$2.6 million capitalised), including US$15.4 million at our existing operations and US$13.4 million on greenfield opportunities (all expensed). Exploration at our existing operations focused on metallurgical coal, manganese, bauxite and silver in Australia and nickel in Colombia. Our greenfield spend largely included our investment in Trilogy Metals (TSX.TMQ) to pre-fund drilling at its Bornite deposit. This drilling program commenced on 12 June 2017.

The current Southern Areas exploration program at GEMCO has the potential to unlock further long-term value, while the exploration and studies at Planeta Rica could potentially provide another source of higher grade ore to the Cerro Matoso furnace, notwithstanding apparent logistic challenges.

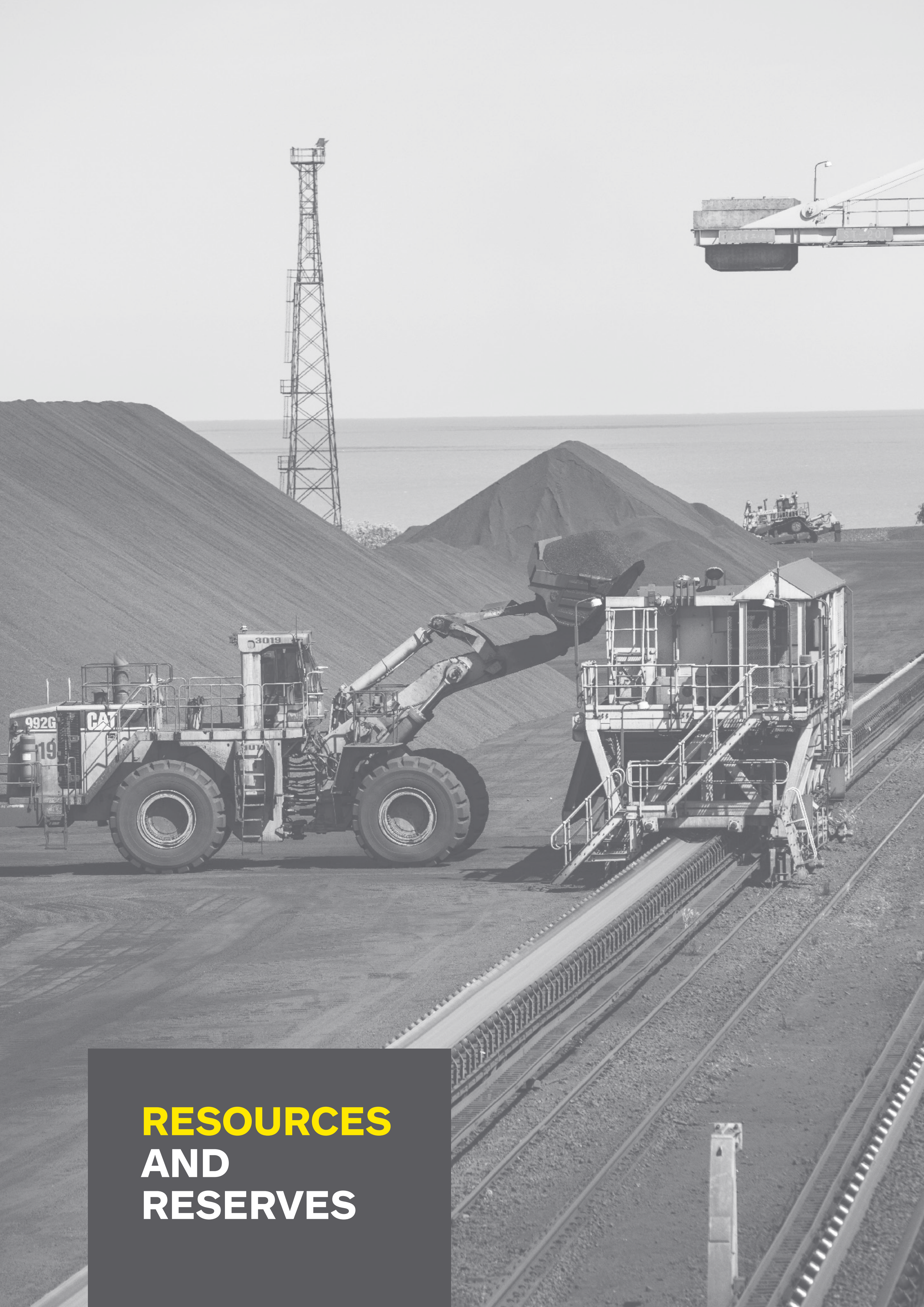
We expect that our FY18 exploration expenditure will increase to US$42 million, which includes the additional spend on AusQuest Limited (a strategic alliance targeting opportunities such as copper, zinc and nickel in Australia and Peru), Cerro Matoso and Illawarra Metallurgical Coal.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation (excluding equity accounted investments) is expected to remain largely unchanged at approximately US$760 million. Depreciation and amortisation of US$85 million is expected for our equity accounted investments.

TAX EXPENSE

The Group's ETR, which excludes tax associated with equity accounted investments, largely reflects the geographic distribution of the Group's profit. The corporate tax rates applicable to the Group include Australia 30 per cent, South Africa 28 per cent, Colombia 39 per cent and Brazil 34 per cent. It should also be recognised that permanent differences have a disproportionate effect on the Group's ETR when commodity prices and profit margins are compressed, while the higher level of profitability in FY17 will feed through to higher tax payments in FY18.



RESOURCES AND RESERVES

MINERAL RESOURCES AND ORE RESERVES

We report Mineral Resources and Ore Reserves (including Coal Resources and Coal Reserves) in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) as required by Chapter 5 of the ASX Listing Rules.

In this report, information relating to Mineral Resources and Ore Reserves is based on, and fairly represents, information and supporting documentation prepared by our Competent Persons who have sufficient experience that is relevant to the style of mineralisation, the type of deposit under consideration and the activity being undertaken to qualify as a Competent Person as defined by the JORC Code. Each Competent Person consents to the inclusion of the information in this report in the form and context in which it appears. The Competent Persons, their professional affiliations, employer and areas of accountability are shown on page 55. Unless otherwise noted, all Competent Persons listed are full-time employees of South32 or its related entities.

Mineral Resources and Ore Reserves are reported in 100 per cent terms and represent estimates as at 30 June 2017. Mineral Resource information is inclusive of Mineral Resources that have been modified to produce Ore Reserves. All volumes are reported as dry metric tonnes, unless otherwise stated. Tonnes and grade information have been rounded to reflect the relative uncertainty of the estimate, hence computational differences may be present in the totals.

Commodity price and exchange rates used to estimate the economic viability of Ore Reserves are based on our long-range forecasts.

Our Ore Reserves are within existing, permitted mining tenements. Our mineral leases are of sufficient duration, or convey a legal right to renew for sufficient duration, in order to enable all Ore Reserves on the leased properties to be mined in accordance with current production schedules.

Ore Reserves may include areas where additional approvals are required, and it is expected that such approvals will be obtained within the timeframe required by the current production schedule.

GOVERNANCE ARRANGEMENTS AND INTERNAL CONTROLS

We have internal standards and governance arrangements covering regulatory requirements for public reporting. Our Governance processes, to ensure correct and accurate public reporting, are managed by the Resource and Reserve Governance function in co-ordination with the Company Secretary.

Our comprehensive review and audit program is aimed at providing assurance in respect of Ore Reserve and Mineral Resource estimates. These include:

- Annual review of Mineral Resources and Ore Reserves declarations and reports
- Annual review of reconciliation performance metrics for operating mines
- Periodic internal mine planning and Ore Reserve audits
- Independent audit of Mineral Resources or Ore Reserves that are new or have materially changed

In FY17, we undertook one independent audit of Mineral Resources and three internal mine planning and Ore Reserve audits. The frequency and scope of the audits are a function of the perceived risks and uncertainties associated with a particular Ore Reserve and Mineral Resource.

Mineral Resources and Ore Reserves are presented in the accompanying tables.

AT A GLANCE - RESOURCES AND RESERVES

Operation	Total Ore/Coal Reserve (Mt)	Total Mineral/Coal Resource (Mt)
Cannington	23	90
Cerro Matoso	38	309
Australia Manganese	73	172
Worsley Alumina	291	1,120
Illawarra Metallurgical Coal[1]	136	1,230
South Africa Manganese	140	240
South Africa Energy Coal[1]	346	4,940
Brazil Alumina	54	514

(1) Coal Reserves in this table are presented as Marketable Coal Reserves. Process recoveries are reported in the following detailed disclosures for each Coal operation.

EXPLORATION RESEARCH AND DEVELOPMENT

Our operations carry out exploration as well as research and development necessary to support their activities. Our exploration activities are primarily focused on the delineation and categorisation of brownfield expansion of mineral deposits connected to our existing operations and selected greenfield opportunities. Exploration expenditure for FY17 was US$28.8 million (FY16: US$13 million).

COMPETENT PERSONS

AUSTRALIA REGION

Mineral Resources

Cerro Matoso: I Espitia (MAusIMM)

GEMCO: D Hope (MAusIMM); J Harvey (MAusIMM)

Worsley: J Binoir (MAusIMM)

Cannington: M Readford (MAusIMM(CP))

Ore Reserves

Cerro Matoso: N Monterroza (MAusIMM)

GEMCO: U Sandilands (MAusIMM)

Worsley: G Burnham (MAusIMM)

Cannington: T Curypko (MAusIMM(CP))

Coal Resources

Bulli and Wongawilli: J Gale (MAusIMM)

Coal Reserves

Bulli and Wongawilli: M Rose (MAusIMM)

AFRICA REGION

Mineral Resources

Wessels and Mamatwan: E P Ferreira (Pri. Sci. Nat., SACNASP), C Nengovhela (Pri. Sci. Nat., SACNASP), F T Rambuda (Pri. Sci. Nat., SACNASP)

Ore Reserves

Wessels and Mamatwan: J Lamprecht (Pri. Sci. Nat., SACNASP, employed by Advisian)

Coal Resources

Khutala: G Gemmell (Pri. Sci. Nat., SACNASP)

Klipspruit: H Strauss (MGSSA)

Wolvekrans Middelburg Complex: S Kara (Pri. Sci. Nat., SACNASP), L Visser (Pri. Sci. Nat., SACNASP)

Davel, Pegasus and Weltevreden: P Maseko (Pri. Sci. Nat., SACNASP)

Leandra and Naudesbank: S Nzama (Pri. Sci. Nat., SACNASP)

Coal Reserves

Khutala, Klipspruit and Wolvekrans Middelburg Complex: P Mulder (MSAIMM)

CORPORATE

BRAZIL ALUMINA

Mineral Resources

Mineração Rio do Norte: M A H Monteiro (MAusIMM, employed by Mineração Rio do Norte)

Ore Reserves

Mineração Rio do Norte: D C A Morais (MAusIMM, employed by Mineração Rio do Norte)

AUSTRALIA REGION

CANNINGTON

Silver, Lead, Zinc

MINERAL RESOURCES

As at 30 June 2017		Measured Mineral Resources				Indicated Mineral Resources				Inferred Mineral Resources				Total Mineral Resources				South32 Interest	As at 30 June 2016 Total Mineral Resources			
Deposit	Ore Type	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	%	Mt	g/t Ag	% Pb	% Zn
Cannington [1][2][3]	UG Sulphide	56	193	5.38	3.26	3.7	116	3.58	2.63	0.8	102	3.65	2.81	61	187	5.25	3.21	100	76	169	4.70	3.14
	OC Sulphide	24	96	3.00	2.37	3.6	72	2.38	1.93	1.6	53	2.38	1.63	29	91	2.89	2.27		20	76	3.12	2.06

ORE RESERVES

As at 30 June 2017		Proved Ore Reserves				Probable Ore Reserves				Total Ore Reserves				Reserve Life	South32 Interest	As at 30 June 2016 Total Ore Reserves				Reserve Life
Deposit	Ore Type	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Mt	g/t Ag	% Pb	% Zn	Years	%	Mt	g/t Ag	% Pb	% Zn	Years
Cannington [1][4][5][6][7]	UG Sulphide	23	191	5.58	3.50	0.4	150	4.37	3.03	23	190	5.56	3.49	10	100	21	206	5.76	3.69	6.5

(1) Cut-off grade: Net smelter return (NSR) in A$/t.

	Mineral Resources	Ore Reserves
UG Sulphide	130	130
OC Sulphide	58	

(2) Increase in OC Sulphide Mineral Resource was due to re-assessment of 'reasonable prospects for eventual economic extraction' criteria.

(3) Increase in proportion of Measured Mineral Resources is due to a revision of classification based on the results of geological and grade continuity analyses.

(4) Increase in Ore Reserves due to additional drilling, updated resource model and mine plans.

(5) Reserve life in FY16 was reported as Ore Reserves divided by the FY16 nominated production rate.

(6) Ore delivered to process plant.

(7) Average metallurgical recovery: 85% Ag, 87% Pb and 80% Zn.

AUSTRALIA REGION

CERRO MATOSO (COLOMBIA)

Nickel

MINERAL RESOURCES

As at 30 June 2017		Measured Mineral Resources		Indicated Mineral Resources		Inferred Mineral Resources		Total Mineral Resources		South32 Interest	As at 30 June 2016 Total Mineral Resources	
Deposit	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Mt	% Ni	%	Mt	% Ni
Cerro Matoso [1]	Laterite [2]	45	1.2	154	0.9	47	0.8	247	0.9	99.94	220	0.9
	SP [3]	10	1.0	35	0.9	-	-	45	0.9		59	0.9
	MNR - Ore	17	0.2	-	-	-	-	17	0.2		17	0.2

ORE RESERVES

As at 30 June 2017		Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves		Reserve Life	South32 Interest	As at 30 June 2016 Total Ore Reserves		Reserve Life
Deposit	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Years	%	Mt	% Ni	Years
Cerro Matoso[1][4][6][7]	Laterite	13	1.4	6.2	1.2	19	1.3	12	99.94	17	1.1	13
	SP [5]	7.0	1.2	12	1.1	19	1.1			25	1.1	

(1) Cut-off grade

	Mineral Resources	Ore Reserves
Laterite	0.6% Ni	0.6% Ni
SP	0.6% Ni	0.6% Ni
MNR-Ore	0.12% Ni	

(2) Increase in Laterite Mineral Resources due to application of updated metallurgical constraints.

(3) Decrease in SP Mineral Resources due to additional drilling and application of updated metallurgical constraints.

(4) Increase in Laterite Ore Reserves is due to inclusion of La Esmeralda area following environmental approval.

(5) Decrease in SP Ore Reserve is to accommodate higher grade Laterite ore from La Esmerelda within the timeframe of the current mining lease.

(6) Ore delivered to process plant.

(7) Metallurgical Recovery: 83% (reserves to metal).

AUSTRALIA REGION

AUSTRALIA MANGANESE (GEMCO)

Manganese

MINERAL RESOURCES

As at 30 June 2017		Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources			Total Mineral Resources			South32 Interest	As at 30 June 2016 Total Mineral Resources		
Deposit	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	%	Mt	% Mn	% Yield
GEMCO [1]	ROM [2]	77	46.4	48	48	42.2	49	32	41.3	48	157	44.1	48	60	159	44.1	48
	Sands [3]	-	-	-	12	20.8	-	2.3	20.8	-	14	20.8	-		15	20.7	-

ORE RESERVES

As at 30 June 2017		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2016 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Years	%	Mt	% Mn	% Yield	Years
GEMCO [1][4][5][6]	ROM	45	45.3	58	21	44.4	56	66	45.0	57	7.4	60	72	44.6	55	9.0
	Sands	-	-	-	6.6	40.0	31	6.6	40.0	31			7.4	40.0	33	

(1) Cut-off grade

	Mineral Resource	Ore Reserves
ROM	>35% Mn washed product and ≥ 1.0m ore thickness	>40% Mn washed product grade and ≥1.0m ore thickness
Sands	>0% Mn in situ	>0% Mn in situ

(2) ROM Mineral Resource tonnes are stated as in situ, manganese grades are given as per washed ore samples and should be read together with their respective tonnage yields.

(3) Sands Mineral Resource tonnes and manganese grades are reported as in situ.

(4) Ore Reserve tonnes are stated as ROM, manganese grades are reported as expected product and should be read together with their respective tonnage yields.

(5) Ore delivered to process plant.

(6) For metallurgical recovery, see yield in the Ore Reserves table.

AUSTRALIA REGION

WORSLEY ALUMINA

Aluminium

MINERAL RESOURCES

As at 30 June 2017		Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources			Total Mineral Resources			South32 Interest	As at 30 June 2016 Total Mineral Resources		
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	%	Mt	% A. Al_2O_3	% R. SiO_2
Worsley (1)(2)	Laterite	350	28.0	1.5	371	29.1	2.2	395	28.8	2.2	1,120	28.6	2.0	86	1,080	29.0	2.1

ORE RESERVES

As at 30 June 2017		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2016 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Years	%	Mt	% A. Al_2O_3	% R. SiO_2	Years
Worsley (1)(3)(4)(5)	Laterite	285	27.3	1.8	5.9	27.8	2.0	291	27.3	1.8	16	86	270	28.4	1.6	15

(1) Cut-off grade

Mineral Resource	Variable ranging from 20-25% A.Al_2O_3, ≤ 3.5% R.SiO_2 and ≥ 1m thickness.
Ore Reserve	Variable ranging from 22.5-25% A.Al_2O_3, ≤ 3.5% R.SiO_2 and ≥ 1m thickness.

(2) Increase in Mineral Resources is due to additional drilling and updated resource model.

(3) Increase in Ore Reserves is due to additional drilling and updated resource model.

(4) Ore delivered to process plant.

(5) Metallurgical recovery at Worsley refinery: 94.1%

AUSTRALIA REGION

ILLAWARRA METALLURGICAL COAL

Coal

COAL RESOURCES

As at 30 June 2017			Measured Coal Resources				Indicated Coal Resources				Inferred Coal Resources				Total Coal Resources				South32 Interest	As at 30 June 2016 Total Coal Resources			
Deposit [1][2]	Mining Method	Coal Type	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	%	Mt	% Ash	% VM	% S
Bulli	UG	Met	147	11.2	23.8	0.37	289	12.5	23.8	0.36	327	13.7	23.1	0.36	762	12.8	23.5	0.36	100	776	12.8	23.5	0.36
Wongawilli	UG	Met/Th	64	29.2	23.5	0.59	245	29.5	22.2	0.57	155	29.7	22.4	0.57	465	29.5	22.4	0.57	100	478	29.7	22.6	0.58

COAL RESERVES

As at 30 June 2017			Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves				Probable Marketable Coal Reserves				Total Marketable Coal Reserves				Reserve Life	South32 Interest	As at 30 June 2016 Total Marketable Coal Reserves				Reserve Life
Deposit [1][3][4][5]	Mining Method	Coal Type	Mt	Mt	Mt	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Mt	% Ash	% VM	% S	Years	%	Mt	% Ash	% VM	% S	Years
Bulli	UG	Met	22	118	140	19	8.9	24.3	0.37	99	8.9	24.9	0.36	118	8.9	24.8	0.36	20	100	123	8.9	24.7	0.36	22
Wongawilli	UG	Met/Th	10	14	24	-	-	-	-	-	-	-	-	-	-	-	-	4.9	100	-	-	-	-	6.2
	UG	Met	-	-	-	4.7	10.2	24.2	0.60	7.2	10.2	24.2	0.60	12	10.2	24.2	0.60			14	9.7	24.1	0.60	
	UG	Th	-	-	-	2.7	27.0	-	-	3.4	27.0	-	-	6.1	27.0	-	-			9.3	27.0	-	-	

(1) Cut-off grade

Coal Resources	No seam thickness cut-off applied because minimum thickness is economic.
Coal Reserves	No seam thickness cut-off applied because minimum thickness within the mine layout is economic.

(2) Resource tonnages are in situ moisture basis. Ash is reported as Raw, VM and S are reported as potential product on air-dried basis.

(3) Total Coal Reserves are at the moisture content when mined (6% Bulli and 7% Wongawilli). Total Marketable Coal Reserves are the tonnes of coal available at moisture content (9% Bulli, 15.5% Wongawilli Met, 7% Wongawilli Th) and air-dried qualities for sale after the beneficiation of the Total Coal Reserves.

(4) Coal delivered to wash plant.

(5) Process recoveries for the operations

Bulli	84%
Wongawilli	76%

AFRICA REGION

SOUTH AFRICA MANGANESE

Manganese

MINERAL RESOURCES

As at 30 June 2017		Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources			Total Mineral Resources			South32 Interest	As at 30 June 2016 Total Mineral Resources		
Deposit [1]	**Ore Type**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**	**%**	**Mt**	**% Mn**	**% Fe**
Wessels	Lower Body	19	44.1	12.9	32	45.2	13.5	3.1	45.7	13.3	54	44.8	13.3	44.4	53	44.1	12.8
	Upper Body	-	-	-	94	41.4	18.3	-	-	-	94	41.4	18.3		94	41.4	18.3
Mamatwan	M, C, N Zones	23	37.3	4.4	38	37.1	4.6	0.5	37.2	5.1	61	37.2	4.6	44.4	61	37.2	4.5
	X Zone	2.9	36.8	4.8	1.9	35.8	5.1	-	-	-	4.8	36.4	4.9		6.7	36.9	4.7
	Top Cut (balance I&O)	11	29.6	6.2	15	28.8	6.5	-	-	-	26	29.2	6.4		27	29.7	6.4

ORE RESERVES

As at 30 June 2017		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2016 Total Ore Reserves			Reserve Life
Deposit [1][3][4]	**Ore Type**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**	**Mt**	**% Mn**	**% Fe**	**Years**	**%**	**Mt**	**% Mn**	**% Fe**	**Years**
Wessels [2]	Lower Body	2.9	42.5	12.5	16	44.9	13.3	19	44.5	13.2	61	44.4	26	43.2	12.9	67
	Upper Body	-	-	-	64	41.8	17.9	64	41.8	17.9			64	41.8	17.9	
Mamatwan	M, C, N Zones	17	37.1	4.4	36	36.8	4.7	53	36.9	4.6	16	44.4	56	36.7	4.5	17
	X Zone	2.2	36.8	4.8	1.9	36.2	5.0	4.1	36.5	4.9			6.1	36.5	4.7	

(1) Cut-off grade for Mineral Resources and Ore Reserves

Wessels		Mamatwan	
Lower Body	≥ 37.5% Mn	M, C, N Zones	≥ 35% Mn
Upper Body	≥ 37.5% Mn	X Zone	≥ 35% Mn
		Top Cut (balance I&O)	≥ 28% Mn

(2) Decrease to Wessels Ore Reserves is based on review of geotechnical constraints.

(3) Ore delivered to process plant.

(4) Metallurgical recovery for the operations

Wessels: 88%

Mamatwan: 96%

AFRICA REGION

SOUTH AFRICA ENERGY COAL

Energy Coal

COAL RESOURCES

As at 30 June 2017			Measured Coal Resources					Indicated Coal Resources					Inferred Coal Resources					Total Coal Resources					South32 Interest	As at 30 June 2016 Total Coal Resources				
Deposit[1][2]	Mining Method	Coal Type	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	Mt	% Ash	% VM	% S	KCal/ kg CV	%	Mt	% Ash	% VM	% S	KCal/ kg CV
South Africa - Operating mines																												
Khutala	OC	Th	1,105	30.4	22.6	1.21	4,890	-	-	-	-	-	-	-	-	-	-	1,105	30.4	22.6	1.21	4,890	92	1,104	30.2	22.7	1.19	4,900
	UG	Th	142	35.1	20.2	0.73	4,390	-	-	-	-	-	-	-	-	-	-	142	35.1	20.2	0.73	4,390		219	34.6	20.6	0.90	4,440
Klipspruit	OC	Th	102	28.5	22.4	1.23	5,140	-	-	-	-	-	-	-	-	-	-	102	28.5	22.4	1.23	5,140	92	114	28.3	22.4	1.21	5,150
Wolvekrans Middelburg Complex	OC	Th	651	26.9	22.6	1.11	5,460	17	29.2	23.0	1.05	5,180	175	25.5	23.1	1.10	5,590	843	26.6	22.7	1.10	5,480	92	795	26.8	22.8	1.11	5,470
	SP[5]	Th	-	-	-	-	-	4.9	27.4	20.4	0.68	5,370	-	-	-	-	-	4.9	27.4	20.4	0.68	5,370		-	-	-	-	-
South Africa - Projects																												
Davel	UG	Th	-	-	-	-	-	-	-	-	-	-	222	22.8	27.2	1.49	5,790	222	22.8	27.2	1.49	5,790	92	226	22.8	27.2	1.49	5,790
Leandra [3]	UG	Th	328	27.1	23.3	1.25	5,020	199	28.0	23.1	1.21	4,930	1,195	28.4	22.0	0.98	4,840	1,722	28.1	22.4	1.06	4,880	92	1,663	28.1	22.4	1.06	4,890
Naudesbank	OC/UG	Th	87	24.9	25.5	1.07	5,600	110	24.3	25.6	1.05	5,660	46	24.7	25.3	1.06	5,640	243	24.6	25.5	1.06	5,630	92	274	24.6	25.5	1.06	5,630
Pegasus	OC	Th	12	27.4	21.1	1.35	5,340	1.4	23.5	22.3	1.32	5,730	-	-	-	-	-	13	26.9	21.3	1.35	5,380	92	-	-	-	-	-
Weltevreden	OC/UG	Th	225	28.3	22.7	1.27	5,230	151	30.8	22.0	1.22	5,000	171	31.2	21.7	1.15	4,950	547	29.9	22.2	1.22	5,080	92	560	30.6	21.9	1.18	5,030

SOUTH AFRICA ENERGY COAL (CONTINUED)

Energy Coal (continued)

COAL RESERVES

As at 30 June 2017			Proved Coal Reserves	Probable Coal Reserves	Total Coal Reserves	Proved Marketable Coal Reserves					Probable Marketable Coal Reserves					Total Marketable Coal Reserves					Reserve Life	South32 Interest	As at 30 June 2016 Total Marketable Coal Reserves					Reserve Life
Deposit[(1)(4)(6)(7)]	Mining Method	Coal Type	Mt	Mt	Mt	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Years	%	Mt	% Ash	% VM	% S	KCal/kg CV	Years
South Africa - Operating mines																												
Khutala	UG	Th	42	-	42	42	37.1	20.0	0.73	4,220	-	-	-	-	-	42	37.1	20.0	0.73	4,220	9.0	92	47	34.1	21.3	0.89	4,520	9.0
	OC	Th	2.4	0.3	2.7	2.4	39.2	20.7	1.05	4,080	0.3	19.0	31.0	2.11	6,030	2.7	37.0	21.8	1.17	4,300								
Klipspruit	OC	Th Export	22	-	22	6.7	14.2	25.8	0.57	6,230	-	-	-	-	-	6.7	14.2	25.8	0.57	6,230	3.0	92	9.1	14.2	25.1	0.47	6,290	4.0
	OC	Th				12	30.6	21.5	0.87	5,260	-	-	-	-	-	12	30.6	21.5	0.87	5,260			15	25.0	21.0	0.58	5,290	
Wolvekrans Middelburg Complex	OC	Th	412	38	449	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25	92						24
	SP[(5)]	Th	-	4.9	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-								
	OC	Th Export	-	-	-	157	18.5	24.8	0.49	6,270	8.1	15.9	25.3	0.48	6,280	165	18.4	24.8	0.49	6,270			181	15.9	25.3	0.48	6,280	
	OC	Th Domestic	-	-	-	96	23.7	21.8	0.94	5,530	22	24.6	22.0	0.89	5,450	118	23.8	21.9	0.93	5,520			134	25.4	21.3	0.92	5,420	

(1) Cut-off criteria

	Coal Resources	Coal Reserves
Khutala	≥ 1.0m seam thickness for OC, ≥ 2.5m seam thickness for UG, ≥ 24% dry ash-free volatile matter.	≥ 1.0m seam thickness for OC, ≥ 3.8m seam thickness for UG.
Klipspruit	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.	≥ 1.0m seam thickness, varying CV ≥ 3,580 Kcal/kg, ≤ 45% ash.
Wolvekrans Middelburg Complex	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 17.9% volatile matter.	≥ 1.0m seam thickness, ≥ 2,870 Kcal/kg CV, ≤ 45% ash, ≥ 17.9% volatile matter.
Davel	≥ 1.2m seam thickness, ≥ 24% dry ash-free volatile matter.	
Leandra	≥ 1.8m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.	
Pegasus	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.	
Naudesbank	≥ 0.5m to 0.8m seam thickness, ≤ 45% ash, ≥ 22% dry ash-free volatile matter.	
Weltevreden	≥ 0.8m seam thickness, ≤ 45% ash, ≥ 24% dry ash-free volatile matter.	

(2) Coal Resource Tonnes are reported on an insitu moisture basis and qualities are reported on an air-dried basis.

(3) Increase in Coal Resource tonnes due to reporting refinements adopted in FY17.

(4) Coal Reserve tonnes and quality is reported on an air-dried basis.

(5) SP Coal Resources and Coal Reserves are reported for the first time.

(6) Coal delivered to wash plant. For Khutala, coal delivered to the power station.

(7) Process recoveries for the operations:

Khutala	100%
Klipspruit	79%
Wolvekrans Middelburg Complex	68%

BRAZIL ALUMINA

MINERAÇÃO RIO DO NORTE

Aluminium

MINERAL RESOURCES

As at 30 June 2017		Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources			Total Mineral Resources			South32 Interest	As at 30 June 2016 Total Mineral Resources		
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	%	Mt	% A. Al_2O_3	% R. SiO_2
MRN (1)(2)	MRN Washed	327	49.7	4.3	53	49.5	4.7	134	49.9	3.7	514	49.7	4.2	14.8	527	49.8	4.1

ORE RESERVES

As at 30 June 2017		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2016 Total Ore Reserves			Reserve Life
Deposit	Ore Type	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Mt	% A. Al_2O_3	% R. SiO_2	Years	%	Mt	% A. Al_2O_3	% R. SiO_2	Years
MRN (1)(2)(3)(4)	MRN Washed	42	49.4	4.9	12	50.5	4.6	54	49.6	4.9	3.4	14.8	66	49.4	4.3	4.0

(1) Cut-off grade for Mineral Resources and Ore Reserves - MRN washed ≥ 46% $A.Al_2O_3$, ≤ 7% $R.SiO_2$, ≥ 1m thickness and ≥ 30% recovery on weight per cent basis.

(2) MRN washed tonnes and grades represent the expected product based on forecast beneficiation yield.

(3) Ore delivered to process plant.

(4) Metallurgical recovery: 96% of $A.Al_2O_3$

REMUNERATION REPORT

LETTER FROM REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholders

On behalf of the Board of South32, I am pleased to present the Remuneration Report for the year ended 30 June 2017, for which we seek your support at our annual general meeting in November.

This year, we have focused on ensuring that the Remuneration Report provides the elements that matter most to you, our shareholders, including providing additional detail on the short-term incentive scorecard and transparency on the realised remuneration outcomes compared to target for our CEO, Graham Kerr.

Our remuneration strategy aims to focus Executives on outcomes that they can significantly influence and aligns Executives with the experience of shareholders through an emphasis on equity in the long-term incentive and deferred short-term incentive.

Our financial outcomes have been strong with Underlying EBIT increasing to US$1.648 billion (compared to US$0.356 billion in FY16). Whilst improved commodity prices have contributed to this result, your South32 team have driven fundamental positive changes to the operations of our business:

- Our Care Strategy, to create an inclusive workplace with a strong culture of care and accountability has had a positive impact on the lives of our employees
- In the area of Sustainability, there have been improvements in Total Recordable Injury Frequency, occupational exposure limits and GHG emissions
- US$360 million was delivered in cost efficiencies
- We had record production at Mozal Aluminium and near record production at South Africa Aluminium. We backed up a record FY16 at Worsley and Brazil Alumina with another year of strong performance. We demonstrated flexibility by increasing production at our Australian and South African manganese operations in response to high prices

Tragically, we lost one of our employees in a fatal incident at Metalloys Manganese Smelter during the year. This does not reflect the Company we want to be and this loss has had an immense impact on all of us.

Our Illawarra Metallurgical Coal, Cannington and South Africa Energy Coal operations have each faced their own set of challenges this year and we did not meet production targets at those sites. This negatively impacted our Adjusted Return on Invested Capital and we did not meet these targets in our FY17 short-term incentive (STI) scorecard.

Given our focus on measuring elements that Executives can influence, the Board resolved that, on balance, all Executive KMP would receive ‘below target’ for the FY17 STI outcomes. These outcomes ranged from 46.7 per cent to 63.3 per cent of maximum, including 55.3 per cent for Graham Kerr.

The first equity issued under the South32 long-term incentive plan (LTI) will be tested for performance to June 2018. As part of the Demerger of South32 from BHP, existing BHP LTIs granted to Executive KMP were transitioned to South32 rights. This year, the first of the Replacement LTIP Awards vested. The Replacement FY13 LTIP for Graham Kerr partially vested, based on the outperformance of South32’s TSR relative to the Sector Index since Demerger.

Looking forward, the Board has resolved to make no fundamental change to the remuneration framework for FY18. Further, there will be no increases to fixed pay of Executive KMP (unless material changes in role) nor increases in Non-Executive Director fees.

Given the degree of change in executive pay in the broader market, the Board will continue to test the remuneration arrangements for Executives to ensure that these remain aligned to the South32 business strategy, the delivery of value to our shareholders, executive performance and to market best practice.

Thank you for your ongoing support of South32.

Wayne Osborn
Chairman, Remuneration Committee

FY17 AT A GLANCE

HOW DID WE PERFORM IN FY17?

SHAREHOLDER RETURN (TSR)

70%

FY16: **(22%)**

UNDERLYING EBIT

US$1,648 million

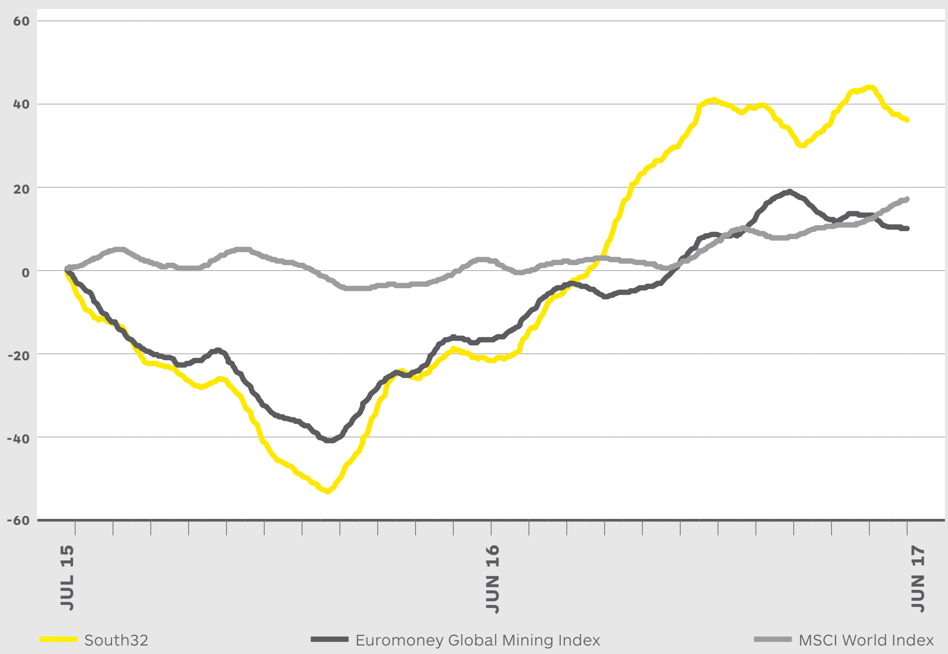
FY16: **US$356 million**

TOTAL RECORDABLE INJURY FREQUENCY

6.0

FY16: **7.7**

DIAGRAM 7.1 SOUTH32 TOTAL SHAREHOLDER RETURN SINCE 1 JULY 2015



FY17 OUTCOMES ARE OUTLINED ON PAGE 75

WHAT WAS THE ACTUAL PAY FOR EXECUTIVE KMP IN FY17?

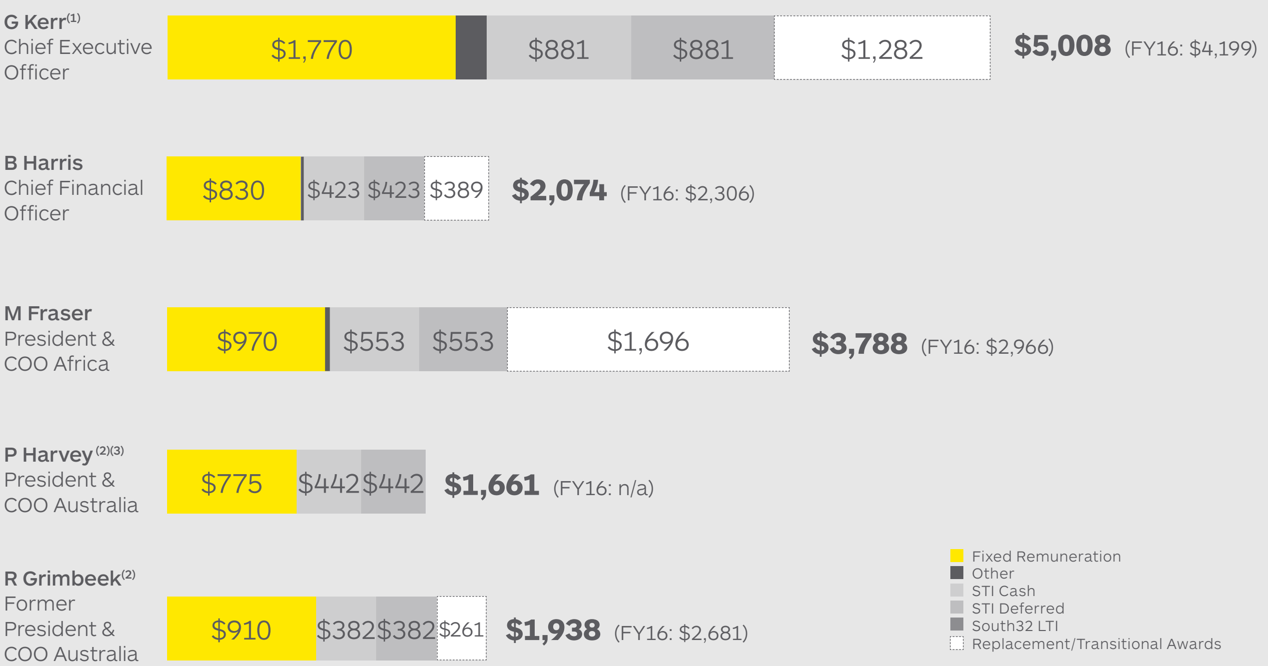
Disclosing actual pay provides shareholders with additional information to assist in understanding cash and other benefits received in FY17.

The actual pay for Executive KMP in FY17 included the following:

- Fixed Remuneration earned in FY17, including salary and pension/superannuation[3]
- Other cash and non-monetary benefits earned, including fringe benefits paid in FY17
- Total STI earned (including cash and deferred rights) based on performance during FY17 (see full details on page 76)
- LTI and/or Replacement/Transitional Awards anticipated to vest based on performance and/or service up to 30 June 2017 (see full details on page 81)

> **"Actual pay varies year on year, reflecting annual business performance and long-term shareholder returns."**

DIAGRAM 7.2 ACTUAL PAY EARNED IN RESPECT OF FY17 (A$'000)



The information above is provided based on methodology comparable to the single figure of remuneration used in the UK. This is different to how actual pay was disclosed in our FY16 report and we have updated the FY16 actual pay figures accordingly.

Information contained in this section has not been prepared in accordance with Australian Accounting Standards.

(1) "Other" for Graham Kerr includes a dividend equivalent payment of A$186,311 that will likely be paid in September 2017 based on the anticipated vesting outcome of the Replacement BHP FY13 LTIP. It is calculated based on BHP dividends of US$3.56 multiplied by the proportion of BHP shares that would have vested (33,992), and South32 dividends of US$0.046 multiplied by the proportion of South32 shares that will likely vest (478,299), using a conversion rate on 30 June 2017 of USD 0.768 : AUD 1.

(2) Paul Harvey was appointed as President and Chief Operating Officer Australia from 4 April 2017, a KMP role, to replace Ricus Grimbeek. Mr Grimbeek was appointed to the new role of Chief Technology Officer, a non-KMP role, from 4 April 2017. Details above for Mr Harvey and Mr Grimbeek have not been pro-rated for their time as KMP. All other Executives were KMP for the full FY17 period.

(3) As Mr Harvey is a member of the South32 Defined Benefit Plan (as set out on page 89), his Fixed Remuneration presented above includes a notional company contribution to the Fund of 9.5 per cent.

STATUTORY REMUNERATION FOR EXECUTIVE KMP IS DISCLOSED ON PAGE 89

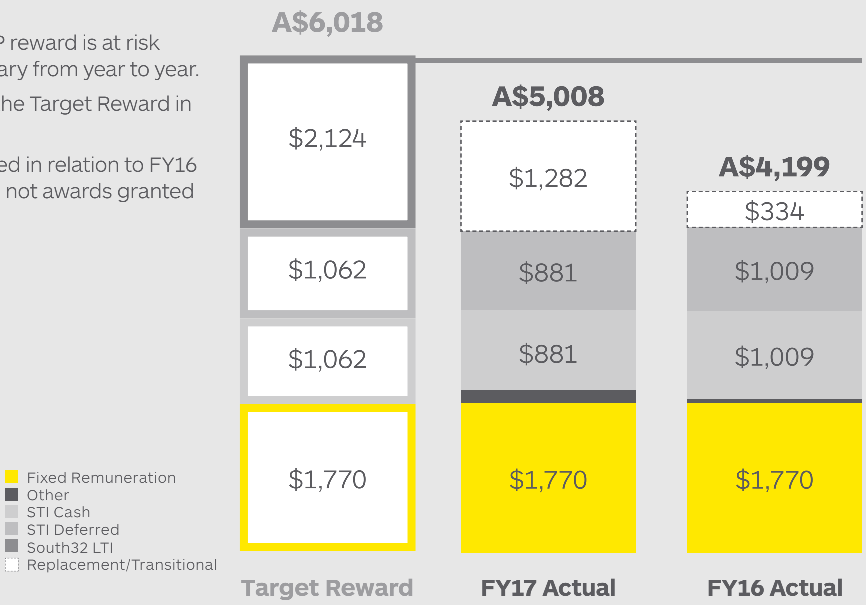
HOW DOES CEO ACTUAL PAY COMPARE TO TARGET REWARD LEVELS?

As a significant portion of the Executive KMP reward is at risk (i.e. based on performance), actual pay will vary from year to year.

The actual pay for the CEO has been below the Target Reward in FY16 and FY17.

It should be noted that the awards that vested in relation to FY16 and FY17 are Replacement BHP Awards and not awards granted under the South32 LTI Executive Plan.

DIAGRAM 7.3 CEO ACTUAL PAY COMPARED TO TARGET REWARD (A$'000)



TARGET REMUNERATION FOR EXECUTIVE KMP IS DISCLOSED ON PAGE 74

HOW DOES SOUTH32 DETERMINE REWARD PRACTICES AND OUTCOMES?

In making decisions on executive remuneration, the Board considers the following guiding principles:

- **Strategy** – Short-term and long-term performance measures are selected to ensure alignment with the South32 strategy, such as to achieve sector leading total shareholder returns, operational excellence and key strategic priorities
- **Shareholders** – The Board is committed to ensure that remuneration supports the delivery of superior shareholder value. We seek to engage with key investors and proxy advisors to understand shareholder views
- **Performance** – To ensure reward outcomes are aligned to performance, a significant portion of executive pay is "at risk" based on demanding financial and non-financial measures
- **Market** - We position our remuneration to be competitive relative to the Global Mining peer group and ASX peer group with remuneration to enable South32 to attract and retain talented Executives

PAGE 72 DESCRIBES SOUTH32'S REMUNERATION FRAMEWORK

WHAT WERE THE KEY COMPONENTS OF EXECUTIVE REMUNERATION IN FY17?

Fixed Remuneration

There were no increases to Fixed Remuneration for any Executive KMP in FY17. The CEO's Fixed Remuneration has remained unchanged since Demerger.

STI

South32's STI focuses on business performance within management's control. The impact of commodity price and foreign exchange during the year is therefore excluded.

Despite an increase in the share price and positive total shareholder returns during the year, STI outcomes for FY17 were generally lower than FY16, mainly due to lower than expected production volumes, which also affected Return on Invested Capital (ROIC).

For FY17, Executive KMP STI outcomes (i.e. including business performance, the business modifier and individual performance), varied from 46.7 per cent to 63.3 per cent out of a maximum 150 per cent.

Diagram 7.4 – FY17 STI Business Scorecard

STI OUTCOMES ARE OUTLINED IN MORE DETAIL ON PAGE 76

LTI (South32)

No South32 LTI vested in FY17.

The first awards under the South32 Executive LTI Plan reach the end of the performance period in June 2018.

LTI (Replacement & Transitional Awards)

The Awards vesting in relation to FY17 (i.e. performance period ending on 30 June 2017) relate to Replacement and Transitional Awards granted as part of the Demerger.

These include:

- The Replacement FY13 LTIP Award for the CEO, Graham Kerr, is anticipated to partially vest, based on the outperformance of South32 TSR relative to the Sector Index since Demerger
- Transitional Awards are anticipated to partially vest for Mike Fraser, based on performance relative to a number of metrics
- Replacement MAP is anticipated to vest for Brendan Harris and Ricus Grimbeek based on continued service

REPLACEMENT AND TRANSITIONAL AWARD OUTCOMES ARE OUTLINED ON PAGE 81

The pages of the Remuneration report that follow have been prepared in accordance with section 300A of the Corporations Act and audited as required by section 308(3C) of the Act. These sections relate to those persons who were Key Management Personnel (KMP) of South32 during FY17, being the Executive KMP named on page 69 and the Non-Executive Directors of South32.

> "STI payments for FY17 are generally lower than FY16 demonstrating the link between pay and performance."

SOUTH32 REMUNERATION FRAMEWORK

Remuneration component	Description	In support of our strategy
Total Reward	Total Reward includes Fixed Remuneration, STI, LTI and any other benefits paid to the Executive. For benchmarking purposes, we use **two primary peer groups** that were chosen to reflect our global competitors and ASX peers: ■ Global Mining Companies Peer Group The FY17 Global Mining Peer Group includes approximately 15 global mining companies within a similar market capitalisation range, commodity mix, and geographic spread as South32 (see list below) ■ ASX Peer Group The FY17 peer group is based on companies in ASX 15-65 (excluding foreign domiciled and real estate investment trusts)	Our remuneration outcomes reflect overall business performance and sustained delivery of value to shareholders. The reward framework is designed to recognise management performance during the financial year (STI) and maximise shareholder value (LTI). We set Fixed Remuneration around the median of our target market to allow for a higher proportion of variable remuneration, or pay 'at risk'. If all variable pay targets are exceeded in a given year, total reward will deliver upper quartile outcomes. However, if targets are not met, total reward will be negatively impacted.
Fixed Remuneration	Fixed Remuneration (inclusive of superannuation) is reflective of each Executive's responsibilities, location, skills and experience. The level of **Fixed Remuneration for the CEO is below the median** of our peer groups.	Fixed Remuneration is paid to attract and retain talented Executives to lead South32 and achieve its strategic goals.
Short-Term Incentive (STI)	The STI outcome is dependent on a mix of both business and individual performance measures. Robust targets are set using a **Business Scorecard** that applies to all Executive KMP and an **Individual Scorecard** that is aligned to each Executive KMP's area of responsibility. The Board retains discretion to apply a **Business Modifier** to the Business Scorecard outcome to reflect overall business performance and mitigate any unintended reward outcomes. For all Executive KMP, target STI is 120 per cent of Fixed Remuneration while maximum STI is 180 per cent of Fixed Remuneration. **Half of the STI outcome is delivered as rights** to South32 shares, deferred for two years.	The purpose of the STI is to focus the efforts of Executive KMP on outcomes that are a priority for South32 in the relevant financial year and to motivate Executive KMP to achieve challenging performance objectives. The Business Modifier allows for Board discretion to ensure alignment to overall business performance and to eliminate unintended outcomes. Deferring half of the STI outcome into rights to South32 shares for two years creates further alignment with shareholders and a focus beyond the short-term. The Board has the discretion to reduce or clawback any vested or unvested Deferred STI.

"We consider market data from two markets – (1) similar-sized global mining companies and (2) an ASX peer group."

South32's global mining companies peer group includes:
Agnico Eagle Mines; Alcoa; Anglo American; Antofogasta; Barrick Gold; Boliden AB; Eramet SA; First Quantum Minerals; Fortescue Metals Group; Freeport McMoRan; GoldCorp; Newcrest Mining; Newmont Mining; Teck Resources; Vedanta

<table>
<tr><th>Remuneration component</th><th>Description</th><th>In support of our strategy</th></tr>
<tr><td>Long-Term Incentive (LTI)</td><td>
The LTI delivers rights to Executive KMP, subject to a four-year performance period.
For FY17, the comparator groups were:

Two-thirds of the award relative to the Euromoney Global Mining Index (Sector Index), with constrained weighting by company and sector
One-third of the award relative to the Morgan Stanley Capital International (MSCI) World Index

The following vesting schedule applies to both comparator groups. If the TSR of South32:

Is below the TSR of the comparator index, 0 per cent of the rights vest
Is equal to the TSR of the comparator index, 40 per cent of the rights vest
Exceeds the comparator index by 5.5 per cent per annum cumulative (Outperformance), 100 per cent of rights vest
Is between the TSR of the comparator index and Outperformance, vesting will be on a straight line between 40 – 100 per cent

There is no retesting if the performance condition is not met, and any rights that do not vest, lapse.
The Face Value of the FY17 LTI, as a percentage of Fixed Remuneration, is shown below:
<table>
<tr><th></th><th>Face Value</th><th>Target Value[1]</th></tr>
<tr><td>CEO</td><td>300%</td><td>120%</td></tr>
<tr><td>Other KMP Roles</td><td>200% to 250%</td><td>80% to 100%</td></tr>
</table>
(1) Refer to description of target value in footnote (2) on page 78.
The number of rights granted, being the maximum that can vest, equals the Face Value of the award, divided by the VWAP of South32 (ASX) shares over the last 10 trading days of June preceding the start of the performance period (Grant VWAP). The price in June aligns to the start of the performance period.
Rights will not attract any entitlement to voting, dividends or dividend equivalent payments.
</td><td>
The LTI complements the STI by driving long-term performance and leadership behaviours.
TSR is the most effective measure to align Executives' remuneration outcomes with the long-term interests of shareholders as it focuses the Executives' efforts on achieving sustainable, long-term value whilst appropriately managing business risks.
The relative TSR performance hurdles are set against two different comparator indices to ensure they are appropriately robust and reflect the sectors and markets in which we have exposure.
Before vesting, the Board will satisfy itself that relative TSR performance appropriately reflects South32's underlying performance over the vesting period and can adjust vesting accordingly.
In addition, the Board has the discretion to lapse all or a portion of an Executive's LTI award as it considers appropriate in the circumstances.
</td></tr>
<tr><td>Service contracts</td><td colspan="2">
The terms of employment for Executives, including the CEO, are formalised in employment contracts that have no fixed term and key terms are consistent for all.
Notice period and terms:

Six months' notice by either party or payment by the Company in lieu of notice or
Termination without notice for serious misconduct or
Two months' notice by the Executive where a fundamental change occurs that materially diminishes their status, duties, authority or terms and conditions (receiving payment in lieu of six months' notice)

The maximum payment in lieu of notice will not exceed six months and Executives will be subject to a number of post-employment restraints for a period of up to six months after their employment with the Group ends.
Shareholder approval was granted at the 2015 Annual General Meeting (AGM) in relation to termination benefits for Executive KMP.
</td></tr>
<tr><td>Minimum shareholding requirement</td><td colspan="2">In order to drive a long-term focus and alignment with our shareholders, a minimum shareholding requirement (MSR) of equal to, or greater than, their annual Fixed Remuneration applies to all Executive KMP. The MSR must be obtained within five years of appointment as a KMP.</td></tr>
</table>

The South32 remuneration framework is underpinned by governance measures that are outlined on page 88. These include the policies and conditions of South32's Equity Incentive Plans as described on page 79.

TARGET REMUNERATION

FY17 target remuneration for Executive KMP, including the percentage at risk, is summarised below. The figures included in this table relate to the Target Remuneration of a KMP role for a full year. They are not pro-rated for time in the role and may not reflect actual target remuneration for FY17 for Executive KMP where they were in a different role for part of the year.

Table 7.1 Elements of target remuneration (A$'000)

		Target STI(1)		Target LTI(2)				
Executive KMP	**Fixed Remuneration**	**Cash**	**Deferred Rights**	**Target %**	**Target $**	**Target Remuneration**	**% at risk**	**% delivered in equity**
G Kerr	1,770	1,062	1,062	120%	2,124	**6,018**	**71%**	53%
B Harris	830	498	498	80%	664	**2,490**	**67%**	47%
M Fraser	970	582	582	100%	970	**3,104**	**69%**	50%
P Harvey(3)	775	465	465	100%	775	**2,480**	**69%**	50%
R Grimbeek(3)	910	546	546	100%	910	**2,912**	**69%**	50%

(1) Assumes STI paid at 100 per cent of target outcomes, i.e. at 120 per cent of Fixed Remuneration.

(2) Target value for the LTI Award is an estimate of the value that may be derived from the award and takes into account the difficulty of achieving the performance hurdles and anticipated share price volatility.

(3) Mr Grimbeek ceased as a member of KMP on 3 April 2017. Mr Harvey was appointed as a member of KMP on 4 April 2017. Mr Harvey's LTI for the FY17 LTI granted was 80 per cent as the grant was prior to his appointment as a member of KMP, see details on page 78.

> "The majority of pay at risk reflects our commitment to pay for performance and deliver value to shareholders."

FY17 OUTCOMES

OVERVIEW OF SOUTH32 PERFORMANCE

Table 7.2 Financial performance

Performance measures	FY17	FY16	FY15 (pro forma)[1]
Underlying EBIT (US$million)[2]	**1,648**	356	1,001
Underlying earnings (US$million)[2]	**1,146**	138	575
Closing net cash/(debt) (US$million)	**1,640**	312	(402)
Change in adjusted return on invested capital (percentage point)[3]	**(1.1)**	1.8	n/a
Closing share price on 30 June (A$)[4]	**2.68**	1.54	1.79
Dividends paid (USc)	**4.6**	-	-
TRIF (per cent/million hours worked)	**6.0**	7.7	5.8

(1) South32's pro forma FY15 result. To assist shareholders in their understanding of the South32 Group, pro forma financial information for 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 30 June 2015. The pro forma financial information is not prepared in accordance with IFRS, consistent with previous periods.

(2) Underlying EBIT and underlying earnings are not prepared in accordance with IFRS. Refer to page 29 of the Annual Report for a reconciliation to statutory earnings.

(3) The change in adjusted return on invested capital is by reference to the previous performance period and removes the effect of changes in commodity prices and foreign exchange rates.

(4) South32's share price on 25 May 2015 was A$2.32.

FIXED REMUNERATION

There was no increase to Fixed Remuneration for any Executive KMP in FY17.

Other than the change for Mr Grimbeek in FY16, no changes have been made to Executive KMP Fixed Remuneration since Demerger in May 2015.

> "There was no increase to Fixed Remuneration for any Executive KMP in FY17."

SHORT-TERM INCENTIVE (STI)

The Business Scorecard focuses the efforts of Executives on outcomes that are within their control and that are a priority in the financial year.

As shown in Diagram 7.5, there are three steps involved in determining the overall STI outcome. Performance is assessed relative to the Business Scorecard (with guidance from Board Committees, such as Remuneration, Risk & Audit and Sustainability) and through individual performance relative to the Individual Scorecards. The Business Modifier is a discretionary measure that takes into consideration other relevant business information as it relates to performance.

Diagram 7.5 – Determination of STI awards

1 **BUSINESS SCORECARD** 0%-150% Target = 100% X 2 **BUSINESS MODIFIER** Discretion +/- X 3 **INDIVIDUAL SCORECARD** 0%-150% Target = 100% = 4 **OVERALL STI OUTCOME** Max. 150% Target = 100%

1 FY17 BUSINESS SCORECARD

Table 7.3 FY17 Business Scorecard outcomes

Scorecard measure	Weight	Performance	0% 100% 150%	Weighted Outcome (Target = 25%)
Sustainability	**25%**			**23%**
TRIF 15% reduction on previous year. (Target: 6.55)		FY17 Group TRIF was 6.0, which is a 22% improvement on FY16.		**Better than Target**
Occupational Illness 15% reduction on previous year[1]. (Target: 0.92)		FY17 Group occupational illness rate was 1.26, which is a decline in performance on FY16.		**Threshold not met**
Occupational Exposure Limits for carcinogens 5% reduction on previous year. (Target: 660)		Group OEL was 368 which is a 47% improvement on FY16 outcomes.		**Stretch met**
GHG reduction + abatement projects on track. (Target: 24,527 kt CO_2-e)		Group GHG emissions was 22,562 kt. While this is an improvement on FY16, not all abatement projects were completed.		**Better than Target**
Note that fatalities and other sustainability or safety issues are considered in the Business Modifier				
Finance: Production, cost and capital expenditure	**25%**			**22%**
Production: 95%–105% of budget		Production was within target range at approximately half the operations with near record production at South Africa Aluminium and record production at Mozal Aluminium. Lower production, particularly at Illawarra Metallurgical Coal, Cannington and South Africa Energy Coal impacted the overall outcome.		**Target not met**
Cost: ≥ $US260 million reduction in controllable costs		Reduction in controllable costs of US$360 million for FY17. While this exceeds target and a number of notable cost efficiency measures were implemented, a large portion of these savings relate to lower production volumes.		**Target not met**
Capital Expenditure: ≤ US$450 million		Capital expenditure in FY17 was US$353 million. Spend and overall capital management was considered to have met target.		**Target met**
Finance: Adjusted Return on Invested Capital (ROIC)	**25%**			**10%**
Improvement on Adjusted ROIC: ≥ 0.9% improvement over the previous year		Adjusted ROIC was 1.1% less than FY16. While a number of operations delivered positive outcomes, the low production at Illawarra Metallurgical Coal, Cannington and South Africa Energy Coal in particular, were key contributors to missing target.		**Target not met**
Strategic priorities	**25%**			**26%**
Unlock the potential of our existing footprint		Includes commercially sensitive projects aimed at optimising and unlocking the potential of our operations.		**Better than Target**
Risk management and assurance		While good progress was made with recording material risks and aligning assurance and verification processes across the business, the implementation of our risk management systems missed our target. Implementing our systems remains a priority.		**Target not met**
Care Strategy, people and culture		The Care Strategy has been well implemented across the workforce, focusing on inclusive workplace behaviours. Positive impact of the Care Strategy is particularly noteworthy in Africa. Progress towards our Diversity targets remains a key priority.		**Better than Target**
SUB-TOTAL	**100%**			**81%**

(1) Occupational Illness: FY16 TRILF results were downgraded after our FY16 Report was published. There was no material impact on STI outcomes for Executive KMP in FY16. The initial, more stringent targets for FY17 were retained. Please refer to the Sustainability section of "Our Approach" in this report on page 10 for more information.

2 FY17 BUSINESS MODIFIER

The Business Modifier may be applied to the Business Scorecard to reflect the discretion reserved for the Board to consider business outcomes that are not included in the scorecard. The Business Modifier may be applied to Executive KMP on an individual or a group basis.

Fatalities and other sustainability or safety issues are considered as part of the Business Modifier to reflect the commitment to making South32 a safe place to work. By including the modifier, the Board has absolute discretion as to the impact on the overall Scorecard outcome.

		Outcome
Modifier at Board discretion	In determining the modifier, the Board considered factors not reflected in the Business Scorecard, including the fatality in South Africa, reputational outcomes and overall business performance.	An overall modifier of **-2.5% was applied to the CEO** and **-5% applied to the Africa region**

3 FY17 INDIVIDUAL SCORECARD FOR THE CEO

The Board determines the Individual Scorecard measures for the CEO and other Executive KMP.

		Outcome
CEO's individual outcome	The Board considered the CEO's performance over the year, including the execution of the South32 strategy: ■ Safety & Sustainability: Reduction in TRIF, improving diversity and inclusion ■ Optimise the performance of existing operations: Continued reduction of controllable costs across the business. Aluminium supply chain operating at technical capacity, with record production at Mozal Aluminium ■ To unlock the potential of our operations: Flexibility of Manganese production in response to higher prices, efficiencies across the aluminium value chain and La Esmeralda first ore delivery ■ To identify new opportunities to compete for capital: Trilogy option agreement, AusQuest strategic alliance and Arizona Mining investment	**105.1%**

Individual outcomes for other Executive KMP ranged from 99.4 per cent to 105.0 per cent out of a possible 150 per cent, reflecting their performance relative to their Individual Scorecards, as indicated in Table 7.4 below.

> "FY17 STI outcomes demonstrate that we reward our Executive KMP based on factors that are within their control."

4 OVERALL FY17 STI OUTCOMES

Following the Board's assessment of the Business Scorecard, Business Modifier and Individual Scorecards, the actual STI outcomes for FY17 are outlined in the table below.

Table 7.4 STI earned by Executive KMP in respect of FY17 performance

								Percentage of maximum STI	
Executive KMP[1]	**Business Scorecard outcome % Max 150%**	**Modifier +/- %**	**Individual Scorecard outcome Max 150%**	**Overall STI outcome Max 150%**	**Total STI Awarded (A$'000)**	**Cash[2] (A$'000)**	**Rights[2] (A$'000)**	**Awarded %**	**Forfeited %**
G Kerr	81.0	97.5	105.1	83%	**1,763**	881	881	**55.3**	44.7
B Harris	81.0	100.0	105.0	85%	**847**	423	423	**56.7**	43.3
M Fraser	96.3	95.0	103.9	95%	**1,106**	553	553	**63.3**	36.7
P Harvey[3]	96.3	95.0	103.9	95%	**884**	442	442	**63.3**	36.7
R Grimbeek[4]	70.4	100.0	99.4	70%	**764**	382	382	**46.7**	53.3

(1) Business Scorecard outcomes for Mr Grimbeek and Mr Fraser are weighted to their respective business units. Mr Harvey worked in the Africa region up to his appointment as President and Chief Operating Officer Australia.

(2) Half of the STI will be paid in cash in September 2017, with the remaining half deferred into rights to South32 shares that will be granted in or around December 2017 and will be due to vest in August 2019. The rights remain subject to continued service with the South32 Group. The minimum possible total value of the rights for future financial years is therefore nil (see page 79 for policies and conditions relating to South32's Equity Incentive Plans).

(3) Mr Harvey was appointed as a member of KMP on 4 April 2017. The details above relate to the full FY17 period and have not been pro-rated for the period 4 April 2017 to 30 June 2017.

(4) Mr Grimbeek ceased as a member of KMP on 3 April 2017. The details above relate to the full FY17 period and have not been pro-rated for the period 1 July 2016 to 3 April 2017.

LONG-TERM INCENTIVES

SOUTH32 LTI AWARDS

Awards have been granted under the South32 Executive LTI Plan from FY16. The first to be tested for vesting subject to performance conditions is the FY16 Transition Awards, with the performance period ending on 30 June 2018.

> "No awards granted under the South32 LTI Plan are due to vest until August 2018."

LONG-TERM INCENTIVES GRANTED IN FY17

Performance rights were allocated to Executive KMP in December 2016 as part of South32's FY17 LTI Plan. These rights, which have a four-year performance period, are subject to performance hurdles as outlined on page 73. The grant of rights for the CEO was approved at the AGM on 24 November 2016.

Table 7.5 FY17 LTI grants

		Reward Determination(1) (calculated at the start of the performance period, i.e. 1 July 2016)			Grant (December 2016)
Executive KMP	**Maximum Value (% of Fixed Remuneration)**	**Face Value (A$'000)**	**Target Value(2) (% of Fixed Remuneration)**	**Target Value(2) (A$'000)**	**Number of Rights granted(3)**
G Kerr	300%	5,310	120%	2,124	**3,277,777**
B Harris	200%	1,660	80%	664	**1,024,691**
M Fraser	250%	2,425	100%	970	**1,496,913**
P Harvey(4)	200%	1,550	80%	620	**956,790**
R Grimbeek(5)	250%	2,275	100%	910	**1,404,320**

(1) The grant of awards is based on the Face Value as outlined in the Remuneration Framework (see page 73) and is based on the share price calculated at the start of the performance period (see note 3).

(2) The Target Value is an estimate of the value that may be derived from this award and takes into account the difficulty of achieving the performance hurdles and anticipated share price volatility.

(3) The number of rights granted to the Executive KMP in December 2016 is calculated by dividing the Face Value by the volume weighted average price of South32 shares traded on the ASX over the last 10 trading days of June 2016 (Grant VWAP), of A$1.62.

(4) As Mr Harvey was appointed as a member of KMP on 4 April 2017, these awards were granted to him in his previous role and relate to the full FY17 period.

(5) Mr Grimbeek ceased as a member of KMP on 3 April 2017. The details above have not been pro-rated and relate to the full FY17 period.

POLICIES AND CONDITIONS RELATING TO SOUTH32'S EQUITY INCENTIVE PLANS

- **Malus and Clawback**

  The Board has discretion to reduce or clawback all vested and unvested STI and LTI awards in certain circumstances to ensure Executives do not obtain an inappropriate benefit.

  The circumstances in which the Board may exercise this discretion are broad. Examples include: where an Executive engages in misconduct, a material misstatement of the Company's accounts results in vesting, behaviours of Executives that bring South32 into disrepute or any other factor that the Board deems justifiable.

- **Prohibition on hedging**

  All employees must comply with the South32 Securities Dealing Policy, which prohibits Executives from entering into any hedging arrangement that limits the risk of holding unvested or restricted South32 equity awards under our STI and LTI Plans.

- **Voting and Dividends**

  Rights will not attract any entitlement to voting, dividends or dividend equivalent payments.

- **Change of Control**

  The Board has discretion to determine the level of vesting (if any) having regard to the portion of the vesting period elapsed, performance to date against any applicable performance conditions and other factors the Board deems appropriate.

- **Treatment of Incentives on Cessation of Employment**

  The Board has the discretion to determine how incentive awards will be treated if an Executive ceases their employment with South32. This discretion can be exercised on a case-by-case basis, allowing the Board to ensure the treatment of incentives is appropriate in the circumstances and aligns to shareholder expectations.

  Guidelines relating to different circumstances are as follows:

  - Resignation or termination for cause – all unvested awards to lapse
  - Death, serious injury, disability or illness that prevents continued employment or total permanent disability – all unvested awards to vest immediately
  - Other circumstances – a pro-rata portion of rights to remain on foot subject to the Remuneration Committee's discretion to lapse or vest

REPLACEMENT AND TRANSITIONAL AWARDS

The arrangements regarding the Replacement and Transitional Awards were outlined in the Listing Document in March 2015. These awards were granted to Executive KMP at the time of the Demerger to ensure that Executives were not negatively impacted by accepting roles at South32. This enabled the acquisition of the appropriate talent into South32.

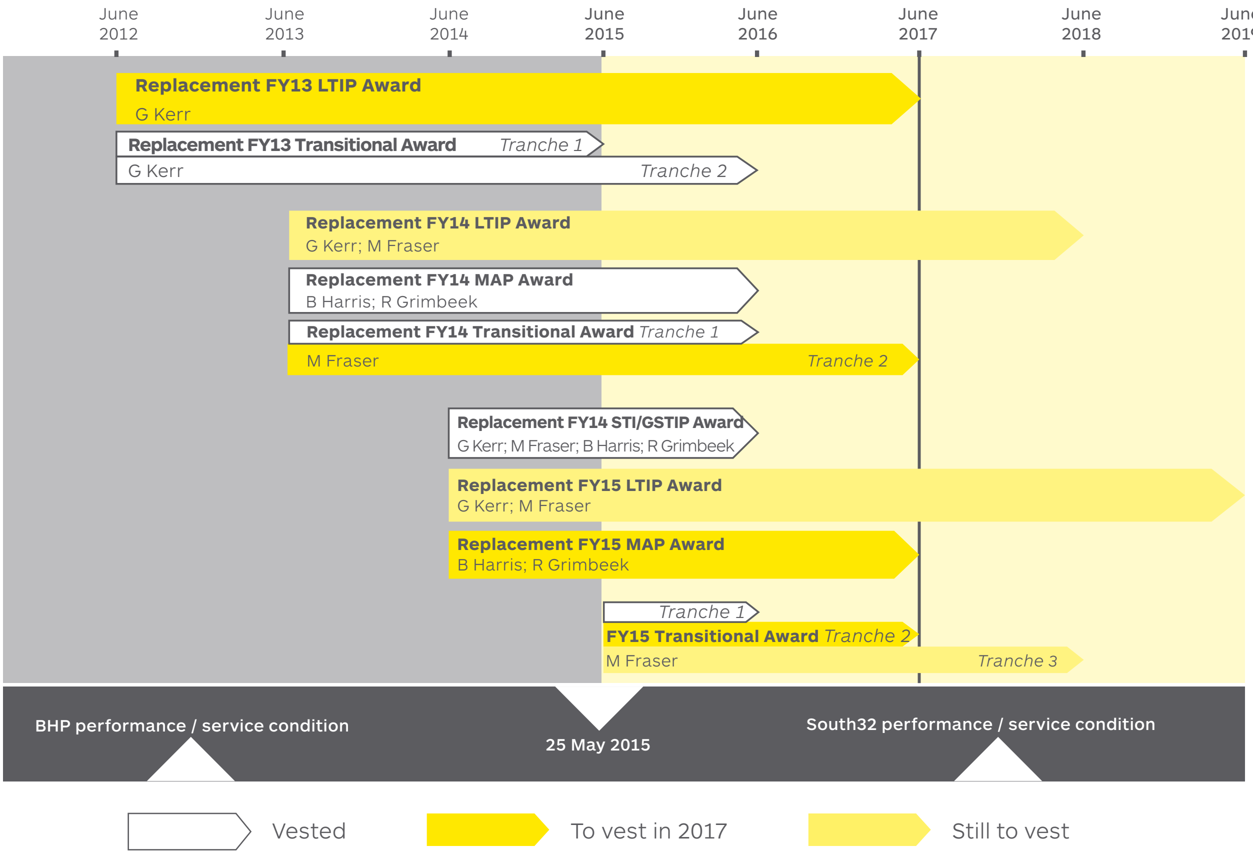
The Replacement Awards took the place of unvested BHP awards previously granted to these Executives, which were cancelled at the time of the Demerger. These were of a similar value and on similar terms, including service and performance conditions, to the BHP awards they replaced (see Table 7.8 for key terms and conditions).

Importantly, to align remuneration arrangements for Executive KMP to South32's strategy and performance as well as service conditions, the Replacement and Transitional Awards are linked to South32 performance instead of BHP from the date of Demerger on 25 May 2015.

The FY15 Transitional Award was granted to Mike Fraser in 2015 to bridge the gap between his target remuneration as a member of BHP's Group Management Committee and the lower level of target remuneration at South32. This will be applied for the first three years of his employment (see page 81), after which it falls away.

Diagram 7.6 illustrates the vesting period for the Replacement Awards and Transitional Performance Awards, from the start of the performance period in BHP to the intended date of vesting. The awards shown in white have already vested. The awards shown in darker yellow are those with the performance period ending on 30 June 2017 while Replacement FY14 and FY15 LTIP Awards have performance periods ending in June 2018 and June 2019 respectively.

Diagram 7.6 BHP Replacement Awards



> "Executive KMP carried over their incentives when moving from BHP to South32, with their reward now based on South32 performance and delivered in South32 shares."

REPLACEMENT AND TRANSITIONAL AWARDS ANTICIPATED TO VEST

Table 7.6 summarises the Replacement and Transitional Awards tested, based on performance and service conditions to 30 June 2017. Where performance and/or service conditions have been met, the relevant awards are anticipated to vest in August 2017.

Table 7.6 Replacement and Transitional Awards - performance period ending 30 June 2017

Executive KMP	Award	Number of Rights granted	Number of Rights to vest(1)	Number of Rights forfeited	Value at vesting(1) (A$)
G Kerr	Replacement BHP FY13 LTIP Award	1,532,870	**478,299**	1,054,571	**1,281,842**
B Harris	Replacement BHP FY15 MAP Award	145,283	**145,283**	0	**389,358**
M Fraser	Replacement BHP FY14 Transitional Award (tranche 2 of 2)	218,845	**175,076**	43,769	**469,204**
	FY15 Transitional Award (tranche 2 of 3)	538,747	**457,935**	80,812	**1,227,266**
R Grimbeek(2)	Replacement BHP FY15 MAP Award	97,364	**97,364**	0	**260,936**

(1) These Rights are anticipated to vest in August 2017. The estimated value at vesting is the number of rights that are anticipated to vest, multiplied by the closing share price of South32 shares as at 30 June 2017, of A$2.68.

(2) Mr Grimbeek ceased as a member of KMP on 3 April 2017, the information above has not been pro-rated for the period 1 July 2016 to 3 April 2017 and relates to the full FY17 period.

Replacement BHP FY14 Transitional Award (tranche 2 of 2)

This Transitional Award was granted to Mike Fraser in 2013 when he was promoted to the BHP Group Management Committee. This is the second of two tranches of 218,845 rights.

At the time of grant, the target vesting was 80 per cent, with a maximum of 100 per cent and minimum of zero, based on the absolute discretion of the Board to assess performance relative to (1) TSR Performance; (2) Company Performance; and (3) Performance in role.

As the performance period is from July 2013 to June 2017, BHP provided an assessment of Mr Fraser's performance from 1 July 2013 to 24 May 2015 (prior to Demerger) and the South32 Board from 25 May 2015 to 30 June 2017.

The Board considered, for the period under South32:

(1) South32 relative TSR has outperformed the TSR of the peers.

(2) Company performance, with particular focus on Africa, has largely been in line with expectations, with positive outcomes across a range of factors within Mr Fraser's control, particularly production, cost management, business transition and implementation of the Care Strategy, being offset by four fatalities in FY16 and one in FY17.

(3) Mr Fraser has performed well in his role.

Taking into account the input from BHP, the Board has assessed Mr Fraser's performance as being on target and applied an outcome of 80 per cent, with the remainder to be forfeited.

FY15 Transitional Award (tranche 2 of 3)

The FY15 Transitional Award was granted to Mike Fraser in 2015 to bridge the gap between his target remuneration as a member of BHP's Group Management Committee and his lower remuneration at South32 for the first three years of his employment. A performance-based award was seen as an appropriate way to affect a smooth transition for Mr Fraser to his permanent remuneration package which reflects benchmarking data for his role.

The award was granted in June 2015 and has three equal tranches of 538,747 rights vesting in FY16 (vested/forfeited), FY17 (this tranche) and FY18. The level of vesting for each tranche is dependent upon the Board's assessment of Mr Fraser's performance over the relevant period.

At the time of grant, the target vesting was 85 per cent, with a maximum of 100 per cent and minimum of zero, based on the absolute discretion of the Board to assess performance relative to (1) TSR Performance; (2) Company Performance; and (3) Performance in role.

The Board has assessed Mr Fraser's performance over the full performance period (25 May 2015 to 30 June 2017) with the outcome being that 85 per cent of the award is anticipated to vest with the remainder to be forfeited.

Replacement BHP FY15 MAP Award

The Replacement BHP FY15 MAP awards were granted on the same terms as the BHP MAP awards they replaced. Under BHP, these awards carried a service condition only, with no further performance conditions. As the service condition will likely be met, the awards are anticipated to vest in full to Mr Harris and Mr Grimbeek.

Replacement BHP FY13 LTIP Award

For the Replacement BHP FY13 LTIP Award, performance was assessed based on BHP's TSR relative to BHP's comparator groups from 1 July 2012 to 24 May 2015 and South32's TSR performance relative to South32's comparator groups from 25 May 2015 to 30 June 2017.

Diagram 7.7 illustrates the BHP and South32 TSR performance for the full five-year performance period, with the grey shade indicating BHP performance and the yellow shade indicating South32 performance. The positive performance of South32's TSR during FY17 has meant that, for the full five-year performance period, the company TSR (BHP plus South32) has exceeded the Sector Index. For the same period, the combined company TSR is below the median of the world index (the MSCI World). Refer to page 72 of the Remuneration Report for more information on South32's comparator groups.

For the performance period ending 30 June 2017, the Replacement BHP FY13 LTIP Award is therefore anticipated to partially vest for the CEO as outlined below. Of the 1,532,870 rights granted, 31.2 per cent, or 478,299, will vest with the balance to be forfeited.

Diagram 7.7 TSR Performance

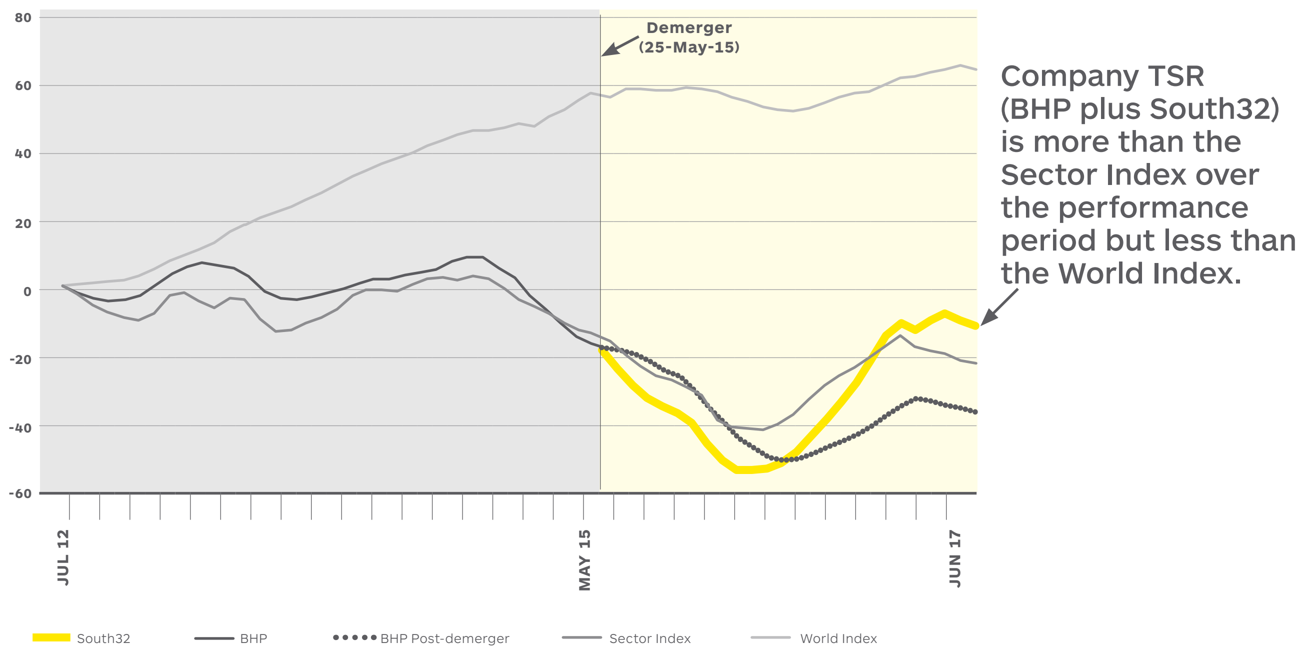


Table 7.7 Vesting outcome

	TSR vs Sector Index	TSR vs Global Index (MSCI)
BHP Performance (A) (1 July 12 to 24 May 15)	-3.9%	-74.9%
South32 Performance (B) (25 May 15 to 30 June 17)	12.8%	8.1%
Combined Performance (A) + (B)	8.9%	-66.8%
Weighted Vesting Outcome (based on Vesting Schedule)	**31.2%**	**0.0%**

> **"The partial vesting of the Replacement BHP FY13 LTIP reflects South32's positive performance relative to the Sector Index."**

TERMS AND CONDITIONS FOR THE REPLACEMENT AND FY15 TRANSITIONAL AWARDS

Table 7.8 Key terms and performance conditions for the Replacement and Transitional Awards

Award	Key Terms and Performance Conditions
Replacement LTIP Awards	**LTIP Performance Measure:** Awards are subject to relative TSR over a five-year vesting period with reference to the Sector index determining vesting of 67 per cent of the rights and the MSCI World index determining vesting of 33 per cent of the rights. For the period up to 24 May 2015, BHP TSR relative to the BHP comparator groups apply. From 25 May 2015, South32 TSR relative to the South32 comparator groups apply (see page 72 for information relating to South32's comparator groups). **Vesting:** Vesting requires the TSR to equal or exceed the TSR of the relevant index over the performance period: ■ If combined TSR over the vesting period is below the index, 0 per cent of the rights vest ■ If combined TSR is equal to the TSR of the index, 25 per cent of the rights vest ■ If combined TSR exceeds the index by 5.5 per cent per annum cumulative (Outperformance), 100 per cent of rights vest ■ If combined TSR is between the TSR of the index and Outperformance, vesting will be on a straight line between 25 and 100 per cent **Dividends:** Dividend equivalent payments will be made for any rights that vest at the end of the vesting period.
Replacement Transitional Awards and FY15 Transitional Award	In addition to the service condition, the Board will determine whether any, all or some of the rights will vest having regard to (but not limited to): (1) South32 TSR performance relative to the Sector TSR. (2) Contribution to Company performance. (3) Performance in role. For the period up to 24 May 2015, BHP performance outcomes will apply. From 25 May 2015, South32 performance outcomes will apply. Any rights that do not vest will immediately lapse/be forfeited. No dividend equivalent payments will be made.
Replacement MAP	Service conditions apply, whereby the Executive KMP is required to remain employed by the Company for the full vesting period of the award.

REPLACEMENT AND TRANSITIONAL AWARDS VESTED DURING FY17

Table 7.9 summarises the Replacement and Transitional Awards that vested and/or were forfeited, based on performance and service conditions to 30 June 2016. These awards vested in August 2016 and were disclosed in the FY16 Remuneration Report in Table 6.3. using the closing share price on 30 June 2016 of A$1.54.

Table 7.9 Replacement and Transitional Awards vested/exercised

Executive KMP	Award	Number of Rights granted	Number of Rights to vest	Number of Rights forfeited	Value at vesting[1] (A$)
G Kerr	Replacement BHP FY13 Transitional Award (tranche 2 of 2)	252,109	**216,561**	35,548	**415,797**
B Harris	Replacement BHP FY14 MAP Award	150,559	**150,559**	0	**289,073**
M Fraser	Replacement BHP FY14 Transitional Award (tranche 1 of 2)	218,845	**176,607**	42,238	**339,085**
	FY15 Transitional Award (tranche 1 of 3)	538,747	**462,244**	76,503	**887,508**
R Grimbeek[2]	Replacement BHP FY14 MAP Award	102,641	**102,641**	0	**197,071**

(1) The value at vesting is the number of rights that vested on 31 August 2016, multiplied by the closing share price of South32 shares on the vesting date of A$1.92.
(2) Mr Grimbeek ceased as a member of KMP on 3 April 2017. The information above has not been pro-rated for the period 1 July 2016 to 3 April 2017 and relates to the full FY17 period.

Replacement BHP FY13 Transitional Award (tranche 2 of 2)

This Transitional Award was granted to Graham Kerr in 2012 when he was promoted to the BHP Group Management Committee. This was the second of two tranches of 252,109 rights.

At the time of grant, the target vesting was 80 per cent, with a maximum of 100 per cent and minimum of zero, based on the absolute discretion of Board to assess performance relative to (1) TSR Performance; (2) Company Performance; and (3) Performance in role.

The award was pro-rated based on time in each company over the performance period, in this case, 1 July 2012 to 30 June 2016 with BHP providing their assessment of Mr Kerr's performance prior to Demerger.

The Board considered, for the period under South32:

(1) South32 relative TSR was slightly below the median of the Sector Index.
(2) Company performance has largely been ahead of expectations, with positive outcomes across a range of factors within Mr Kerr's control, particularly production, excellent cost management, well-contained capital expenditure, and a smooth business transition following the Demerger. There were, however, four fatalities in South32 during FY16.
(3) Mr Kerr has performed well in his role.

The Board assessed Mr Kerr's performance from Demerger (25 May 2015 to 30 June 2016) and took BHP's assessment into consideration with the outcome being 86 per cent of the award vested in August 2016 with the remainder being forfeited.

Replacement BHP FY14 Transitional Award (tranche 1 of 2)

This Transitional Award was granted to Mike Fraser in 2013 when he was promoted to the BHP Group Management Committee. This was the first of two tranches of 218,845 rights.

At the time of grant, the target vesting was 80 per cent, with a maximum of 100 per cent and minimum of zero, based on the absolute discretion of Board to assess performance relative to (1) TSR Performance; (2) Company Performance; and (3) Performance in role.

The award was pro-rated based on time in each company over the performance period, in this case, 1 July 2013 to 30 June 2016 with BHP providing their assessment of Mr Fraser's performance prior to Demerger.

The Board assessed Mr Fraser's performance from Demerger (25 May 2015 to 30 June 2016) and took BHP's assessment into consideration with the outcome being 81 per cent of the award vested in August 2016 with the remainder being forfeited.

FY15 Transitional Award (tranche 1 of 3)

This Transitional Award was granted to Mike Fraser in 2015 to bridge the gap between his target remuneration as a member of BHP's Group Management Committee and his lower remuneration at South32 for the first three years of his employment. A performance-based award was seen as an appropriate way to affect a smooth transition for Mr Fraser to his permanent remuneration package which reflects benchmarking data for his role.

The award was granted in June 2015 and has three equal tranches of 538,747 rights vesting in FY16 (this award), FY17 (refer to page 81) and FY18. The level of vesting for each tranche is dependent upon the Board's assessment of Mr Fraser's performance over the relevant period.

At the time of grant, the target vesting was 85 per cent, with a maximum of 100 per cent and minimum of zero, based on the absolute discretion of Board to assess performance relative to (1) TSR Performance; (2) Company Performance; and (3) Performance in role.

The Board assessed Mr Fraser's performance over the full performance period (25 May 2015 to 30 June 2016) with the outcome being that 86 per cent of the award vested in August 2016 with the remainder being forfeited.

Replacement BHP FY14 MAP Award

The Replacement BHP FY14 MAP awards were retention awards, granted on the same terms as the BHP MAP awards they replaced. These awards carried a service condition only, with no further performance conditions. As the service condition was met, the awards vested in full to Mr Harris and Mr Grimbeek in August 2016.

LOOKING FORWARD TO FY18

Fixed Remuneration

There will again be no increase to Fixed Remuneration for Executive KMP in FY18, unless there is a material change in role.

> "Fixed Remuneration will remain unchanged in FY18 for Executive KMP."

STI

The structure and quantum of our STI will remain unchanged, with Business Scorecard measures aligned to FY18 priorities, including:

- Sustainability: health, safety and environment (25 per cent)
- Finance: adjusted return on invested capital (25 per cent)
- Finance: production, cost and capital expenditure measures (25 per cent)
- Strategic priorities: key elements of the strategic plan (25 per cent)

The final STI outcome will be based on the Business Scorecard results, application of the Business Modifier at Board discretion and performance against individual targets.

LTI

The structure and quantum of the LTI will remain unchanged in FY18.

In FY17, we undertook our annual review of the Executive Reward arrangements, including the LTI Plan. It was determined that, currently, TSR relative to our two comparator groups is the most appropriate measure for the South32 LTI as it reflects management performance and aligns the outcomes for our Executives with the long-term experience of our shareholders.

Mr Harvey's LTI opportunity will increase in Face Value from 200 per cent to 250 per cent of Fixed Remuneration in line with the Target Reward for the role of President and Chief Operating Officer, Australia.

NON-EXECUTIVE DIRECTOR REMUNERATION

REMUNERATION POLICY

Competitive Director fees are paid to attract and retain high-quality people, reflect the size, complexity and global nature of the Company, and to acknowledge the responsibilities of serving on the South32 Board.

Committee fees are paid to recognise the additional responsibilities associated with participating on a Board Committee.

The Chairman of the Board, however, is paid a fixed fee for all responsibilities including participation on any Board Committees.

NON-EXECUTIVE DIRECTOR FEES AND FEE POOL

Fees are reviewed annually and external advice may be sought in the benchmarking and review of fees. A review of fees was undertaken in FY17 based on data provided by external consultants. The Board determined that no change will be made to fees for FY18.

The maximum aggregate amount available to South32 to pay its Non-Executive Directors remains at A$3.9 million per annum (Fee Pool). South32 will seek shareholder approval before making any changes to the Fee Pool.

The table below outlines the fee levels for FY17 which will also apply in FY18.

Table 7.10 Board fees

Fee	Description	A$ per annum
Board Fees	**Board of Directors**	
	Chairman of the Board	550,000
	Other Non-Executive Directors	180,000
Committee Fees	**Risk and Audit, Remuneration, Sustainability Committees**	
	Committee Chairman	45,000
	Members	22,500

As an international resources company, the Board program reflects the geographic spread of South32's business and the Board's commitment to hold meetings and associated site visits in the different locations where we operate. Board meetings are scheduled in Australia and other locations (refer to page 96 for further detail on Board and Committee meetings).

The Board program usually runs over two to three days and includes:

- Annual Strategy session
- Site visits (refer to Diagram 7.8 for the site visits undertaken in FY17)
- Business briefings
- Presentations from external providers
- Engagement with local employees
- Engagement with key stakeholders, including customers

This program is an important element of the Board's activities and ensures that Directors have a deep understanding of South32's operations and activities.

In addition, throughout the year the Chairman of the Board and the Chairman of the Remuneration Committee attend a number of face-to-face meetings with investors and proxy advisors as part of our investor engagement strategy.

TRAVEL ALLOWANCE

All Directors are required to travel to attend Board meetings and other engagements, which can involve significant additional time, particularly when the site visits are in remote locations. In such instances, an allowance is paid to compensate Directors for this additional commitment.

Where air travel to a Board commitment is greater than three hours but less than 10 hours to destination, a one-off allowance of A$7,840 per trip applies. Alternatively, where air travel is greater than 10 hours to destination the allowance per trip is A$16,800.

MINIMUM SHAREHOLDING REQUIREMENTS

The Board is committed to each Non-Executive Director achieving a minimum shareholding level of one year's base fees to be accumulated over a reasonable period. Refer to Table 7.15 for details of the current shareholdings of Non-Executive Directors.

FY17 NON-EXECUTIVE DIRECTOR REMUNERATION

Table 7.11 sets out the statutory disclosures required under the Corporations Act and in accordance with Australian Accounting Standards in respect of FY17 remuneration paid to Non-Executive Directors.

Table 7.11 Non-Executive Director remuneration (A$'000)

			Short-term benefits			Post-employment benefits	Total
Non-Executive Director	FY17 term		Board & Committee fees	Non-monetary benefits[2]	Other cash allowances & benefits[3]	Superannuation benefits	
D Crawford	Full year	**FY17**	**530**	**–**	**65**	**20**	**615**
		FY16	531	5	90	19	645
F Cooper	Full year	**FY17**	**228**	**–**	**41**	**20**	**289**
		FY16	228	–	41	19	288
P Kukielski[1]	to 21 June 2017	**FY17**	**216**	**2**	**101**	**3**	**322**
		FY16	222	–	159	3	384
X Mkhwanazi	Full year	**FY17**	**199**	**3**	**67**	**4**	**273**
		FY16	198	–	67	4	269
N Mtoba	Full year	**FY17**	**199**	**2**	**67**	**4**	**272**
		FY16	199	–	67	4	270
W Osborn	Full year	**FY17**	**228**	**–**	**57**	**20**	**305**
		FY16	228	–	74	19	321
K Rumble	Full year	**FY17**	**244**	**2**	**67**	**4**	**317**
		FY16	244	–	101	3	348
TOTAL		**FY17**	**1,844**	**9**	**465**	**75**	**2,393**
		FY16	1,850	5	599	71	2,525

(1) Mr Kukielski resigned as a Non-Executive Director effective 21 June 2017.
(2) Includes assistance for tax return preparation (FY17) and one-off spouse travel for the May 2015 EGM, under BHP (invoiced to South32 in FY16).
(3) Includes travel allowance paid in FY17.

Diagram 7.8 Director Site Visits in FY17

As part of the Board program, site visits are undertaken to South32 operations. In FY17 the Board visited the following operations:

REMUNERATION GOVERNANCE

Diagram 7.9 South32 Remuneration Governance

THE SOUTH32 BOARD

The Board maintains overall responsibility for oversight of the remuneration policy and the principles and processes that underpin the policy.

The Board approves, having regard to the recommendations of the Remuneration Committee:

- Contractual arrangements, remuneration and benefits of the CEO and Lead Team (including the framework of the short and long-term incentive)
- Remuneration arrangements for Non-Executive Directors including fees, travel and other benefits
- Remuneration policy and framework and its application to all employees

REMUNERATION COMMITTEE

The Remuneration Committee assists the Board to ensure that remuneration arrangements are equitable and aligned to the long-term interests of shareholders, whilst operating within our risk framework. To ensure independence, the Remuneration Committee is comprised solely of Non-Executive Directors.

In addition, the Remuneration Committee assists the Board to oversee the remuneration policy, its specific application to the CEO, Executives and Non-Executive Directors as well as its general application to all employees.

The Committee is also responsible for overseeing:

- The remuneration framework (including short and long-term incentive plans) and its application to the CEO, Executives and all employees
- Annual performance evaluation of the CEO and Executives
- Determination of reward levels for the CEO and Executives
- The Company's compliance with applicable legal and regulatory requirements associated with remuneration matters
- Communication of the remuneration policy to shareholders

CHIEF EXECUTIVE OFFICER

The CEO makes recommendations to the Remuneration Committee on remuneration arrangements for the CEO's direct reports and on the remuneration policy and framework including its application to all employees.

INFORMED DECISION MAKING

In setting the remuneration arrangements for Executives, information and analysis is sought from a range of external advisors to ensure outcomes that are objective, weighted and aligned to the requirements of the Company and consistent with our reward philosophy.

EXTERNAL ADVISORS

The Remuneration Committee may engage remuneration and other external advisors, either directly or through management, to provide information on remuneration-related issues where required, including benchmarking information and market data.

No remuneration recommendations were received by the Remuneration Committee in relation to Executive KMP in FY17.

STATUTORY DISCLOSURES

STATUTORY REMUNERATION TABLE

The following table sets out the statutory disclosures required under the Corporations Act and in accordance with the Australian Accounting Standards. The amounts shown reflect the remuneration for each Executive that relates to their service as a KMP of South32 in FY17.

Table 7.12 Statutory remuneration of Executive KMP in FY17 (A$'000)

		Short-term benefits			Post-employment benefits	Termination benefits	Other long-term benefits[3]	Share-based payments[4]			Total Remuneration	Percentage of Total Remuneration which is Performance Tested
Executive KMP		Salary	Cash bonus[1]	Non-monetary benefits[2]	Superannuation benefits			South32	Replacement Awards	Other[5]		
G Kerr	**FY17**	**1,581**	**881**	**7**	**20**	**-**	**163**	**2,969**	**1,983**	**-**	**7,604**	**77%**
	FY16	1,598	1,009	4	19	-	169	1,243	3,326	-	7,368	76%
B Harris	**FY17**	**763**	**423**	**8**	**20**	**-**	**76**	**1,131**	**203**	**-**	**2,624**	**67%**
	FY16	731	601	42	19	-	78	512	679	-	2,662	67%
M Fraser	**FY17**	**889**	**553**	**130**	**20**	**-**	**89**	**1,575**	**995**	**803**	**5,054**	**78%**
	FY16	903	481	2	19	-	92	687	2,223	1,533	5,940	83%
P Harvey[6]	**FY17**	**143**	**107**	**2**	**22**	**-**	**16**	**269**	**22**	**-**	**581**	**68%**
	FY16	-	-	-	-	-	-	-	-	-	-	-
R Grimbeek[7]	**FY17**	**626**	**290**	**3**	**15**	**-**	**63**	**1,080**	**107**	**-**	**2,184**	**68%**
	FY16	817	733	164	19	-	86	636	495	-	2,950	63%
TOTAL	**FY17**	**4,002**	**2,254**	**150**	**97**	**-**	**407**	**7,024**	**3,310**	**803**	**18,047**	**-**
	FY16	4,049	2,824	212	76	-	425	3,078	6,723	1,533	18,920	-

(1) STI is provided half in cash (which is included in the cash bonus column of the table) and half in deferred equity (which is included in the share-based payments column of the table). The value of the deferred equity portion is pro-rated over the vesting period.

(2) Non-monetary benefits are non-pensionable and include such items as relocation costs and personal tax assistance. Mr Fraser's non-monetary benefits include an amount of A$113,688 due to a late payment of taxes by South32 to the South African Revenue Service (SARS). This was deemed by SARS to be an interest free loan fringe benefit and has been calculated based on the tax owing multiplied by an interest rate of 8 per cent per annum, grossed up for tax purposes.

(3) Other long-term benefits is the accounting expense of annual and long-service leave accrued in FY17.

(4) The amounts were not actually provided to the Executive KMP during FY17. The figures are calculated in accordance with Australian Accounting Standards and are the amortised fair values of equity and equity-related instruments that have been granted to Executive KMP. Refer to Table 7.13 on page 90 in this report for information on awards outstanding during FY17.

(5) Other share-based payments include the FY15 Transitional Awards for Mr Fraser.

(6) Mr Harvey was appointed as a member of KMP on 4 April 2017 therefore no data is shown for FY16. The details for FY17 are pro-rated for the period 4 April 2017 to 30 June 2017.

(7) Mr Grimbeek ceased as a member of KMP on 3 April 2017. The details for FY17 are pro-rated for the period 1 July 2016 to 3 April 2017.

SUPERANNUATION ARRANGEMENTS FOR MR PAUL HARVEY

Mr Harvey is a member of the South32 Superannuation Plan - Defined Benefit section. The Defined Benefit plan was in place prior to Demerger and has been closed to new members since January 2002.

In line with other participants in the Defined Benefit plan, Mr Harvey's benefit is calculated as follows:

20 per cent x Final Average Salary x Membership Period x Benefit Factor

The Final Average Salary (which excludes any allowances and bonuses) is the average full-time equivalent of Mr Harvey's salary over the last three years, which is A$635,637. As at 30 June 2017, Mr Harvey has been a member of the plan for 25 years (Membership Period). The Benefit Factor depends on your age at the time of leaving South32. The maximum Benefit Factor for persons aged 55 years and over is 1.00. Mr Harvey's Benefit Factor as at 30 June 2017 is 0.96.

Upon retirement (after preservation age), pension payments are determined by the trustee of the South32 Superannuation Plan on advice of the plan actuary, which may be subject to agreement with South32. The pension payments are not indexed. If a participant resigns or retires prior to preservation age there is no entitlement to the pension and the benefit reverts to a lump sum. The superannuation amount disclosed in Table 7.13 is Mr Harvey's FY17 current service cost of A$92,000 as calculated under AASB 119, pro-rated for the period 4 April 2017 to 30 June 2017.

DETAILS OF RIGHTS HELD BY EXECUTIVE KMP

The following table provides further information regarding the rights over South32 shares held by Executive KMP, including the movements in rights held during FY17.

Table 7.13 Detail and movement of rights over South32 shares held by Executive KMP in FY17

Executive KMP	Award[1]	Conditions	Opening Balance	Grant Date	Fair Value per right[2]	Granted in FY17		Vested in FY17		Forfeited or other change in FY17		Closing balance	Anticipated vesting date
			Number		A$	Number	A$	Number[3]	%	Number	%	Number	
G Kerr			**9,707,223**			**3,636,967**	**7,711,258**	**833,022**	**96**	**35,548**	**4**	**12,475,620**	
	S32 FY16 Deferred STI	Service only	–	2-Dec-16	2.67	359,190	959,037	–	–	–	–	359,190	Aug-18
	S32 FY17 LTI	Service and performance	–	2-Dec-16	2.06	3,277,777	6,752,221	–	–	–	–	3,277,777	Aug-20
	S32 FY15 Deferred STI	Service only	1,057,718	10-Dec-15	1.14	–	–	–	–	–	–	1,057,718	Aug-17
	S32 FY16 LTI	Service and performance	3,002,513	10-Dec-15	0.56	–	–	–	–	–	–	3,002,513	Aug-19
	Replacement BHP FY13 Transitional GMC Award	Service and performance	252,109	25-May-15	2.22	–	–	216,561	86	35,548	14	0	–
	Replacement BHP FY14 STI Award	Service only	616,461	25-May-15	2.25	–	–	616,461	100	0	0	0	–
	Replacement BHP FY13 LTI Award	Service and performance	1,532,870	25-May-15	0.89	–	–	–	–	–	–	1,532,870	Aug-17
	Replacement BHP FY14 LTI Award	Service and performance	1,581,485	25-May-15	0.95	–	–	–	–	–	–	1,581,485	Aug-18
	Replacement BHP FY15 LTI Award	Service and performance	1,664,067	25-May-15	1.12	–	–	–	–	–	–	1,664,067	Aug-19
B Harris			**2,074,916**			**1,238,444**	**2,681,584**	**274,862**	**100**	**0**	**0**	**3,038,498**	
	S32 FY16 Deferred STI	Service only	–	2-Dec-16	2.67	213,753	570,721	–	–	–	–	213,753	Aug-18
	S32 FY17 LTI	Service and performance	–	2-Dec-16	2.06	1,024,691	2,110,863	–	–	–	–	1,024,691	Aug-20
	S32 FY15 Deferred STI	Service only	246,814	10-Dec-15	1.14	–	–	–	–	–	–	246,814	Aug-17
	S32 FY16 LTI	Service and performance	938,638	10-Dec-15	0.56	–	–	–	–	–	–	938,638	Aug-19
	FY16 Transitional Performance Award	Service and performance	469,319	10-Dec-15	0.53	–	–	–	–	–	–	469,319	Aug-18
	Replacement BHP FY14 MAP	Service only	150,559	25-May-15	2.19	–	–	150,559	100	0	0	0	–
	Replacement BHP FY14 GSTIP	Service only	124,303	25-May-15	2.19	–	–	124,303	100	0	0	0	–
	Replacement BHP FY15 MAP	Service only	145,283	25-May-15	2.14	–	–	–	–	–	–	145,283	Aug-17

Executive KMP	Award[1]	Conditions	Opening Balance	Grant Date	Fair Value per right[2]	Granted in FY17		Vested in FY17		Forfeited or other change in FY17		Closing balance	Anticipated vesting date
			Number		A$	Number	A$	Number[3]	%	Number	%	Number	
M Fraser			**7,065,110**			**1,667,992**	**3,540,422**	**1,064,412**	**90**	**118,741**	**10**	**7,549,949**	
	S32 FY16 Deferred STI	Service only	–	2-Dec-16	2.67	171,079	456,781	–	–	–	–	171,079	Aug-18
	S32 FY17 LTI	Service and performance	–	2-Dec-16	2.06	1,496,913	3,083,641	–	–	–	–	1,496,913	Aug-20
	S32 FY15 Deferred STI	Service only	706,486	10-Dec-15	1.14	–	–	–	–	–	–	706,486	Aug-17
	S32 FY16 LTI	Service and performance	1,371,204	10-Dec-15	0.56	–	–	–	–	–	–	1,371,204	Aug-19
	Replacement BHP FY14 STI Award	Service only	401,964	25-May-15	2.25	–	–	401,964	100	–	–	0	–
	Replacement BHP FY14 GSTIP	Service only	23,597	25-May-15	2.19	–	–	23,597	100	–	–	0	–
	Replacement BHP FY14 Transitional Award	Service and performance	437,690	25-May-15	2.16	–	–	176,607	81	42,238	19	218,845	Aug-17
	FY15 Transitional Performance Award	Service and performance	1,616,241	29-Jun-15	1.72	–	–	462,244	86	76,503	14	1,077,494	50% Aug-17 50% Aug-18
	Replacement BHP FY14 LTI Award	Service and performance	1,222,058	25-May-15	0.95	–	–	–	–	–	–	1,222,058	Aug-18
	Replacement BHP FY15 LTI Award	Service and performance	1,285,870	25-May-15	1.12	–	–	–	–	–	–	1,285,870	Aug-19
P Harvey[4]			**987,440**			**1,379,956**	**2,976,458**	**0**	**0**	**0**	**0**	**2,367,396**	
	S32 FY16 Deferred STI	Service only	–	2-Dec-16	2.67	183,969	491,197	–	–	–	–	183,969	Aug-18
	S32 FY17 LTI	Service and performance	–	2-Dec-16	2.06	956,790	1,970,987	–	–	–	–	956,790	Aug-20
	FY17 Transitional Performance Award	Service and performance	–	2-Dec-16	2.15	239,197	514,274	–	–	–	–	239,197	Aug-19
	Deferred Share Award (GSTIP)	Service only	146,497	16-Nov-15	1.43	–	–	–	–	–	–	146,497	Aug-17
	Advance Award	Service and performance	314,136	16-Nov-15	0.78	–	–	–	–	–	–	314,136	Aug-18
	Management Share Plan (Retention)	Service only	150,516	16-Nov-15	1.40	–	–	–	–	–	–	150,516	Aug-18
	Management Share Plan (Performance)	Service and performance	376,291	16-Nov-15	0.79	–	–	–	–	–	–	376,291	Aug-19

Executive KMP	Award[1]	Conditions	Opening Balance	Grant Date	Fair Value per right[2]	Granted in FY17		Vested in FY17		Forfeited or other change in FY17		Closing balance	Anticipated vesting date
			Number		A$	Number	A$	Number[3]	%	Number	%	Number	
R Grimbeek[5]			**2,492,405**			**1,665,110**	**3,589,209**	**204,062**	**100**	**0**	**0**	**3,953,453**	
	S32 FY16 Deferred STI	Service only	–	2-Dec-16	2.67	260,790	696,309	–	–	–	–	260,790	Aug-18
	S32 FY17 LTI	Service and performance	–	2-Dec-16	2.06	1,404,320	2,892,899	–	–	–	–	1,404,320	Aug-20
	S32 FY15 Deferred STI	Service only	261,399	10-Dec-15	1.14	–	–	–	–	–	–	261,399	Aug-17
	S32 FY16 LTI	Service and performance	1,286,387	10-Dec-15	0.56	–	–	–	–	–	–	1,286,387	Aug-19
	FY16 Transitional Performance Award	Service and performance	643,193	10-Dec-15	0.53	–	–	–	–	–	–	643,193	Aug-18
	Replacement BHP FY14 MAP	Service only	102,641	25-May-15	2.19	–	–	102,641	100	0	0	0	–
	Replacement BHP FY14 GSTIP	Service only	101,421	25-May-15	2.19	–	–	101,421	100	0	0	0	–
	Replacement BHP FY15 MAP	Service only	97,364	25-May-15	2.14	–	–	–	–	–	–	97,364	Aug-17

(1) Replacement awards refer to the BHP awards that were cancelled and replaced with South32 awards in FY15. At the time of vesting, the quantum of awards that vest based on performance conditions will automatically convert to ordinary South32 shares for nil consideration in the participant's name. Any rights that do not vest will immediately lapse, hence there is no expiry date associated with the awards.

(2) The fair value at grant for the awards is the grant date fair value for accounting purposes. The fair value for the Replacement BHP Long-Term Incentive Awards, One-off Transitional LTI Awards and South32 Long-Term Incentive Awards (including Management Share Plan) has been calculated using a Monte Carlo methodology. The fair value of all other awards has been calculated using a Black Scholes methodology. The closing share price was as follows: 25 May 2015 - A$2.32; 29 June 2015 - A$1.74; 16 November 2015 – A$1.26; 10 December 2015 - A$1.02; 2 December 2016 – A$2.83.

(3) Rights will convert to ordinary South32 shares for nil consideration as soon as practicable after the first non-prohibited date occurring after the end of the performance period subject to the conditions for vesting being met. The anticipated vesting month is shown in the table.

(4) Mr Harvey was appointed as a member of KMP on 4 April 2017. Opening balance is as at 1 July 2016 and closing balance is as at 30 June 2017.

(5) Mr Grimbeek ceased as a member of KMP on 3 April 2017. Opening balance is as at 1 July 2016 and closing balance is as at 30 June 2017.

DETAILS OF AWARDS FOR PAUL HARVEY

Prior to his appointment as a member of KMP, Mr Harvey already held a number of awards. The details of these awards are outlined in Table 7.14

Table 7.14 Key terms and performance conditions of awards

Award	Key Terms and Performance Conditions
Management Share Plan	The FY16 Management Share Plan is South32's long-term incentive plan for eligible management employees below Executive Management level. The Plan comprises two elements: ■ Retention rights with a three-year vesting period from 1 July 2015 to 30 June 2018, vesting in August 2018 provided employees remain employed by South32 ■ Performance rights with a four-year performance and service period from 1 July 2015 to 30 June 2019, vesting in August 2019 subject to the same performance and vesting conditions as the South32 LTI for Executive KMP (see page 73) There is no retesting if the performance condition is not met and any rights that do not vest will immediately lapse/be forfeited. Rights will not attract any entitlement to voting, dividends or dividend equivalent payments.
Advance Award	The Advance Award is a one-off grant made in 2015 to employees who moved from BHP and transitioned from a three-year BHP Management Award Plan to the South32 Management Share Plan. The awards have a three-year performance period from 1 July 2015 to 30 June 2018, with vesting in August 2018. These one-off awards are subject to the same service condition and relative TSR performance and vesting as detailed above for the Management Share Plan Performance rights, but over a three-year vesting period. There is no retesting if the performance condition is not met and any rights that do not vest will immediately lapse/be forfeited. Rights will not attract any entitlement to voting, dividends or dividend equivalent payments.
FY17 Transitional Performance Award	This award was granted to cover the gap in vesting in 2019 where less LTI will vest due to Mr Harvey's transition from the arrangements under the Management Share Plan (three-year retention rights and four-year performance rights) compared to the Executive LTI Plan (four-year performance rights). The grant was equal to 25 per cent of the value of the ordinary annual grant made in FY17. Awards are subject to the same service condition and relative TSR performance and vesting as detailed above for the Management Share Plan Performance rights, but over a three-year vesting period, vesting in August 2019. There is no retesting if the performance condition is not met and any rights that do not vest will immediately lapse/be forfeited. Rights will not attract any entitlement to voting, dividends or dividend equivalent payments.
Deferred Share Award (GSTIP)	This award relates to the deferred portion of STI that was earned based on performance during the year ending 30 June 2015. The award was deferred for two years, vesting in August 2017. Service conditions apply, whereby Mr Harvey is required to remain employed by the Company for the full vesting period of the award from July 2015 to August 2017.

SHAREHOLDINGS OF KMP

Table 7.15 South32 shares held directly, indirectly or beneficially by each KMP, including their related parties

	Held at 30 June 2016	Received on vesting of rights	Received as remuneration	Other net change(1)	Held at 30 June 2017
Non-Executive Directors					
D Crawford	370,627	–	–	–	**370,627**
F Cooper	122,866	–	–	–	**122,866**
P Kukielski(2)(3)	72,500	–	–	32,800	**105,300**
X Mkhwanazi	28,887	–	–	–	**28,887**
N Mtoba	31,206	–	–	–	**31,206**
W Osborn	125,704	–	–	–	**125,704**
K Rumble	125,680	–	–	–	**125,680**
Executives					
G Kerr	369,681	833,022	–	(408,181)	**794,522**
B Harris	27,700	274,862	–	(134,682)	**167,880**
M Fraser	187,800	1,064,412	–	(564,412)	**687,800**
P Harvey(4)	23,194	–	–	–	**23,194**
R Grimbeek(5)	124,368	204,062	–	–	**328,430**

(1) Other net change includes purchases and sales of vested awards to cover tax liabilities. Refer to 5 September 2016 ASX announcements for the CEO.
(2) Mr Kukielski resigned as a Non-Executive Director effective 21 June 2017, closing balance is at this date.
(3) At 21 June 2017, Mr Kukielski held 14,500 American Depositary Shares, representing an interest in 72,500 ordinary shares in South32 Limited.
(4) Mr Harvey was appointed as a member of KMP on 4 April 2017. Opening balance is as at 1 July 2016 and closing balance is as at 30 June 2017.
(5) Mr Grimbeek ceased as a member of KMP on 3 April 2017. Opening balance is as at 1 July 2016 and closing balance is as at 30 June 2017.

ADDITIONAL INFORMATION

TRANSACTIONS WITH KMP

During FY17, there were no transactions between KMP or their close family members and the South32 Group.

There are no amounts payable at 30 June 2017.

There are no loans with KMP.

A number of Directors of the Group have control or joint control of other entities (also known as personal entities). There have been no transactions between those entities and no amounts were owed by or to the South32 Group during the year.

This Remuneration Report was approved by the Board on 13 September 2017.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their report, together with the Consolidated Financial Report for the Group, for the financial year ended 30 June 2017.

This Directors' Report has been prepared in accordance with the requirements of the Corporations Act. The following information forms part of this Directors' Report:

- Operating and Financial Review on pages 23 to 51
- Director biographical information on pages 14 to 16
- Remuneration Report on pages 66 to 94
- Notes 22 Auditor's remuneration and 25 Employee share ownership plans to the financial statements on pages 144 and 152 to 158, respectively
- Auditor's Independence Declaration on page 168
- Shareholder Information on pages 174 to 177
- Corporate Directory (inside back cover)

DIRECTORS AND MEETINGS

At the date of this Directors' Report, Directors in office were:

David Crawford AO	Appointed 2 February 2015
Graham Kerr	Appointed 21 January 2015
Frank Cooper AO	Appointed 7 May 2015
Xolani Mkhwanazi	Appointed 2 July 2015
Ntombifuthi (Futhi) Mtoba	Appointed 7 May 2015
Wayne Osborn	Appointed 7 May 2015
Keith Rumble	Appointed 27 February 2015

The following person was also a Director during FY17:

Peter Kukielski	From 7 May 2015 - 21 June 2017

Information about the Directors' qualifications, experience, special responsibilities and other directorships is set out on pages 14 to 16.

BOARD AND COMMITTEE MEETINGS AND DIRECTOR ATTENDANCE

There were nine scheduled Board meetings in FY17 with additional meetings held as required. The number of Board and Committee meetings held and the Directors' attendance is provided in Table 8.1 below.

The Board meeting schedule provides for six face-to-face Board and Committee meetings per year of two to three days duration each, which are frequently accompanied by site visits. During FY17, having regard to the main geographic areas in which we operate, four Board meetings were held in Australia and two in South Africa. At least once per year the Directors participate in a strategy session. Face-to-face meetings were supplemented by teleconferences to address other business when necessary.

The agenda for each meeting is determined by the Chairman, in conjunction with the CEO and the Company Secretary, and typically includes:

- Minutes of the previous meeting
- Matters arising
- Chairman's report
- CEO's report
- Finance report
- Marketing report
- Health, Safety, Environment and Community (HSEC) report
- Board Committee Chair reports
- Continuous disclosure checkpoint
- Reports on major projects and strategic matters
- Closed sessions with Directors only

The Board also receives a monthly report from the CFO to keep them abreast of performance outcomes.

Table 8.1 Board and Board Committee meeting attendance in FY17
The Chairman and CEO regularly attend all Committee meetings where appropriate

Director	Board		Nomination and Governance Committee		Remuneration Committee		Risk and Audit Committee(1)		Sustainability Committee	
	Held(2)	Attended(3)	Held(2)	Attended(3)	Held(2)	Attended(3)	Held(2)	Attended(3)	Held(2)	Attended(3)
D Crawford	10	10	6	6	5	5	9	9	6	6
G Kerr (CEO)	10	10	6	5	5	5	9	9	6	6
F Cooper	10	10	6	6	5	5	9	9	6	6
X Mkhwanazi	10	8	6	6	5	5	9	8	6	6
N Mtoba	10	10	6	5	5	5	9	9	6	6
W Osborn	10	10	6	6	5	5	9	8	6	6
K Rumble	10	10	6	6	5	5	9	9	6	6
P Kukielski(4)	9	9	6	6	5	5	9	9	6	6

Member   Chairman

(1) Risk and Audit Committee members attended two Regional Risk and Audit Committees meetings during the year.
(2) Indicates the number of meetings held during the period the Director was a member of the Board or Committee.
(3) Indicates the number of meetings attended during the period the Director was a member of the Board or Committee.
(4) Mr Kukielski resigned on 21 June 2017 to take an executive position at another listed company.

PRINCIPAL ACTIVITIES, STATE OF AFFAIRS AND REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

The principal activities of the Group during FY17 were mining and metal production from a portfolio of assets including alumina, aluminium, bauxite, energy and metallurgical coal, manganese ore, manganese alloy, nickel, silver, lead and zinc.

There were no significant changes in the principal activities of the Group during the year.

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year.

REVIEW OF OPERATIONS

A review of the operations of the Group during FY17, and the results of those operations, is set out in the Operating and Financial Review on pages 23 to 51.

DIVIDENDS

The following dividends were paid during FY17:

Dividend	Total dividend	Payment date
Final dividend of US 1 cent per share (unfranked) for the year ended 30 June 2016	US$53 million	6 October 2016
Interim dividend of US 3.6 cents per share (unfranked) for the half year ended 31 December 2016	US$191 million	6 April 2017

MATTERS SINCE THE END OF THE FINANCIAL YEAR

On 24 August 2017, the Directors resolved to pay a fully franked final dividend of US 6.4 cents per share in respect of FY17. The dividend will be paid on 12 October 2017. The dividend has not been provided for in the financial statements and will be recognised in the financial statements for FY18.

On 24 August 2017, the Group also announced an extension of the existing on-market share buy-back program, announced on 27 March 2017, by US$250 million to a total of US$750 million. This program has US$539 million remaining with 105.8 million shares having been purchased to 30 June 2017 for a cash consideration of US$211 million.

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

REMUNERATION AND SHARE INTERESTS

Table 8.2 Directors' relevant interests in South32 Limited shares

Director	Number of shares in which a relevant interest is held as at the date of this Directors' Report
D Crawford	370,627
G Kerr[1]	11,163,642
F Cooper	122,866
X Mkhwanazi	28,887
N Mtoba	31,206
W Osborn	125,704
K Rumble	125,680

(1) At the date of this Directors' Report, Mr Kerr's total interest includes 1,278,610 South32 Limited ordinary shares and 9,885,032 rights over South32 Limited ordinary shares held under the South32 Equity Incentive Plan.

RIGHTS AND OPTIONS OVER SOUTH32 LIMITED SHARES

No rights or options over South32 Limited ordinary shares are held by any of the Non-Executive Directors.

Executive Director, Mr Graham Kerr, holds rights over South32 Limited ordinary shares that were granted under the South32 Equity Incentive Plan. Details of the rights granted to Mr Kerr and other Executive KMP are set out in the Remuneration Report from page 66. Note 25 Employee share ownership plans to the financial statements on page 157 sets out the total number of rights over South32 Limited ordinary shares on issue as at 30 June 2017.

No options or rights have been granted since the end of FY17.

The total number of rights over South32 Limited ordinary shares on issue as at the date of this Directors' Report is 90,065,953. No shares have been issued on vesting of rights during or since the end of FY17.

COMPANY SECRETARIES

Nicole Duncan BA (Hons), LLB, MAICD, FGIA, FCIS

Nicole Duncan is the Chief People and Legal Officer of South32 Limited. Ms Duncan was appointed as Company Secretary on 21 January 2015. For further information on Ms Duncan refer to page 17.

Melanie Williams LLB, GCertCorpMgt, MAICD

Melanie Williams is Head of Legal (Corporate) and Company Secretariat. She was appointed Company Secretary of South32 on 9 August 2016. Prior to South32, Ms Williams was Company Secretary and General Counsel at Tap Oil Limited, worked as Counsel with an international law firm and has held legal and financial roles with Qatar Petroleum and Woodside Petroleum. She holds a Bachelor of Laws from the University of Western Australia and a Graduate Certificate of Corporate Management from Deakin University and the Finance and Treasury Association.

INDEMNITIES AND INSURANCE

We support and hold harmless Directors and employees, including employees appointed as Directors of a Group company, who incur personal liability to others as a result of working for us (while acting in good faith), to the extent we are able to under law.

Rule 10.2 of the South32 Constitution requires that we indemnify each Director and each Company Secretary on a full indemnity basis and to the extent permitted by law against liability incurred by them in their capacity as an Officer of any member of the Group. The Directors and the Company Secretaries named in this section have the benefit of this indemnity (as do individuals who formerly held one of these positions).

As permitted by our Constitution, South32 Limited has entered into Deeds of Indemnity, Access and Insurance with each of our Directors, Company Secretaries and CFO. We have insured against amounts that we may be liable to pay to Directors, Company Secretaries and Officers of the Group (as defined by the Corporations Act) by way of indemnity. Our insurance policy also insures Directors, Company Secretaries and relevant employees against certain liabilities (including legal costs) they may incur in carrying out their duties. We paid premiums of US$604,823 for Directors' and Officers' insurance during FY17 and up to the date of this Directors' Report.

From time to time, we engage our External Auditor to conduct non-statutory audit work and provide other services in accordance with South32's Provision of Non-Audit Services Policy by the External Auditor. The terms of engagement typically include an indemnity in favour of the External Auditor:

- Against all liabilities incurred by the External Auditor in respect of third party claims arising from a breach of the engagement terms by the Group
- For all liabilities the External Auditor has to the Group or any third party as a result of reliance on information provided by the Group that is false, misleading or incomplete

No indemnity in favour of a current or former Director or Officer of the Group, or in favour of the External Auditor, has been called on during FY17 or as at the date of this Directors' Report.

CORPORATE GOVERNANCE

Under ASX Listing Rule 4.10.3, ASX-listed entities are required to benchmark their corporate governance practices against the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations). As at 13 September 2017 South32 complies with all ASX recommendations.

South32's Corporate Governance Statement is available at *www.south32.net*[1].

The Corporate Governance Statement also contains the information required under the UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR).

(1) *www.south32.net/about-us/corporate-governance*.

AUDITOR

Our External Auditor has provided an independence declaration in accordance with the Corporations Act, which is set out on page 168 and forms part of this Directors' Report.

The External Auditor also provides South32's Directors and management with an independent assurance conclusion in respect of certain Sustainability information, in accordance with the International Standards on Assurance Engagements, *ISAE 3000 Assurance Engagement other than the Audits and Reviews of Historical Financial Information and ISAE 3410 Assurance of Greenhouse Gas Statements*. A copy of the External Auditor's assurance report is included in the FY17 GRI Navigator available at *www.south32.net*.

NON-AUDIT SERVICES

Details of the non-audit services undertaken by, and amounts paid to, our External Auditor are detailed in Note 22 to the financial statements on page 144.

All non-audit services provided by our External Auditor were considered and approved in accordance with the process set out in South32's Provision of Non-Audit Services Policy and no services were conducted in contravention of that policy.

The Directors have formed the view, based on written advice from the Risk and Audit Committee, that the provision of non-audit services during FY17 was compatible with, and did not compromise, the general standard of auditor independence for the following reasons:

- All non-audit services were subject to the corporate governance procedures and policies adopted by South32 and have been reviewed by the Risk and Audit Committee to ensure they do not affect the integrity and objectivity of the External Auditor
- The non-audit services provided do not involve reviewing or auditing the External Auditor's own work or acting in a management or decision-making capacity for South32

POLITICAL DONATIONS AND COMMUNITY INVESTMENT

The South32 Code of Business Conduct sets out our approach to political donations and community investment.

In FY17, we did not contribute funds to any politician, elected official or candidate for public office in any country. South32 representatives attended political functions in Australia that charged an attendance fee. Attendance at these functions was approved in advance in accordance with our internal approval framework. Details of attendances and the relevant costs are recorded at a corporate level.

In FY17, we contributed US$14.3 million for the purposes of supporting community programs that comprised cash, in-kind support and administrative costs. For further information on our community investment refer to page 12.

PROCEEDINGS ON BEHALF OF SOUTH32

No proceedings have been brought or intervened in on behalf of South32, nor any application made under section 237 of the Corporations Act.

ENVIRONMENTAL PERFORMANCE

PERFORMANCE IN RELATION TO ENVIRONMENTAL REGULATION

We classify environmental incidents according to an internally agreed severity scale. An incident with a rating of four out of seven would be considered to have major impact to land, biodiversity, ecosystems, water resources or air, with effects lasting greater than one year. One significant environmental event was reported in FY17. This was in relation to breaches of environmental legislation and licence conditions at our South Africa Manganese Metalloys operation. The breach resulted in a fine, which is detailed in the 'Fines and prosecutions' section.

FINES AND PROSECUTIONS

In July 2016, Samancor Manganese was fined to the value of US$147,000, of which US$36,738 was suspended for five years, for contravening environmental statutes and licence conditions. It was found that there was inadequate monitoring of stockpile areas and dust emission levels, and that sufficient governance over compliance was not in place. Corrective actions have been identified to address the causes of these non-compliances, which have been, or are in the process of being, implemented.

Hillside Aluminium has an agreement to receive and discharge water to Mhlathuze Water, which is listed as a statutory institution in terms of section 84(2) of the Water Services Act for South Africa. Mhlathuze Water has implemented a penalty system for non-compliance with this agreement. During FY17, two fines to the total value of US$128 were levied against Hillside Aluminium for exceeding the discharge quality levels. These events were investigated and further controls were implemented to prevent recurrence. No further action was taken by regulators.

ROUNDING OF AMOUNTS

The *Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* applies to South32 and amounts in the financial statements and this Directors' Report have been rounded in accordance with this instrument to the nearest million US dollars, unless stated otherwise.

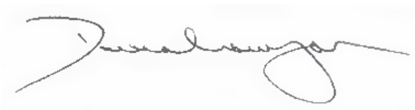
RESPONSIBILITY STATEMENT

The Directors state that to the best of their knowledge:

a) the consolidated financial statements and notes on pages 101 to 166 were prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole; and

b) the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

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



David Crawford AO

Chairman

Graham Kerr

Chief Executive Officer and Managing Director

Date: 13 September 2017

FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2017

US$M	Note	FY17	FY16
Revenue			
Group production		**6,160**	5,227
Third party products		**790**	585
		6,950	5,812
Other income	21	**275**	324
Expenses excluding net finance cost	5	**(5,742)**	(7,247)
Share of profit/(loss) of equity accounted investments	29	**312**	(330)
Profit/(loss)		**1,795**	(1,441)
Comprising:			
Group production		**1,783**	(1,447)
Third party products		**12**	6
Profit/(loss)		**1,795**	(1,441)
Finance expenses		**(212)**	(132)
Finance income		**41**	28
Net finance cost	18	**(171)**	(104)
Profit/(loss) before tax		**1,624**	(1,545)
Income tax (expense)/benefit	6	**(393)**	(70)
Profit/(loss) after tax		**1,231**	(1,615)
Attributable to:			
Equity holders of South32 Limited		**1,231**	(1,615)
Profit/(loss) for the year attributable to the equity holders of South32 Limited			
Basic earnings per share (cents)	8	**23.2**	(30.3)
Diluted earnings per share (cents)	8	**22.9**	(30.3)

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

US$M	Note	FY17	FY16
Profit/(loss) for the year		**1,231**	(1,615)
Other Comprehensive Income			
Items that may be reclassified to the Consolidated Income Statement:			
Available for sale investments:			
Net gains/(losses) taken to equity	24	**19**	(54)
Net (gains)/losses transferred to the Consolidated Income Statement		**-**	23
Tax benefit/(expense) recognised within Other Comprehensive Income	6, 24	**1**	9
Total items that may be reclassified to the Consolidated Income Statement		**20**	(22)
Items not to be reclassified to the Consolidated Income Statement:			
Equity accounted investments - share of Other Comprehensive Income/(loss)		**1**	1
Actuarial gains/(losses) on pension and medical schemes	15, 23	**8**	3
Tax benefit/(expense) recognised within Other Comprehensive Income	6	**(2)**	(1)
Total items not to be reclassified to the Consolidated Income Statement		**7**	3
Total Other Comprehensive Income/(loss)		**27**	(19)
Total Comprehensive Income/(loss)		**1,258**	(1,634)

Attributable to:			
Equity holders of South32 Limited		**1,258**	(1,634)

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at 30 June 2017

US$M	Note	FY17	FY16
ASSETS			
Current assets			
Cash and cash equivalents	16	**2,675**	1,225
Trade and other receivables	9	**718**	618
Other financial assets	19	**103**	32
Inventories	10	**781**	714
Current tax assets		**27**	61
Other		**28**	18
Total current assets		**4,332**	2,668
Non-current assets			
Trade and other receivables	9	**365**	445
Other financial assets	19	**465**	260
Inventories	10	**81**	88
Property, plant and equipment	11	**8,373**	8,651
Intangible assets	12	**252**	288
Equity accounted investments	29	**569**	570
Deferred tax assets	6	**276**	382
Other		**20**	22
Total non-current assets		**10,401**	10,706
Total assets		**14,733**	13,374
LIABILITIES			
Current liabilities			
Trade and other payables	14	**850**	676
Interest bearing liabilities	17	**391**	282
Other financial liabilities	19	**-**	1
Current tax payables		**116**	6
Provisions	15	**383**	408
Deferred income		**4**	4
Total current liabilities		**1,744**	1,377
Non-current liabilities			
Trade and other payables	14	**4**	5
Interest bearing liabilities	17	**644**	631
Other financial liabilities	19	**-**	16
Deferred tax liabilities	6	**518**	501
Provisions	15	**1,577**	1,410
Deferred income		**11**	12
Total non-current liabilities		**2,754**	2,575
Total liabilities		**4,498**	3,952
Net assets		**10,235**	9,422
EQUITY			
Share capital	20	**14,747**	14,958
Treasury shares	20	**(26)**	(3)
Reserves	24	**(3,503)**	(3,555)
Retained earnings/(accumulated losses)		**(982)**	(1,977)
Total equity attributable to equity holders of South32 Limited		**10,236**	9,423
Non-controlling interests		**(1)**	(1)
Total equity		**10,235**	9,422

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2017

US$M	Note	FY17	FY16
Operating activities			
Profit/(loss) before tax		**1,624**	(1,545)
Adjustments for:			
Non-cash significant items		**-**	(27)
Depreciation and amortisation expense		**763**	775
Impairments of property, plant and equipment, financial assets, intangibles and equity accounted investments		**-**	1,386
Employee share awards expense		**37**	23
Net finance cost		**171**	95
Share of (profit)/loss of equity accounted investments		**(312)**	330
Fair value (gains)/losses on derivative instruments		**(194)**	60
Other non-cash or non-operating items		**(21)**	(18)
Changes in assets and liabilities:			
Trade and other receivables		**(119)**	163
Inventories		**(60)**	191
Trade and other payables		**137**	(244)
Provisions and other liabilities		**(63)**	(121)
Cash generated from operations		**1,963**	1,068
Interest received		**41**	27
Interest paid		**(73)**	(46)
Income tax (paid)/received		**(127)**	(52)
Dividends received		**15**	14
Dividends received from equity accounted investments		**313**	19
Net cash flows from operating activities		**2,132**	1,030
Investing activities			
Purchases of property, plant and equipment		**(316)**	(383)
Exploration expenditure		**(27)**	(13)
Exploration expenditure expensed and included in operating cash flows		**25**	9
Purchase of intangibles		**(1)**	(13)
Investment in financial assets		**(331)**	(53)
Investment in equity accounted investments		**(21)**	(1)
Cash outflows from investing activities		**(671)**	(454)
Proceeds from sale of property, plant and equipment and intangibles		**16**	5
Proceeds from financial assets		**344**	107
Distribution from equity accounted investments		**22**	-
Net cash flows from investing activities		**(289)**	(342)
Financing activities			
Proceeds from interest bearing liabilities		**109**	31
Repayment of interest bearing liabilities		**(20)**	(127)
Purchase of shares by Employee Share Ownership Plan Trusts (ESOP Trusts)		**(27)**	(3)
Share buy-back		**(211)**	-
Dividends paid		**(244)**	-
Net cash flows from financing activities		**(393)**	(99)
Net increase/(decrease) in cash and cash equivalents		**1,450**	589
Cash and cash equivalents, net of overdrafts, at the beginning of the financial year		**1,225**	644
Foreign currency exchange rate changes on cash and cash equivalents		**-**	(8)
Cash and cash equivalents, net of overdrafts, at the end of the financial year	16	**2,675**	1,225

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

	Attributable to equity holders of South32 Limited						
US$M	Share capital	Treasury shares	Reserves	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
Balance as at 1 July 2016	**14,958**	**(3)**	**(3,555)**	**(1,977)**	**9,423**	**(1)**	**9,422**
Profit/(loss) for the year	**-**	**-**	**-**	**1,231**	**1,231**	**-**	**1,231**
Other Comprehensive Income/(loss)	**-**	**-**	**20**	**7**	**27**	**-**	**27**
Total Comprehensive Income/(loss)	**-**	**-**	**20**	**1,238**	**1,258**	**-**	**1,258**
Transactions with owners:							
Accrued employee entitlement for unexercised awards	**-**	**-**	**37**	**-**	**37**	**-**	**37**
Dividends	**-**	**-**	**-**	**(244)**	**(244)**	**-**	**(244)**
Purchase of shares by ESOP Trusts	**-**	**(27)**	**-**	**-**	**(27)**	**-**	**(27)**
Employee share awards exercised	**-**	**4**	**(5)**	**1**	**-**	**-**	**-**
Shares bought back and cancelled	**(211)**	**-**	**-**	**-**	**(211)**	**-**	**(211)**
Balance as at 30 June 2017	**14,747**	**(26)**	**(3,503)**	**(982)**	**10,236**	**(1)**	**10,235**
Balance as at 1 July 2015	14,958	-	(3,557)	(365)	11,036	(1)	11,035
Profit/(loss) for the year	-	-	-	(1,615)	(1,615)	-	(1,615)
Other Comprehensive Income/(loss)	-	-	(22)	3	(19)	-	(19)
Total Comprehensive Income/(loss)	-	-	(22)	(1,612)	(1,634)	-	(1,634)
Transactions with owners:							
Accrued employee entitlement for unexercised awards	-	-	24	-	24	-	24
Purchase of shares by ESOP Trusts	-	(3)	-	-	(3)	-	(3)
Balance as at 30 June 2016	14,958	(3)	(3,555)	(1,977)	9,423	(1)	9,422

The accompanying notes form part of the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

This section sets out the accounting policies that relate to the financial statements of South32 Limited referred to as the Company and its subsidiaries and joint arrangements (collectively, the Group) as a whole. Where an accounting policy, critical accounting estimate, assumption or judgement is specific to a note, these are described within the note to which they relate. These policies have been consistently applied to all periods presented, except as described in note 3 New standards and interpretations on page 108.

The consolidated financial statements of the Group for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 13 September 2017.

1. REPORTING ENTITY

South32 Limited is a for-profit company limited by shares incorporated in Australia with a primary listing on the Australian Securities Exchange, a standard listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 4 Segment information on page 110.

2. BASIS OF PREPARATION

The consolidated financial statements are a general purpose financial report which:

- Have been prepared in accordance with the requirements of the Corporations Act, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and International Financial Reporting Standards (IFRS) and other authoritative pronouncements of the International Accounting Standards Board (IASB)
- Have been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities which are required to be measured at fair value
- Are presented in US dollars, which is the functional currency of the majority of the Group's operations, and all values are rounded to the nearest million dollars (US$M or US$ million) unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191
- Present reclassified comparative information where required for consistency with the current year's presentation
- Adopt all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016. Refer to note 3 New standards and interpretations on page 108 for further details
- Do not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective except for those described in note 3 New standards and interpretations on page 108

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

2. BASIS OF PREPARATION (CONTINUED)

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of significant controlled entities (subsidiaries) at year end is contained in note 28 Subsidiaries on page 160.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(b) Foreign currency translation

The functional currency of the majority of the Group's operations is the US dollar as this is assessed to be the principal currency of the economic environments in which they operate.

Transactions denominated in foreign currencies are initially recorded in the functional currency using the exchange rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at year end. Exchange gains or losses on re-translation are included in the Consolidated Income Statement, with the exception of foreign exchange gains or losses on foreign currency provisions for closure and rehabilitation which are capitalised in property, plant and equipment for operating sites.

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

	Average FY17	Average FY16	As at 30 June 2017	As at 30 June 2016
Australian dollar[(1)]	**0.75**	0.73	**0.77**	0.74
Brazilian real	**3.22**	3.70	**3.30**	3.24
Colombian peso	**2,953**	3,060	**3,038**	2,916
South African rand	**13.61**	14.51	**13.00**	14.85

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

3. NEW STANDARDS AND INTERPRETATIONS

(a) New accounting standards and interpretations effective from 1 July 2016

The Group's consolidated financial statements have been prepared on the basis of accounting policies consistent with those in the prior year except for a number of minor amendments issued by the AASB which have been applied for the first time in the 30 June 2017 reporting period. These new pronouncements do not have a material impact on the Group's consolidated financial statements.

(b) New accounting standards and interpretations effective from 1 July 2017

Certain new accounting standards and interpretations have been published that are not effective for the 30 June 2017 reporting period. The Group's assessment of the impact of those new standards and interpretations considered relevant to the Group are set out below. The Group does not intend to early adopt any of the new standards or interpretations.

AASB 107 Statement of cash flows, Narrow-scope amendments (effective from 1 January 2017)

The amendments introduce an additional disclosure that will enable users of financial statements to better understand changes in the Group's debt. The Group will be required to provide information on movements in gross liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group plans to adopt the new amendment on 1 July 2017. The impact of this amendment is not expected to be material.

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The standard includes a single approach for the classification and measurement of financial assets, based on cash flow characteristics and the business model used for the management of the financial instruments. It introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model under AASB 139. Lastly, the standard amends the rules on hedge accounting to align the accounting treatment with the risk management practices of the business.

The Group plans to adopt the new standard on 1 July 2018 using the retrospective application approach subject to certain exemptions and reliefs allowed under AASB 9.

The Group's assessment of the impacts of AASB 9 are set out below and, to date, no material differences have been identified that would impact the Group's consolidated financial statements. The Group will continue to perform its assessment and monitor further developments.

Classification and measurement

The Group does not expect a material impact to its consolidated financial statements on applying the classification and measurement requirements of AASB 9.

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

3. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

(b) New accounting standards and interpretations effective from 1 July 2017 (continued)

Classification and measurement (continued)

The Group will elect the accounting policy available under AASB 9 to classify investments in equity instruments as investments at fair value with changes recorded in Other Comprehensive Income. The Group's investments in equity instruments are currently classified as available for sale and no material change in measurement is expected. The Group has a number of investments (FY17: US$135 million), currently classified as available for sale, which are not investments in equity instruments and therefore are unable to be classified as fair value through Other Comprehensive Income under AASB 9. These investments will be classified as fair value through profit or loss. The impact of this change (if AASB 9 was applied in FY17) would result in a reclassification of a fair value gain of US$14 million from Other Comprehensive Income to the Consolidated Income Statement. The Group notes that under AASB 9 amounts recognised in Other Comprehensive Income will never be recycled to the Consolidated Income Statement as is the current practice under AASB 139.

Impairment

AASB 9 requires the Group to use an expected credit loss model for its trade and other receivables measured at amortised cost, either on a 12-month or lifetime basis. The Group will apply the simplified approach available under AASB 9 and record lifetime expected credit losses on all trade receivables measured at amortised cost. Given the short-term nature of these receivables, the Group does not expect this to have a material impact.

For other receivables, loans to equity accounted investments and interest bearing loans receivable, the Group will apply the low credit risk exception available under AASB 9 and measure a 12-month expected credit loss. Given the nature of these receivables, the Group does not expect this to have a material impact.

Hedge accounting

The changes in AASB 9 relating to hedge accounting will have no impact as the Group does not apply hedge accounting.

AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled when control of the goods or services passes to the customer.

The Group plans to adopt the new standard on 1 July 2018 using the modified retrospective approach where transitional adjustments are recognised in retained earnings at the date of initial application without adjustment of the comparative period. The new standard will only be applied to contracts that remain in force at transition date.

The Group's preliminary assessment of the impacts of AASB 15 are set out below and, to date, no material differences have been identified between AASB 118, the current revenue recognition standard, and AASB 15. The Group will continue to perform its assessment and monitor further developments.

Impact of shipping terms

The Group sells most of its products on either FOB or CIF Incoterms. In the case of CIF Incoterms, the Group is responsible for shipping services after the date at which control of the goods passes to the customer at the port of loading. Under AASB 15, the provision of shipping services in these types of arrangements are a distinct service (and therefore a separate performance obligation) to which a portion of the transaction price should be allocated and recognised over time as the shipping services are provided.

The impact of treating CIF freight arrangements as a separate performance obligation is not expected to materially impact the Group's revenue upon application of AASB 15. There is no material change for the treatment of contracts on FOB Incoterms.

Provisionally priced sales

Some of the Group's sales contain provisional pricing features which are considered to be embedded derivatives. AASB 15 will not change the assessment of the existence of embedded derivatives, however these embedded derivatives will be outside the scope of AASB 15 and will be accounted for in accordance with AASB 9. Consequently, changes in pricing once control has passed to the customer will not be classified as Revenue from customers under AASB 15. This is not expected to materially impact the Group's revenue.

Some of the Group's sales contain provisional pricing features which are linked to final assay results. These provisional pricing features are deemed variable consideration under AASB 15. The new standard contains a constraint on estimates of variable consideration to only include amounts in the calculation of revenue where it is highly probable that a significant reversal of revenue will not occur. The Group recognises revenue for these types of transactions based on the initial assay results which typically do not result in a significant reversal of revenue. As such, no change is expected to the Group's current approach and it is not expected to materially impact the Group's revenue.

Other presentation and disclosure requirements

AASB 15 contains presentation and disclosure requirements which are more detailed, particularly in relation to provisionally priced sales. The Group is in the process of identifying the system changes required to capture the required information.

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

3. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

(b) New accounting standards and interpretations effective from 1 July 2017 (continued)

AASB 16 Leases (effective from 1 January 2019)

AASB 16 will generally result in leases being recognised on the Consolidated Balance Sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset. The only exceptions are for short-term and low-value leases.

The standard will primarily affect the accounting for the Group's operating leases, however potential embedded leases in service contracts may also exist. As at the reporting date, the Group has operating lease commitments of US$163 million. Under AASB 16 the present value of the Group's operating lease commitments as defined under the new standard, excluding short-term and low-value leases, will be shown as right of use assets and as lease liabilities on the Consolidated Balance Sheet. In addition, optional renewable periods may be included in the lease term if it is reasonably certain that an extension will occur. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16. A detailed review of contracts and financial reporting impacts will commence in the 30 June 2018 financial reporting period, at which point potential embedded leases in service contracts will also be assessed.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group. This covers both profitability and the resultant return to shareholders via earnings per share.

4. SEGMENT INFORMATION

(a) Description of segments

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

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

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

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

(b) Segment results

Segment performance is measured by Underlying EBIT and Underlying EBITDA. Underlying EBIT is profit before net finance cost, tax and other earnings adjustment items including impairments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation. A reconciliation of Underlying EBIT, Underlying EBITDA and the Group's consolidated profit after tax is set out below. Segment revenue is measured on the same basis as in the Consolidated Income Statement.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

Revenue recognition

Revenue from the sale of goods is recognised when persuasive evidence (usually in the form of an executed sales agreement) of an arrangement exists and:

- There has been a transfer of risk and reward to the customer
- No further work or processing is required by the Group
- The quantity and quality of the goods has been determined with reasonable accuracy
- The price is fixed or determinable
- Collectability is reasonably assured

Revenue is therefore generally recognised when title passes. In the majority of sales for most commodities, sales agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent. For these sales, revenue is recognised on the bill of lading date. For certain sales (principally coal sales to adjoining power stations), title passes and revenue is recognised when the goods have been delivered.

In cases where the terms of the executed sales agreement allow for an adjustment to the sales price based on a survey of the goods by the customer (for instance an assay for mineral content), recognition of the sales revenue is based on the most recently determined estimate of product specifications.

For certain commodities, the sales price is determined on a provisional basis at the date of sale and adjustments to the sales price subsequently occurs based on movements in quoted market or contractual prices up to the date of final pricing. The period between provisional invoicing and final pricing is typically between 60 and 120 days. Revenue on provisionally priced sales is recognised based on the estimated fair value of the total consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the characteristics of a commodity derivative. Accordingly, the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are recognised as an adjustment to revenue. In all cases, fair value is estimated by reference to forward market prices.

Revenue is not reduced for royalties and other taxes payable from group production.

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

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

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

Total assets and liabilities for each operating segment represent operating assets and liabilities which predominantly exclude the carrying amount of equity accounted investments, cash, interest bearing liabilities and tax balances. The carrying amount of investments accounted for using the equity method represents the balance of the Group's investment in equity accounted investments, with no adjustment for cash, interest bearing liabilities and tax balances of the equity accounted investment.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

Year ended 30 June 2017 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal
Revenue						
Group production	630	1,324	521	304	1,103	1,133
Third party products[2]	-	-	-	-	-	-
Inter-segment revenue	476	-	-	81	-	-
Total revenue	**1,106**	**1,324**	**521**	**385**	**1,103**	**1,133**
Underlying EBITDA	**326**	**287**	**113**	**123**	**273**	**548**
Depreciation and amortisation	(167)	(68)	(37)	(57)	(61)	(190)
Underlying EBIT	**159**	**219**	**76**	**66**	**212**	**358**
Comprising:						
Group production	159	219	76	66	216	358
Third party products[2]	-	-	-	-	-	-
Share of profit/(loss) of equity accounted investments[3]	-	-	-	-	(4)	-
Underlying EBIT	**159**	**219**	**76**	**66**	**212**	**358**
Net finance cost						
Income tax (expense)/benefit						
Underlying earnings						
Earnings adjustments[4]						
Profit/(loss) after tax						
Capital expenditure[5]	**43**	**15**	**6**	**20**	**64**	**112**
Equity accounted investments	**-**	**-**	**-**	**-**	**10**	**-**
Total assets[6]	**3,564**	**1,478**	**630**	**860**	**936**	**1,667**
Total liabilities[6]	**521**	**273**	**96**	**169**	**1,020**	**261**

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

(2) Third party products sold comprise US$282 million for aluminium, US$133 million for alumina, US$169 million for coal, US$113 million for freight services and US$93 million for aluminium raw materials. Underlying EBIT on third party products comprise US$13 million for aluminium, (US$4) million for alumina, US$2 million for coal, nil for freight services and US$1 million for aluminium raw materials.

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

(4) Refer to note 4(b)(i) Earnings adjustments on page 116.

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

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

Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
851	387	377	768	-	(1,238)	6,160
-	-	-	-	792	(2)	790
-	4	-	-	(557)	(4)	-
851	**391**	**377**	**768**	**235**	**(1,244)**	**6,950**
521	**140**	**74**	**364**	**(21)**	**(337)**	**2,411**
(54)	(30)	(90)	(56)	(37)	84	(763)
467	**110**	**(16)**	**308**	**(58)**	**(253)**	**1,648**
467	110	(16)	308	(70)	(577)	1,316
-	-	-	-	12	-	12
-	-	-	-	-	324	320
467	**110**	**(16)**	**308**	**(58)**	**(253)**	**1,648**
						(136)
						(366)
						1,146
						85
						1,231
28	**9**	**14**	**36**	**6**	**(37)**	**316**
-	**-**	**-**	**-**	**-**	**559**	**569**
597	**493**	**800**	**371**	**4,011**	**(674)**	**14,733**
278	**186**	**189**	**156**	**2,017**	**(668)**	**4,498**

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

Year ended 30 June 2016 US$M	Worsley Alumina	South Africa Aluminium	Mozal Aluminium	Brazil Alumina	South Africa Energy Coal	Illawarra Metallurgical Coal
Revenue						
Group production	542	1,161	431	323	1,009	642
Third party products[(2)]	-	-	-	-	-	-
Inter-segment revenue	469	-	-	23	-	-
Total revenue	**1,011**	**1,161**	**431**	**346**	**1,009**	**642**
Underlying EBITDA	**199**	**147**	**35**	**140**	**182**	**132**
Depreciation and amortisation	(157)	(65)	(35)	(62)	(87)	(193)
Underlying EBIT	**42**	**82**	**-**	**78**	**95**	**(61)**
Comprising:						
Group production	42	82	-	78	94	(60)
Third party products[(2)]	-	-	-	-	-	-
Share of profit/(loss) of equity accounted investments[(3)]	-	-	-	-	1	(1)
Underlying EBIT	**42**	**82**	**-**	**78**	**95**	**(61)**
Net finance cost						
Income tax (expense)/benefit						
Underlying earnings						
Earnings adjustments[(4)]						
Profit/(loss) after tax						
Capital expenditure[(5)]	**44**	**19**	**7**	**12**	**63**	**185**
Equity accounted investments	**-**	**-**	**-**	**-**	**13**	**-**
Total assets[(6)]	**3,647**	**1,334**	**656**	**874**	**728**	**1,745**
Total liabilities[(6)]	**439**	**275**	**91**	**167**	**827**	**229**

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

(2) Third party product sold comprise US$264 million for aluminium, US$59 million for alumina, US$72 million for coal, US$90 million for freight services and US$100 million for aluminium raw materials. Underlying EBIT on third party products comprise US$3 million for aluminium, (US$3) million for alumina, US$5 million for coal, US$1 million for freight services and nil for aluminium raw materials.

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

(4) Refer to note 4(b)(i) Earnings adjustments on page 116.

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

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

Australia Manganese[1]	South Africa Manganese[1]	Cerro Matoso	Cannington	Group and unallocated items/ elimination	Statutory adjustment[1]	Group
476	230	333	786	-	(706)	5,227
-	-	-	-	587	(2)	585
-	4	-	-	(492)	(4)	-
476	**234**	**333**	**786**	**95**	**(712)**	**5,812**
154	**(11)**	**2**	**330**	**(13)**	**(166)**	**1,131**
(89)	(36)	(90)	(56)	(30)	125	(775)
65	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
65	(47)	(88)	274	(49)	(18)	373
-	-	-	-	6	-	6
-	-	-	-	-	(23)	(23)
65	**(47)**	**(88)**	**274**	**(43)**	**(41)**	**356**
						(125)
						(93)
						138
						(1,753)
						(1,615)
68	**11**	**18**	**27**	**8**	**(79)**	**383**
-	**-**	**-**	**-**	**-**	**557**	**570**
577	**517**	**889**	**401**	**2,654**	**(648)**	**13,374**
236	**175**	**206**	**159**	**1,796**	**(648)**	**3,952**

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

(i) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

Earnings adjustments

US$M	FY17	FY16
Adjustments to Underlying EBIT		
Significant items[1]	**-**	24
Exchange rate (gains)/losses on restatement of monetary items[2]	**37**	(43)
Impairment losses[2][3]	**-**	1,386
Fair value (gains)/losses on derivative instruments[2]	**(194)**	60
Major corporate restructures[2]	**2**	63
Impairment losses included in profit/(loss) of equity accounted investments[4][5]	**-**	291
Earnings adjustments included in profit/(loss) of equity accounted investments[5]	**8**	16
Total adjustments to Underlying EBIT	**(147)**	1,797
Adjustments to net finance cost		
Significant items[1]	**-**	9
Exchange rate variations on net debt	**35**	(30)
Total adjustments to net finance cost	**35**	(21)
Adjustments to income tax expense		
Significant items[1]	**-**	31
Tax effect of earnings adjustments to Underlying EBIT	**42**	(187)
Tax effect of earnings adjustments to net finance cost	**(9)**	9
Exchange rate variations on tax balances	**(6)**	124
Total adjustments to income tax expense	**27**	(23)
Total earnings adjustments	**(85)**	1,753

(1) Refer to note 4(b)(ii) Significant items on page 117.
(2) Recognised in expenses excluding net finance cost in the Consolidated Income Statement. Refer to note 5 Expenses on page 118.
(3) US$1,310 million in FY16 relates to the impairment of non-financial assets, refer to note 13 Impairment of non-financial assets on page 129. US$76 million in FY16 relates to impairment of available for sale investments.
(4) Refer to note 13 Impairment of non-financial assets on page 129.
(5) Recognised in share of profit/(loss) of equity accounted investments in the Consolidated Income Statement.

NOTES TO FINANCIAL STATEMENTS - RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

(ii) Significant items

Significant items are those items, not separately identified in note 4(b)(i) Earnings adjustments on page 116, where their nature and amount is considered material to the consolidated financial statements. There were no such items included within the Group's (profit)/loss for the year ended 30 June 2017.

Year ended 30 June 2016

US$M	Gross	Tax	Net
Set-up costs[1]	60	(17)	43
Adjustment to Australian tax balances Post-demerger including reset of tax assets	-	(85)	(85)
Derecognition of deferred tax assets	-	126	126
Brazil Aluminium Smelter impairment[2]	32	(11)	21
Brazil Alumina tax accounting adjustments	-	20	20
Change in discount rate[3]	9	(1)	8
Closure and rehabilitation provisions[1]	(68)	(1)	(69)
Total significant items	33	31	64

(1) Recognised in expenses excluding net finance cost in the Consolidated Income Statement. Refer to note 5 Expenses on page 118.

(2) Refer to note 13 Impairment of non-financial assets on page 129.

(3) Recognised in net finance cost in the Consolidated Income Statement. Refer to note 18 Net finance cost on page 136 and note 15 Provisions on page 132.

Set-up costs

Set-up costs related to the ongoing establishment of the Group'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 under an agreement for information technology services. Those costs related to all operating segments. All remaining set-up costs relate to group and unallocated items.

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

The tax basis of the Group's wholly owned Australian operations was reset on Demerger. The net increase/(decrease) to tax assets is charged/(credited) to income tax expense in the Consolidated Income Statement.

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 closure and rehabilitation were derecognised as utilisation is no longer probable.

Brazil Aluminium Smelter impairment

The Group recognised an impairment of assets of US$97 million to reflect the probability of restarting its Brazil Aluminium Smelter. US$32 million of this is considered a significant item as it related to smelter consumables and indirect taxes.

Brazil Alumina tax accounting adjustments

The Group's cash and profit repatriation practices result in a probable expectation that tax deferrals will ultimately unwind. This has resulted in the recognition of associated deferred tax balances at a rate closely aligned to the country statutory rate and the reassessment of future tax losses as a result of revised interpretation of the applicability of local tax laws.

Closure and rehabilitation provisions and Change in discount rate

Following a review of cash flow assumptions and discount rates, the Group recognised a net decrease in closure and rehabilitation provisions of US$59 million. Where this related to closed sites, US$68 million was recognised as a benefit in expenses and US$9 million as a charge in net finance cost in the Consolidated Income Statement. The benefit recognised in expenses included US$18 million related to South Africa Energy Coal and US$50 million related to the closed Bayside operation, formerly part of South Africa Aluminium.

NOTES TO FINANCIAL STATEMENTS - RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

The geographical information below analyses Group revenue and non-current assets by location. Revenue is presented by the geographical location of customers and non-current assets are presented by the geographical location of the operations.

Revenue from external customers

US$M	FY17	FY16
Australia	**789**	571
Belgium	**6**	170
China	**212**	251
India	**439**	248
Italy	**352**	254
Japan	**523**	370
Middle East	**215**	254
Netherlands	**469**	421
North America	**314**	199
Other Asia	**124**	155
Rest of Europe	**488**	323
Singapore	**843**	632
South Korea	**291**	262
Southern Africa	**1,047**	907
Switzerland	**497**	559
United Arab Emirates	**341**	236
Total revenue	**6,950**	5,812

Non-current assets

US$M	FY17	FY16
Australia	**5,653**	5,941
Southern Africa	**2,487**	2,465
South America	**1,367**	1,505
Rest of world	**153**	154
Unallocated assets(1)	**741**	641
Total non-current assets	**10,401**	10,706

(1) Unallocated assets primarily comprise other financial assets and deferred tax assets.

5. EXPENSES

US$M	Note	FY17	FY16
Changes in inventories of finished goods and work in progress		**(76)**	84
Raw materials and consumables used		**2,116**	2,154
Employee benefits expense(1)	5(a)	**933**	948
External services (including transportation)		**1,002**	1,014
Third party commodity purchases		**778**	579
Depreciation and amortisation	11,12	**763**	775
Net foreign exchange (gains)/losses		**37**	(43)
Fair value (gains)/losses on derivative instruments		**(194)**	60
Government royalties paid and payable		**178**	132
Exploration and evaluation expenditure incurred and expensed in the current period		**25**	9
Impairment of property, plant and equipment	11,13	**-**	514
Impairment of goodwill and other intangible assets	12,13	**-**	6
Impairment of equity accounted investments	13,29	**-**	790
Impairment of available for sale financial assets		**-**	76
Operating lease rentals		**42**	59
All other operating expenses		**138**	90
Total expenses		**5,742**	7,247

(1) Includes Underlying earnings adjustment of US$2 million (FY16: US$63 million). Refer to note 4(b)(i) Earnings adjustments on page 116.

(a) Employee benefits expense

US$M	Note	FY17	FY16
Wages, salaries and redundancies		**822**	850
Employee share awards		**34**	23
Social security costs		**2**	2
Pension and other post-retirement obligations	23	**75**	75
		933	950
Less employee benefits expense classified as exploration and evaluation expenditure		**-**	(2)
Employee benefits expense		**933**	948

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX

Income tax expense comprises current and deferred tax and is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in the Consolidated Statement of Comprehensive Income.

(a) Income tax expense

US$M	FY17	FY16
Current income tax expense/(benefit)	**269**	115
Deferred income tax expense/(benefit)	**124**	(45)
Total income tax expense/(benefit)	**393**	70
Australia	**220**	(54)
Southern Africa	**129**	99
Rest of world	**44**	25
Total income tax expense/(benefit) attributable to the geographical jurisdiction	**393**	70

Income tax expense/(benefit)

Income tax expense/(benefit) for the period is the tax payable on the current period's taxable income/(loss) based on the applicable income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current tax is calculated using the tax rates enacted or substantively enacted at period end, and includes any adjustment to tax payable in respect of previous years.

(b) Reconciliation of prima facie tax expense to income tax expense

	FY17		FY16	
	%	US$M	%	US$M
(Profit)/loss before tax		**(1,624)**		1,545
Income tax on profit/(loss) at standard rate of 30 per cent	**(30.0)**	**487**	(30.0)	(463)
Tax rate differential on foreign income	**2.2**	**(36)**	1.2	18
Exchange variations and other translation adjustments	**0.4**	**(6)**	8.0	124
Tax effect of share of profit/(loss) of equity accounted investments	**5.6**	**(91)**	6.2	96
Withholding tax on distributed earnings	**(1.0)**	**16**	0.3	5
Adjustment to Australian tax balances Post-demerger	**-**	**-**	(5.5)	(85)
Brazil Alumina tax accounting adjustments	**-**	**-**	1.3	20
Non-deductible impairment expense	**-**	**-**	14.5	224
Deferred tax asset derecognition	**(0.9)**	**15**	8.2	126
Other	**(0.5)**	**8**	0.3	5
Total income tax expense/(benefit)	**(24.2)**	**393**	4.5	70

(c) Tax recognised in the Consolidated Statement of Comprehensive Income

US$M	FY17	FY16
Available for sale investments net valuation (gains)/losses taken to equity	**(1)**	(9)
Actuarial (gains)/losses on pension and medical schemes	**2**	1
Total income tax expense/(benefit) recognised within the Consolidated Statement of Comprehensive Income	**1**	(8)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX (CONTINUED)

(d) Movement in deferred tax balances

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

US$M	FY17	FY16
Net deferred tax (liability)/asset		
At the beginning of the financial year	**(119)**	(178)
Recognised in the Consolidated Income Statement	**(124)**	45
Recognised in the Consolidated Statement of Comprehensive Income	**(1)**	8
Other movements	**2**	6
At the end of the financial year	**(242)**	(119)

The composition of the Group's net deferred tax asset and liability recognised in the Consolidated Balance Sheet and the deferred tax expense charged/(credited) to the Consolidated Income Statement is as follows:

	Deferred tax assets		Deferred tax liabilities		Charged/(credited) to the Consolidated Income Statement	
US$M	FY17	FY16	FY17	FY16	FY17	FY16
Type of temporary difference						
Depreciation	**259**	321	**(443)**	(459)	**49**	(205)
Employee benefits	**78**	63	**13**	17	**(13)**	13
Closure and rehabilitation	**97**	90	**30**	31	**(10)**	172
Other provisions	**12**	22	**54**	21	**(24)**	(9)
Deferred charges	**(182)**	(181)	**-**	-	**1**	13
Non tax-depreciable fair value adjustments, revaluations and mineral rights	**(121)**	(124)	**(128)**	(85)	**46**	(58)
Tax-effected losses	**2**	49	**100**	97	**38**	(15)
Brazil Alumina incentives	**-**	-	**(107)**	(99)	**10**	1
Finance leases	**181**	177	**2**	(1)	**(4)**	25
Other	**(50)**	(35)	**(39)**	(23)	**31**	18
Total	**276**	382	**(518)**	(501)	**124**	(45)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX (CONTINUED)

(d) Movement in deferred tax balances (continued)

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. The tax effect of certain temporary differences is not recognised, principally with respect to:

- Temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit)
- Temporary differences relating to investments and undistributed earnings in subsidiaries, joint ventures and associates to the extent that the Group is able to control its reversal and it is probable that it will not reverse in the foreseeable future
- Goodwill

To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are not deductible in determining future assessable income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and amended to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

Key estimates, assumptions and judgements

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the Consolidated Balance Sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

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

(e) Unrecognised deferred tax assets and liabilities

The composition of the Group's unrecognised deferred tax assets and liabilities is as follows:

US$M	FY17	FY16
Unrecognised deferred tax assets		
Tax losses (i)	**33**	25
Other deductible temporary differences (ii)	**1,526**	1,578
Total unrecognised deferred tax assets	**1,559**	1,603
Unrecognised deferred tax liabilities		
Taxable temporary differences associated with investments in subsidiaries (iii)	**(51)**	(43)
Total unrecognised deferred tax liabilities	**(51)**	(43)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX (CONTINUED)

(e) Unrecognised deferred tax assets and liabilities (continued)

(i) Tax losses

At 30 June 2017, the Group had income and capital tax losses with a tax benefit of US$33 million (FY16: US$25 million) which are not recognised as deferred tax assets. The Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. The gross amount of tax losses carried forward that have not been tax effected expire as follows:

Year of expiry US$M	Australia	South Africa	Rest of world	Total
Income tax losses				
No expiry	-	11	12	**23**
Total income tax losses	**-**	**11**	**12**	**23**
Capital tax losses				
No expiry	83	-	-	**83**
Gross amount of tax losses not recognised	**83**	**11**	**12**	**106**
Tax effect of total losses not recognised	**25**	**3**	**5**	**33**

(ii) Other deductible temporary differences

At 30 June 2017, the Group had deductible temporary differences for which deferred tax assets of US$1,526 million (FY16: US$1,578 million) have not been recognised. The deductible temporary differences do not expire under current tax legislation.

(iii) Taxable temporary differences associated with investments in subsidiaries

At 30 June 2017, deferred tax liabilities of US$51 million (FY16: US$43 million) associated with undistributed earnings of subsidiaries have not been recognised.

(f) Tax consolidation

South32 Limited and its 100 per cent owned Australian resident subsidiaries have formed a tax consolidated group with effect from 25 May 2015. South32 Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a stand-alone basis. The tax sharing arrangement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The possibility of such a default is considered remote at the date of this report.

Members of the tax consolidated group have also entered into a tax funding agreement. The Group has applied its allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The tax funding agreement provides for each member of the tax consolidated group to pay or receive a tax equivalent amount to or from the head entity in accordance with their notional current tax liability or current tax asset. Such amounts are reflected in amounts receivable from or payable to the head entity in their accounts and are settled as soon as practicable after lodgement of the consolidated return and payment of the tax liability.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

7. DIVIDENDS

US$M	FY17	FY16
Prior year final unfranked dividend(1)	**53**	-
Interim unfranked dividend(2)	**191**	-
Total dividends declared and paid during the year	**244**	-

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

(2) On 16 February 2017, the Directors resolved to pay an interim unfranked dividend of US 3.6 cents per share (US$192 million) in respect of the 2017 half year. The dividend was paid on 6 April 2017. The South32 Employee Incentive Plans Trust waived its right to receive dividends from South32 Limited, therefore reducing the dividends paid by US$1 million.

Franking Account

US$M	FY17	FY16
Franking credits at the beginning of the financial year	**-**	-
Credits arising from tax paid/payable by South32 Limited(1)	**111**	-
Credits arising from the receipt of franked dividends	**73**	-
Total franking credits available at the end of the financial year(2)	**184**	-

(1) Represents the payment of Australian FY17 income tax liability of US$111 million due in December 2017.

(2) The payment of the final franked FY17 dividend declared after 30 June 2017 will decrease the franking account balance by US$143 million.

8. EARNINGS PER SHARE

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

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

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

Profit/(loss) attributable to equity holders

US$M	FY17	FY16
Profit/(loss) attributable to equity holders of South32 Limited (basic)	**1,231**	(1,615)
Profit/(loss) attributable to equity holders of South32 Limited (diluted)	**1,231**	(1,615)

Weighted average number of shares

Million	FY17	FY16
Basic earnings per share denominator(1)	**5,307**	5,324
Shares contingently issuable under employee share ownership plans(2)	**60**	-
Diluted earnings per share denominator	**5,367**	5,324

(1) The basic EPS denominator is the aggregate of the weighted average number of shares after deduction of the weighted average number of treasury shares outstanding during the period and shares permanently cancelled through the on-market share buy-back.

(2) Diluted EPS calculation excludes 11,120,599 (FY16: 74,710,141) rights which are considered anti-dilutive and are subject to service and performance conditions.

Earnings per share

US cents	FY17	FY16
Basic earnings per share	**23.2**	(30.3)
Diluted earnings per share	**22.9**	(30.3)

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the Group's trading performance and the liabilities incurred. Liabilities relating to the Group's financing activities are addressed in the capital structure and financing section, notes 16 to 20.

9. TRADE AND OTHER RECEIVABLES

US$M	FY17	FY16
Current		
Trade receivables[1]	**400**	410
Loans to equity accounted investments[2]	**24**	17
Interest bearing loans receivable	**-**	2
Other receivables	**294**	189
Total current trade and other receivables	**718**	618
Non-current		
Loans to equity accounted investments[2]	**227**	335
Interest bearing loans receivable from joint operations	**42**	39
Other receivables[1]	**96**	71
Total non-current trade and other receivables	**365**	445

(1) Includes a US$6 million provision for doubtful debts as at 30 June 2017 (FY16: US$2 million).
(2) Refer to note 32 Related party transactions on page 165.

Trade receivables generally have terms of up to 30 days. Trade and other receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for doubtful debts. A provision for doubtful debts is recognised in the Consolidated Income Statement when there is objective evidence of non-collectability.

10. INVENTORIES

US$M		FY17	FY16
Current			
Raw materials and consumables	- at net realisable value[1]	**16**	5
	- at cost	**293**	314
		309	319
Work in progress	- at net realisable value[1]	**-**	17
	- at cost	**251**	191
		251	208
Finished goods	- at net realisable value[1]	**2**	52
	- at cost	**219**	135
		221	187
Total current inventories		**781**	714
Non-current			
Raw materials and consumables	- at cost	**45**	51
Work in progress	- at cost	**36**	37
Total non-current inventories		**81**	88

(1) Inventory write-downs of US$14 million (FY16: US$22 million) were recognised during the year. Reversal of prior year inventory write-downs of US$7 million (FY16: US$7 million) were recognised during the year.

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. For processed inventories, cost is derived on an absorption costing basis. Cost comprises the cost of purchasing raw materials and the cost of production, including attributable overheads. In respect of minerals inventory, quantities are assessed primarily through surveys and assays.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. PROPERTY, PLANT AND EQUIPMENT

30 June 2017 US$M	Land and buildings	Plant and equipment	Other mineral assets	Assets under construction	Exploration and evaluation	Total
Cost						
At the beginning of the financial year	2,622	14,927	2,567	237	4	**20,357**
Additions[(1)]	1	16	86	265	2	**370**
Foreign exchange movements in closure and rehabilitation provisions[(2)]	-	91	-	-	-	**91**
Disposals	(38)	(36)	(11)	-	-	**(85)**
Transfers and other movements	26	221	7	(250)	(4)	**-**
At the end of the financial year	**2,611**	**15,219**	**2,649**	**252**	**2**	**20,733**
Accumulated depreciation and impairments						
At the beginning of the financial year	1,514	8,801	1,388	3	-	**11,706**
Depreciation charge for the year	77	543	107	-	-	**727**
Disposals	(34)	(28)	(11)	-	-	**(73)**
Transfers and other movements	-	3	-	(3)	-	-
At the end of the financial year	**1,557**	**9,319**	**1,484**	**-**	**-**	**12,360**
Net book value at 30 June 2017[(3)(4)]	**1,054**	**5,900**	**1,165**	**252**	**2**	**8,373**

(1) Plant and equipment additions of (US$25) million (2016: US$188 million) relate to capitalised closure and rehabilitation amounts as a result of the change in discount rate, refer to note 15 Provisions on pages 132 to 134.

(2) Refer to note 15 Provisions on pages 132 to 134.

(3) During 2014, Mozal Aluminium SARL joint operation repaid a bank loan which was secured by a US$20 million pledge over its assets. As at 30 June 2017, the pledge over the assets had not been released.

(4) Plant and equipment includes assets held under finance leases with a net book value of US$661 million (2016: US$695 million).

30 June 2016 US$M	Land and buildings	Plant and equipment	Other mineral assets	Assets under construction	Exploration and evaluation	Total
Cost						
At the beginning of the financial year	2,403	14,525	2,601	722	34	20,285
Additions	1	147	107	251	4	510
Foreign exchange movements in closure and rehabilitation provisions	-	(139)	-	-	-	(139)
Disposals	(3)	(114)	(181)	-	-	(298)
Transfers and other movements	221	508	40	(736)	(34)	(1)
At the end of the financial year	2,622	14,927	2,567	237	4	20,357
Accumulated depreciation and impairments						
At the beginning of the financial year	1,310	8,008	1,417	-	-	10,735
Depreciation charge for the year	107	526	116	-	-	749
Impairments for the year[(1)]	85	409	17	3	-	514
Disposals	(1)	(110)	(181)	-	-	(292)
Transfers and other movements	13	(32)	19	-	-	-
At the end of the financial year	1,514	8,801	1,388	3	-	11,706
Net book value at 30 June 2016	1,108	6,126	1,179	234	4	8,651

(1) Refer to note 13 Impairment of non-financial assets on pages 129 to 131.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and its estimated future cost of closure and rehabilitation.

Finance leases

Assets held under lease, which result in the Group receiving substantially all the risks and rewards of ownership of the asset (finance leases), are capitalised at the lower of the fair value of the property, plant and equipment or the estimated present value of the minimum lease payments.

The corresponding finance lease obligation is included within interest bearing liabilities. The interest component is charged to finance expenses over the lease term to reflect a constant rate of interest on the remaining balance of the obligation.

Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

(b) Assets under construction

All assets included in assets under construction are reclassified to other categories in property, plant and equipment when the asset is available and ready for use in the location and condition necessary for it to be capable of operating in the manner intended.

(c) Exploration and evaluation expenditure

Exploration and evaluation expenditure (including amortisation of capitalised licence and lease costs) is charged to the Consolidated Income Statement as incurred except in the following circumstances, in which case the expenditure may be capitalised:

- The exploration and evaluation activity is within an area of interest which was previously acquired as an asset acquisition or in a business combination and measured at fair value on acquisition or
- The existence of a commercially viable mineral deposit has been established

Capitalised exploration and evaluation expenditure considered to be a tangible asset is recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, it is recorded as an intangible asset (such as certain licence and lease arrangements). In determining whether the purchase of an exploration licence or lease is an intangible asset or a component of property, plant and equipment, consideration is given to the substance of the item acquired and not its legal form. Licences or leases purchased which allow exploration over an extended period of time meet the definition of an intangible exploration lease asset where they cannot be reasonably associated with a known minerals resource.

(d) Other mineral assets

Other mineral assets comprise:

- Capitalised exploration, evaluation and development expenditure (including development stripping) for properties now in production
- Mineral rights acquired
- Capitalised production stripping (as described below)

Overburden removal costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan and will often comprise a separate pushback or phase identified in the plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced
- Production stripping is the interburden removal during the normal course of production activity. Production stripping commences after the first saleable minerals have been extracted from the component

Development stripping costs are capitalised as a development stripping asset when:

- It is probable that future economic benefits associated with the asset will flow to the entity
- The costs can be measured reliably

Production stripping can give rise to two benefits, being the extraction of ore in the current period and improved access to the ore body component in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to future ore, the stripping costs are recognised as a production stripping asset if the following criteria are met:

- It is probable that the future economic benefit (improved access to ore) will flow to the entity
- The component of the ore body for which access has been improved can be identified
- The costs relating to the stripping activity can be measured reliably

Production stripping costs are allocated between the inventory produced and the production stripping asset using a life-of-component waste to ore (or mineral contained) strip ratio. When the current strip ratio is greater than the life-of-component ratio a portion of the stripping costs is capitalised to the production stripping asset.

The development and production stripping assets are depreciated on a units of production basis based on the proven and probable reserves of the relevant components.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(e) Depreciation and amortisation

The carrying amounts of property, plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Depreciation commences on the date of commissioning. The major categories of property, plant and equipment are depreciated on a units of production and/or straight-line basis using estimated lives indicated below. However, where assets are dedicated to a mine or lease and are not readily transferable, the below useful lives are subject to the lesser of the asset category's useful life and the life of the mine or lease:

Buildings	-	25 to 50 years
Land	-	not depreciated
Plant and equipment	-	3 to 30 years straight-line
Mineral rights	-	based on reserves on a units of production basis
Capitalised exploration, evaluation and development expenditure	-	based on reserves on a units of production basis

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

12. INTANGIBLE ASSETS

30 June 2017 US$M	Goodwill	Other intangibles	Total
Cost			
At the beginning of the financial year	193	257	**450**
Additions	-	1	**1**
Disposals	-	(2)	**(2)**
At the end of the financial year	**193**	**256**	**449**
Accumulated amortisation and impairments			
At the beginning of the financial year	54	108	**162**
Amortisation charge for the year	-	36	**36**
Disposals	-	(1)	**(1)**
At the end of the financial year	**54**	**143**	**197**
Net book value at 30 June 2017	**139**	**113**	**252**

30 June 2016 US$M	Goodwill	Other intangibles	Total
Cost			
At the beginning of the financial year	193	243	436
Additions	-	13	13
Transfers and other movements	-	1	1
At the end of the financial year	193	257	450
Accumulated amortisation and impairments			
At the beginning of the financial year	48	82	130
Amortisation charge for the year	-	26	26
Impairments for the year	6	-	6
At the end of the financial year	54	108	162
Net book value at 30 June 2016	139	149	288

(a) Goodwill

Where the fair value of consideration paid for a business combination exceeds the fair value of the Group's share of the identifiable net assets acquired, the difference is treated as purchased goodwill. Where the fair value of the Group's share of the identifiable net assets acquired exceeds the cost of acquisition, the difference is immediately recognised in the Consolidated Income Statement. Goodwill is not amortised, however, its carrying amount is assessed annually against its recoverable amount.

(b) Other intangible assets

Amounts paid for the acquisition of identifiable intangible assets, such as software and licences, are capitalised at the fair value of consideration paid and are recorded at cost less accumulated amortisation and impairment charges. Identifiable intangible assets with a finite life are amortised on a straight-line basis over their expected useful life. The useful life is as follows:

Software and licences	-	5 years
Contract based intangible assets	-	up to 35 years

The Group has no identifiable intangible assets for which the expected useful life is indefinite.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group uses internal valuations to assess all of its cash generating units (CGUs) for impairment or impairment reversal indicators. For any resultant impairment testing, and for CGUs containing goodwill, the Group uses fair value less cost of disposal (FVLCD) to assess the recoverable amount.

No impairment or impairment reversal has been recognised for the year ended 30 June 2017.

US$M	Note	FY17	FY16
Property, plant and equipment	5,11	-	514
Goodwill and intangible assets	5,12	-	6
Equity accounted investments	5,29	-	790
Other		-	32
Total impairment included in expenses		-	1,342
Impairment losses included in profit/ (loss) of equity accounted investments	29	-	291
Total impairment		-	1,633

(a) Recognised impairment - 30 June 2016

During the prior financial year the following significant impairments were recognised:

(i) Wolvekrans Middelburg Complex

The Group recognised an impairment of assets at its Wolvekrans Middelburg Complex cash generating unit (WMC CGU) of US$322 million as a result of changes in the macro-economic environment, primarily driven by lower forecast coal pricing assumptions. The WMC CGU consists of the Wolvekrans and Middelburg opencast collieries of South Africa Energy Coal. The recoverable amount of the WMC CGU was determined as (US$57) million based on its FVLCD at the time of impairment.

(ii) Klipspruit Colliery

The Group recognised an impairment of assets at its Klipspruit Colliery cash generating unit (Klipspruit CGU) of US$120 million as a result of changes in the macro-economic environment, primarily driven by lower forecast coal pricing assumptions. The Klipspruit CGU consists of the Klipspruit opencast colliery of South Africa Energy Coal. The recoverable amount of the Klipspruit CGU was determined as US$77 million based on its FVLCD at the time of impairment.

(iii) Brazil Aluminium Smelter

The Group recognised an impairment of assets at its Brazil Aluminium Smelter cash generating unit (Brazil Smelter CGU) of US$97 million (including US$32 million relating to smelter consumables and indirect tax assets) as a result of the likelihood of restarting smelting operations. The Brazil Smelter CGU consists of the Alumar aluminium smelter. The recoverable amount of the Brazil Smelter CGU was determined as (US$11) million based on its FVLCD at the time of impairment.

(iv) Manganese Marketing

The Group recognised an impairment of the fair value uplift in respect of its equity accounted investment in Manganese Marketing of US$64 million as a result of the continued decline in manganese ore and alloy prices. The Manganese Marketing CGU holds the marketing and distribution business for the South Africa Manganese and Australia Manganese CGUs' export market products. The recoverable amount of the equity accounted investment was determined as US$81 million being its FVLCD at the time of impairment.

(v) Australia Manganese

The Group recognised an impairment of its equity accounted investment in Australia Manganese of US$916 million as a result of the continued decline in manganese ore and alloy prices. This resulted in a full impairment of the remaining fair value uplift of US$726 million and impairment of the Group's share of after tax underlying assets of US$190 million. The Australia Manganese CGU consists of Groote Eylandt Mining Company, a manganese mining operation and the Tasmanian Electro Metallurgical Company manganese alloy plant. The recoverable amount of the equity accounted investment was determined as US$376 million being its FVLCD at the time of impairment.

(vi) South Africa Manganese

The Group recognised an impairment of the Group's share of after tax underlying assets of US$97 million as a result of the continued decline in manganese ore and alloy prices. The South Africa Manganese CGU consists of the Wessels underground mine, Mamatwan open pit mine and the Metalloys smelter. The recoverable amount of the equity accounted investment was determined as US$321 million being its FVLCD at the time of impairment.

(b) Basis of fair value measurements

The fair value measurement is categorised as a Level 3 fair value based on the inputs in the valuation technique (refer to note 19 Financial assets and financial liabilities on pages 136 to 143). In determining the FVLCD a real post tax discount rate of 8 per cent (FY16: 8.5 per cent), and a country risk premium of up to 2 per cent (FY16: 2 per cent), were applied to the post tax cash flows expressed in real terms. The key assumptions used for commodity prices are comparable to market consensus forecasts, and foreign exchange rates are aligned with forward market rates.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

(c) Impairment test for CGUs containing goodwill

Formal impairment tests are carried out annually for goodwill. For the purpose of impairment testing, goodwill has been allocated to CGUs that are expected to benefit from the synergies of the business combination and which represent the level at which management will monitor and manage the goodwill.

The carrying amount of goodwill has been allocated to the following CGUs:

US$M	Note	FY17	FY16
South Africa Aluminium		**139**	139
Total goodwill	12	**139**	139

South Africa Aluminium

The goodwill arose from the acquisition of Alusaf in Hillside Aluminium (Pty) Ltd and has been allocated to the South Africa Aluminium CGU which comprises the Hillside aluminium smelter. The recoverable amount of the South Africa Aluminium CGU was determined based on its FVLCD. The determination of the FVLCD was most sensitive to:

- Production volumes
- Aluminium prices
- Exchange rates
- Discount rate

Production volumes - estimated production volumes were based on the life of the smelter as determined by management as part of the long-term planning process. Production volumes are influenced by production input costs such as electricity prices and the selling price of aluminium.

Aluminium prices and exchange rates - key assumptions for aluminium prices were derived from forward price curves with long-term views of global supply and demand, together with past management experience of the industry. Aluminium prices are comparable to market consensus forecasts, and foreign exchange rates are aligned with forward market rates.

The aluminium prices and exchange rates used in the FVLCD determinations were reasonable when compared with the following range of prices published by market commentators:

	FY17	FY16
Aluminium price (US$/tonne)	**1,510 to 2,290**	1,350 to 2,270
Exchange rate (South African rand to US$)	**12.2 to 16.0**	13.5 to 19.9

Discount rate - in determining the FVLCD, a real post-tax discount rate of 8 per cent (FY16: 8.5 per cent), and a country risk premium of up to 2 per cent (FY16: 2 per cent), was applied to the post tax cash flows expressed in real terms.

The impairment test for the South Africa Aluminium CGU indicated that no impairment or reversal of prior impairments was required. The table below shows the amount by which these key assumptions must change in isolation (from the mid-point of the range) in order for the estimated recoverable amount to be equal to the carrying amount of the South Africa Aluminium CGU, including goodwill. Owing to the complexity of the analysis caused by relationships between each key assumption, such that a change in one would cause a change in several other inputs to the calculation, the analysis below was performed for each assumption individually.

	Change required for the carrying amount to equal recoverable amount
Production volumes	decrease of 2%
Aluminium prices (US$/tonne)	decrease of 2%
Exchange rates (ZAR to US$)	strengthening of 5%
Discount rate	increase greater than 304 basis points

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Key estimates, assumptions and judgements

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs, future capital expenditure and an allocation of corporate costs. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reversed with the impact recorded in the Consolidated Income Statement.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as CGUs. CGUs are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The basis of key estimates and assumptions in the assessment of impairment indicators are as follows:

Future production	Life of operation plans based on proved and probable reserves, resource estimates, economic life of the smelters and, in certain cases, expansion projects, including future cost of production.
Commodity prices	Forward market and contract prices, and longer-term price protocol estimates.
Exchange rates	Observable forward market exchange rates.
Discount rates	Cost of capital risk-adjusted and appropriate to the resource.

Where impairment testing is undertaken, a range of external sources are considered as further input to the above assumptions.

When assessing for impairment and impairment reversal indicators, the fundamental characteristics of previously impaired CGUs are relevant to their sensitivity to key estimates and assumptions. For previously impaired CGUs these include:

- CGUs with higher operating margins and reserve lives longer than 10 years which are less sensitive to commodity prices and foreign exchange rates, for example Worsley Alumina
- CGUs with lower operating margins which are highly sensitive to movements in commodity prices and foreign exchange rates, for example the Wolvekrans Middelburg Complex, the Klipspruit Colliery and South Africa Manganese
- CGUs with higher operating margins, shorter reserve lives and exposure to commodities that display greater price volatility, for example Australia Manganese

The operating assets for previously impaired CGUs are included in note 4(b) Segment information on pages 111 to 117. The separately identifiable CGUs included in South Africa Energy Coal are the Khutala Colliery, the Klipspruit Colliery and the Wolvekrans Middelburg Complex with operating assets of US$175 million, US$261 million and US$418 million, respectively. The residual amount of US$82 million relates to South African Energy Coal operating assets allocated to other CGUs.

Reserves (which include Coal and Ore Reserves) are the economically mineable part of a Measured and/or Indicated Mineral (or Coal) Resource as defined by the Australasian Code for Reporting and Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Estimation of reserves require the application of material relevant modifying factors such as mining (e.g. mining method), processing, metallurgical (e.g. recovery rates), infrastructure, economic (e.g. production costs, transportation costs, commodity demand, commodity price, exchange rate), marketing, legal, environmental, social and governmental factors, which are defined by studies at pre-feasibility or feasibility level. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

Estimating the quantity and grade of Mineral Resource requires the size, shape and depth of mineralisation to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgement to interpret the data.

The Group reports Mineral Resources and Ore Reserves (including Coal Resources and Coal Reserves) in accordance with the 2012 edition of the JORC Code as required by Chapter 5 of the ASX Listing Rules. The JORC Code requires the use of reasonable investment assumptions when reporting reserves, as a result, management will form a view of forecast sales prices, based on current and long-term average price trends.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset recoverable amounts may be affected due to changes in estimated future cash flows
- Depreciation, depletion and amortisation charged in the Consolidated Income Statement may change on a units of production basis, or where the useful economic lives of assets change
- Overburden removal costs recorded on the Consolidated Balance Sheet or charged to the Consolidated Income Statement may change with stripping ratios or on a units of production basis of depreciation
- Decommissioning, closure and rehabilitation provisions may change where estimated reserves affect expectations about the timing or cost of these activities

The carrying amount of associated deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

14. TRADE AND OTHER PAYABLES

US$M	FY17	FY16
Current		
Trade creditors	**697**	577
Other creditors	**153**	99
Total current trade and other payables	**850**	676
Non-current		
Other creditors	**4**	5
Total non-current trade and other payables	**4**	5

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which were unpaid at the end of the financial year. These amounts are unsecured. Trade and other payables are included in current liabilities, except for those liabilities where payment is not due within 12 months from the reporting date, which are classified as non-current liabilities.

Trade and other payables are stated at their amortised cost and are non-interest bearing. The carrying value of trade and other payables is considered to approximate fair value due to the short-term nature of the payables.

15. PROVISIONS

US$M	Note	FY17	FY16
Current			
Employee benefits		**205**	192
Closure and rehabilitation		**91**	99
Other		**87**	117
Total current provisions		**383**	408
Non-current			
Employee benefits		**7**	5
Closure and rehabilitation		**1,474**	1,315
Post-retirement employee benefits	23	**96**	88
Other		**-**	2
Total non-current provisions		**1,577**	1,410

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. PROVISIONS (CONTINUED)

30 June 2017 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	197	1,414	88	119	**1,818**
Charge/(credit) for the year:					
Underlying	196	6	3	27	**232**
Discounting	-	98	-	-	**98**
Change in discount rate[1]	-	(6)	-	-	**(6)**
Net interest expense	-	-	9	-	**9**
Exchange rate variations	7	29	11	1	**48**
Released during the year	(2)	(18)	-	(11)	**(31)**
Amounts capitalised	-	46	-	-	**46**
Foreign exchange amounts capitalised	-	91	-	-	**91**
Amounts capitalised from change in discount rate[1]	-	(25)	-	-	**(25)**
Actuarial gains taken to retained earnings	-	-	(8)	-	**(8)**
Utilisation	(184)	(70)	(9)	(47)	**(310)**
Transfers and other movements	(2)	-	2	(2)	**(2)**
At the end of the financial year	**212**	**1,565**	**96**	**87**	**1,960**

(1) The Group has reviewed and updated its discount rate applied to closure and rehabilitation provisions. The corresponding decrease in the amount was capitalised as an asset or charged to the Consolidated Income Statement in the case of closed sites.

30 June 2016 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	223	1,464	107	83	1,877
Charge/(credit) for the year:					
Underlying	167	-	4	135	306
Discounting	-	96	-	-	96
Change in discount rate	-	9	-	-	9
Net interest expense	-	-	7	-	7
Exchange rate variations	(12)	(56)	(14)	(7)	(89)
Released during the year	(2)	(68)	-	(4)	(74)
Amounts capitalised	-	(21)	-	-	(21)
Foreign exchange amounts capitalised	-	(139)	-	-	(139)
Amounts capitalised from change in discount rate	-	188	-	-	188
Actuarial gains taken to retained earnings	-	-	(3)	-	(3)
Utilisation	(182)	(59)	(11)	(87)	(339)
Transfers and other movements	3	-	(2)	(1)	-
At the end of the financial year	197	1,414	88	119	1,818

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. PROVISIONS (CONTINUED)

(a) Employee benefits

Liabilities for unpaid wages and salaries are recognised in other creditors. Current entitlements to annual leave and accumulating sick leave accrued for services up to the reporting date are recognised in the provision for employee benefits and are measured at the amounts expected to be paid. Entitlements to non-accumulating sick leave are recognised when the leave is taken.

The current liability for long service leave (for which settlement within 12 months of the reporting date cannot be deferred) is recognised in the current provision for employee benefits and is measured in accordance with annual leave described above. The non-current liability for long service leave is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond yields at the reporting date.

(b) Closure and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling, removal or treatment of waste materials, site and land rehabilitation.

Provisions for the cost of each closure and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at, or after, the time of closure, for disturbance existing at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are risk free interest rates specific to the country in which the operations are located. Material changes in country specific risk free interest rates may affect the discount rates applied. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time due to the effect of discounting unwinds, creating an expense recognised in finance expenses.

Closure and rehabilitation provisions are also adjusted for changes in costs and estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised first against other items in property, plant and equipment, and subsequently to the Consolidated Income Statement. In the case of closed sites, changes to estimated costs are recognised immediately in the Consolidated Income Statement. Changes to the capitalised cost result in an adjustment to future depreciation. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved.

Key estimates, assumptions and judgements

The recognition of closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework, the magnitude of possible contamination and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the Consolidated Balance Sheet by adjusting both the closure and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the Consolidated Income Statement.

In addition to the uncertainties noted above, certain closure and rehabilitation activities may be subject to legal disputes and depending on the ultimate resolution of these issues, the final liability for such matters could vary.

(c) Post-retirement employee benefits

This relates to the provision for post-employment defined benefit pension plans and medical plans. Refer to note 23 Pension and other post retirements obligations on pages 145 to 150.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

This section outlines how the Group manages its capital and related financing activities.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and on hand as well as short-term deposits.

US$M	FY17	FY16
Cash	**382**	383
Short-term deposits	**2,293**	842
Total cash and cash equivalents(1)(2)	**2,675**	1,225

(1) Cash and cash equivalents include US$15 million (FY16: US$13 million) which is restricted by legal or contractual arrangements.
(2) Cash and cash equivalents include US$379 million (FY16: US$269 million) consisting of short-term deposits and cash managed by the Group. The corresponding amount payable is included below in note 17 Interest bearing liabilities.

17. INTEREST BEARING LIABILITIES

US$M	FY17	FY16
Current		
Finance leases	**11**	10
Unsecured loans from equity accounted investments(1)	**379**	269
Unsecured other	**1**	3
Total current interest bearing liabilities	**391**	282
Non-current		
Finance leases	**602**	592
Unsecured other	**42**	39
Total non-current interest bearing liabilities	**644**	631

(1) Refer above to note 16 Cash and cash equivalents and note 32 Related party transactions on page 165.

Bank overdrafts, bank loans and other borrowings are initially recognised at their fair value net of directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Consolidated Income Statement when the liabilities are derecognised. Interest bearing liabilities are classified as current liabilities, except when the Group has an unconditional right to defer settlement for at least 12 months after the reporting date in which case the liabilities are classified as non-current.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

18. NET FINANCE COST

US$M	FY17	FY16
Finance expenses		
Interest on borrowings	**21**	10
Finance lease interest	**52**	37
Discounting on provisions and other liabilities	**98**	96
Change in discount rate on closure and rehabilitation provisions	**(6)**	9
Net interest expense on post-retirement employee benefits	**9**	7
Fair value change on financial asset	**3**	3
Exchange rate variations on net debt	**35**	(30)
	212	132
Finance income		
Interest income	**41**	28
Net finance cost	**171**	104

Interest income or expense is recognised using the effective interest rate method.

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Other financial assets and liabilities

US$M	FY17	FY16
Current other assets		
Derivative contracts	**73**	32
Shares – available for sale	**30**	-
Total current other financial assets	**103**	32
Non-current other assets		
Derivative contracts	**129**	1
Shares – available for sale	**201**	144
Other investments – available for sale	**135**	115
Total non-current other financial assets	**465**	260
Current other liabilities		
Derivative contracts	**-**	1
Total current other financial liabilities	**-**	1
Non-current other liabilities		
Derivative contracts	**-**	16
Total non-current other financial liabilities	**-**	16

(a) Financial risk management objectives and policies

The Group is exposed to market, liquidity and credit risk. These risks are managed in accordance with the Group's portfolio risk management strategy, which supports the delivery of the Group's financial targets while protecting its future financial security and flexibility by taking advantage of the natural diversification of the Group's operations and activities. A Cash Flow at Risk (CFaR) framework is used to capture the benefits of diversification and to measure the aggregate impact of financial risks on those financial targets. CFaR is measured on a portfolio basis and is defined as the expected reduction from projected business plan cash flows over a one-year horizon in a pessimistic case.

Day to day financial risk management is delegated to the Chief Financial Officer.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk, such as equity price risk and commodity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available for sale investments and derivative financial instruments.

Group activities expose it to market risks associated with movements in interest rates, foreign currencies and commodity prices. The Group manages financing costs, currency impacts, input costs and commodity prices on a floating or index basis. This strategy gives rise to a risk of variability in earnings which is measured under the CFaR framework.

In executing the strategy, financial instruments may be employed for risk mitigation purposes on an exception basis, or to align the total Group exposure to the relevant index target in the case of commodity sales, operating costs or debt issuances.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(i) Market risk (continued)

Interest rate risk

The Group is exposed to interest rate risk on its cash, outstanding borrowings, embedded derivatives and investments from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group had the following exposure to interest rate risk:

US$M	FY17	FY16
Financial assets		
Cash and cash equivalents	**2,600**	1,159
Trade and other receivables	**219**	350
Derivative contracts	**202**	33
Financial liabilities		
Interest bearing liabilities	**(422)**	(310)
Derivative contracts	**-**	(1)
Net exposure	**2,599**	1,231

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of borrowings and financial assets affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings and investments, as follows:

Increase/decrease in basis points	Impact on profit before tax US$M FY17	Impact on profit before tax US$M FY16
+100	**27**	13
–100	**(26)**	(8)

The sensitivity analysis assumes that the change in interest rates is effective from the beginning of the financial year and the fixed/floating mix and balances are constant over the year. For the purpose of the sensitivity analysis, the decrease of 100 basis points is applied to the extent that the underlying interest rates do not fall below zero per cent. However, interest rates and the net debt profile of the Group may not remain constant over the coming financial year and therefore such sensitivity analysis should be used with care.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The functional currency of the majority of operations of the Group is the US dollar. The Group's potential currency exposures comprise:

- Translational exposure in respect of non-functional currency monetary items
- Transactional exposure in respect of non-functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by operations in currencies other than their functional currency. To a lesser extent, certain sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require funds be maintained in currencies other than the functional currency of the operation. When required the Group may enter into forward exchange contracts.

The principal non-functional currencies to which the Group is exposed to are the Australian dollar, South African rand, Brazilian real, Colombian peso and Canadian dollar. The following table shows the foreign currency risk arising from financial assets and liabilities, which are denominated in currencies other than the US dollar:

Net financial assets/(liabilities) – by currency of denomination

US$M	FY17	FY16
Australian dollar	**(840)**	(729)
Brazilian real	**9**	40
Colombian peso	**(21)**	(36)
South African rand	**119**	85
Canadian dollar	**99**	-
Other	**8**	(2)
Total	**(626)**	(642)

Based on the Group's net financial assets and liabilities as at 30 June, a weakening of the US dollar against these currencies as illustrated in the table below, with all other variables held constant, would increase/(decrease) profit before tax and equity as follows:

30 June 2017 Currency movement US$M	Profit before tax	Equity
10% movement in Australian dollar	**(84)**	**(59)**
10% movement in Brazilian real	**1**	**1**
10% movement in Colombian peso	**(2)**	**(2)**
10% movement in South African rand	**(2)**	**10**
10% movement in Canadian dollar	**-**	**10**

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(i) Market risk (continued)

30 June 2016 Currency movement US$M	Profit before tax	Equity
10% movement in Australian dollar	(73)	(51)
10% movement in Brazilian real	4	4
10% movement in Colombian peso	(4)	(4)
10% movement in South African rand	(3)	8

Commodity price risk

Contracts for the sale and physical delivery of commodities are executed whenever possible on a pricing basis intended to achieve a relevant index target. Where pricing terms deviate from the index, the Group may choose to use derivative commodity contracts to realise the index price. Contracts for the physical delivery of commodities are not typically financial instruments and are carried in the Consolidated Balance Sheet at cost (typically at nil). The fair value of embedded derivatives will change in response to changes in commodity prices. Refer to note 19(b) Accounting classification and fair value for the commodity price sensitivity analysis on financial instruments subject to commodity price risk on pages 140 to 143.

(ii) Liquidity risk

The Group's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. Operational, capital and regulatory requirements are considered in the management of liquidity risk, in conjunction with short and long-term forecast information.

The Group's policy on counterparty credit exposure ensures that only counterparties of a high credit standing are used for the investment of any excess cash.

Standby arrangements and unused credit facilities

The Group is funded by a combination of cash generated by the Group's operations, working capital facilities and intercompany loans provided by the Group. Intercompany loans may be funded by a combination of cash, short and long-term debt and equity market raisings.

Details of major standby and support arrangements are as follows:

30 June 2017 US$M	Available	Used	Unused
Commercial paper program(1)	1,500	-	1,500

(1) The Group has an undrawn US$1.5 billion revolving credit facility which is a standby arrangement to the US$1.5 billion US commercial paper program. The size of the multi-currency revolving credit facility is US$1.5 billion until February 2021, and then US$1.4 billion from February 2021 until the facility expires in February 2022.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(a) Financial risk management objectives and policies (continued)

(ii) Liquidity risk (continued)

Maturity profile of financial liabilities

The maturity profiles of financial liabilities, based on the contractual amounts, are as follows:

30 June 2017 US$M	Carrying amount	Total	On demand or less than 1 year	1 to 5 years	More than 5 years
Trade and other payables[(1)]	803	803	799	3	1
Interest bearing loans and borrowings	422	454	384	26	44
Finance leases	613	1,322	62	260	1,000
Total	**1,838**	**2,579**	**1,245**	**289**	**1,045**

(1) Excludes input taxes of US$51 million included in other payables. Refer to note 14 Trade and other payables on page 132.

30 June 2016 US$M	Carrying amount	Total	On demand or less than 1 year	1 to 5 years	More than 5 years
Trade and other payables[(1)]	648	648	643	3	2
Interest bearing loans and borrowings	311	342	276	25	41
Finance leases	602	1,336	59	254	1,023
Other financial liabilities	17	17	1	16	-
Total	1,578	2,343	979	298	1,066

(1) Excludes input taxes of US$33 million included in other payables. Refer to note 14 Trade and other payables on page 132.

(iii) Credit risk

The Group has credit risk management policies in place covering the credit analysis, approvals and monitoring of counterparty exposures. As part of these processes the ongoing creditworthiness of counterparties is regularly assessed.

Mitigation methods are defined and implemented for higher-risk counterparties to protect revenues, with approximately half of the Group's sales of physical commodities occurring via secured payment terms including prepayments, letters of credit, guarantees and other risk mitigation instruments.

There are no material concentrations of credit risk, either with individual counterparties or groups of counterparties, by industry or geography.

The following table sets out the aging of trade and other receivables that were not impaired:

US$M	FY17	FY16
Neither past due nor impaired	**1,024**	982
Past due 1-30 days	**6**	29
Past due 31-90 days	**4**	10
Past due over 91 days	**43**	40
Total	**1,077**	1,061

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

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

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Accounting classification and fair value

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

30 June 2017 US$M	Note	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	16	2,675	-	-	-	**2,675**
Trade and other receivables[1]	9	540	-	76	-	**616**
Derivative contracts		-	-	202	-	**202**
Loans to equity accounted investments	9	251	-	-	-	**251**
Interest bearing loans receivable	9	42	-	-	-	**42**
Other investments		-	366	-	-	**366**
Total		**3,508**	**366**	**278**	**-**	**4,152**
Financial liabilities						
Trade and other payables[2]	14	-	-	3	800	**803**
Finance leases	17	-	-	-	613	**613**
Unsecured other	17	-	-	-	422	**422**
Total		**-**	**-**	**3**	**1,835**	**1,838**

(1) Excludes input taxes of US$174 million included in other receivables. Refer to note 9 Trade and other receivables on page 124.
(2) Excludes input taxes of US$51 million included in other payables. Refer to note 14 Trade and other payables on page 132.

30 June 2016 US$M	Note	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	16	1,225	-	-	-	1,225
Trade and other receivables[1]	9	493	-	58	-	551
Derivative contracts		-	-	33	-	33
Loans to equity accounted investments	9	352	-	-	-	352
Interest bearing loans receivable	9	41	-	-	-	41
Other investments		-	259	-	-	259
Total		2,111	259	91	-	2,461
Financial liabilities						
Trade and other payables[2]	14	-	-	6	642	648
Derivative contracts		-	-	17	-	17
Finance leases	17	-	-	-	602	602
Unsecured other	17	-	-	-	311	311
Total		-	-	23	1,555	1,578

(1) Excludes input taxes of US$119 million included in other receivables. Refer to note 9 Trade and other receivables on page 124.
(2) Excludes input taxes of US$33 million included in other payables. Refer to note 14 Trade and other payables on page 132.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Accounting classification and fair value (continued)

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on re-measurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the Consolidated Income Statement. Financial assets are designated as being held at fair value through profit or loss where this is necessary to reduce measurement inconsistencies for related assets and liabilities.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is reported as a separate asset or liability.

All financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate (initial cost) and, with the exception of financial liabilities which have been designated in fair value hedging relationships, are subsequently carried at amortised cost. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Balance Sheet when the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss on re-measurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged.

The measurement of fair value of financial assets and liabilities is based on quoted market prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling, credit and other risks implicit in such estimates.

Forward exchange contracts and interest rate swaps held for hedging purposes are accounted for as either cash flow or fair value hedges. Derivatives embedded within other contractual arrangements and the majority of commodity-based transactions executed through derivative contracts do not qualify for hedge accounting. Any derivative instrument fair value change that does not qualify for hedge accounting is recognised immediately in the Consolidated Income Statement. Movements in the fair value of financial assets and liabilities may be recognised through the Consolidated Income Statement or in the Consolidated Statement of Comprehensive Income.

Available for sale and trading investments

Available for sale and trading investments are measured at fair value. Gains and losses on the re-measurement of trading investments are recognised directly in the Consolidated Income Statement. Gains and losses on the re-measurement of available for sale investments are recognised directly in equity and subsequently recognised in the Consolidated Income Statement when realised by sale or redemption, or when a reduction in fair value represents an impairment.

Fair value of financial assets and liabilities based on nature of valuation inputs

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

Level 1	Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
Level 2	Valuation 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 includes inputs that are not based on observable market data.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Accounting classification and fair value (continued)

Fair value of financial assets and liabilities based on nature of valuation inputs (continued)

30 June 2017 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	-	76	-	**76**
Trade and other payables	-	(3)	-	**(3)**
Derivative contracts	-	-	202	**202**
Investments – available for sale	99	135	132	**366**
Total	**99**	**208**	**334**	**641**

30 June 2016 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	-	58	-	58
Trade and other payables	-	(6)	-	(6)
Derivative contracts	-	-	16	16
Investments – available for sale	-	114	145	259
Total	-	166	161	327

Level 3 financial assets and liabilities

US$M	FY17	FY16
At the beginning of the financial year	**161**	296
Realised gains/(losses) recognised in the Consolidated Income Statement[1]	**(61)**	(7)
Unrealised gains/(losses) recognised in the Consolidated Income Statement[2]	**246**	(77)
Unrealised gains/(losses) recognised in Consolidated Statement of Comprehensive Income[3]	**(12)**	(51)
At the end of the financial year	**334**	161

(1) Realised gains and losses recognised in the Consolidated Income Statement are recorded in expenses excluding net finance cost.
(2) Unrealised gains and losses recognised in the Consolidated Income Statement are recorded in expenses excluding net finance cost.
(3) Unrealised gains and losses recognised in the Consolidated Statement of Comprehensive Income are recorded in the financial assets reserve.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Accounting classification and fair value (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 changes in the most significant inputs by 10 per cent while holding all other variables constant, is shown in the following table.

30 June 2017			Profit before tax		Equity	
US$M	**Carrying amount**	**Significant inputs**	**10% increase in input**	**10% decrease in input**	**10% increase in input**	**10% decrease in input**
Financial assets and liabilities						
Derivative contracts(1)	202	Aluminium price(2) Foreign exchange rate(2) Electricity price(3)	(182)	171	(131)	123
Investments – available for sale(1)(4)	132	Aluminium price(2) Foreign exchange rate(2)	-	-	51	(55)
Total	**334**		**(182)**	**171**	**(80)**	**68**

(1) Sensitivity analysis is performed assuming all inputs are directionally moving unfavourably and favourably.
(2) Aluminium prices are comparable to market consensus forecasts and foreign exchange rates are aligned with forward market rates.
(3) Electricity prices are determined as a market equivalent price based on inputs from published data.
(4) When a decrease in fair value recognised in equity reflects an impairment, such amounts are recognised in profit before tax.

30 June 2016			Profit before tax		Equity	
US$M	**Carrying amount**	**Significant inputs**	**10% increase in input**	**10% decrease in input**	**10% increase in input**	**10% decrease in input**
Financial assets and liabilities						
Derivative contracts	16	Aluminium price as quoted on the LME	(113)	113	(81)	81
Investments – available for sale	145	Aluminium price as quoted on the LME Foreign exchange rate	-	-	44	(48)
Total	161		(113)	113	(37)	33

(c) Offsetting financial assets and liabilities

There was no offsetting of financial assets or financial liabilities during the reporting period (FY16: nil).

(d) Capital management

The Group will invest capital in assets where they fit its strategy. The Group's priorities for cash flow are:

- Maintain safe and reliable operations and an investment grade credit rating through the cycle
- Distribute a minimum of 40 per cent of Underlying earnings as dividends to shareholders following each six month reporting period
- Consistent with the Group's priorities for cash flow and commitment to maximise total shareholder returns, other alternatives including special dividends, share buy-backs and high return investment opportunities will compete for capital

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

20. SHARE CAPITAL

	FY17		FY16	
	Shares	**US$M**	**Shares**	**US$M**
Share capital				
At the beginning of the financial year	**5,323,762,901**	**14,958**	5,323,762,901	14,958
Shares bought back and cancelled	**(105,843,013)**	**(211)**	-	-
At the end of the financial year	**5,217,919,888**	**14,747**	5,323,762,901	14,958
Treasury shares				
At the beginning of the financial year	**(2,240,000)**	**(3)**	-	-
Purchase of shares by ESOP Trusts	**(14,195,000)**	**(27)**	(2,240,000)	(3)
Employee share awards exercised following vesting	**3,273,092**	**4**	-	-
At the end of the financial year	**(13,161,908)**	**(26)**	(2,240,000)	(3)

Shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. On a show of hands every holder of shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Incremental costs directly attributable to the issue of shares, net of any income tax effects, are recognised as a deduction from equity.

The Group does not have authorised capital or par value in respect of its issued shares.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

21. OTHER INCOME

US$M	**FY17**	**FY16**
Dividend income	**23**	12
Royalties	**1**	2
Gains/(losses) on sale of property, plant and equipment	**5**	(2)
Gains/(losses) on sale of investments	**-**	1
Rental income	**2**	6
Electricity sales	**120**	180
Other[1]	**124**	125
Total other income	**275**	324

(1) Other includes management fees from equity accounted investments, joint venture partners and joint operations.

22. AUDITOR'S REMUNERATION

The auditor of the Group is KPMG.

US$'000	**FY17**	**FY16**
Fees payable to the Group's auditor for assurance services		
Audit and review of consolidated financial statements	**4,195**	3,813
Other assurance services[1]	**549**	474
Fees payable to the Group's auditor for all other services		
All other services[2]	**195**	338
Total auditor's remuneration	**4,939**	4,625

(1) Mainly comprises assurance in respect of the Group's sustainability reporting.
(2) Includes a number of consulting services.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS

The Group operates or participates in a number of pension (including superannuation) schemes throughout the world. The funding of the schemes complies with local regulations. The assets of the schemes are generally held separately from those of the Group and are administered by trustees or management boards.

For defined contribution schemes, or schemes operated on an industry-wide basis where it is not possible to identify assets attributable to the participation by the Group's employees, the pension charge is calculated on the basis of contributions payable.

For defined benefit schemes, the cost of providing pensions is charged to the Consolidated Income Statement for current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of returns on plan assets. Actuarial gains and losses are recognised directly in equity. An asset or liability is recognised based on the present value of defined benefit obligations less the fair value of plan assets, except that any such asset cannot exceed the present value of expected refunds from, and reductions in, future contributions to the plan. Defined benefit obligations are estimated by discounting expected future payments using market yields at the reporting date based on high-quality corporate bonds in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to national government bonds. In both instances, the bonds are selected with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Certain Group companies provide post-retirement medical benefits to qualifying retirees. These schemes are recognised on the same basis as described above for defined benefit pension schemes.

Key estimates, assumptions and judgements

The Group's accounting policy for defined benefit pension schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

The Group operates the following pension and post-retirement medical schemes:

Defined contribution schemes

The Group contributed US$72 million (FY16: US$71 million) to defined contribution plans and multi-employer defined contribution plans. These contributions are expensed as incurred.

Defined benefit pension schemes

The Group has closed all defined benefit pension schemes to new entrants. Defined benefit pension schemes operate in Australia, South America and South Africa for existing members. Full actuarial valuations are prepared and updated annually to 30 June for all schemes. The Projected Unit Credit valuation method is used. The Group operates final salary schemes that provide final salary benefits only, non-salary related schemes that provide flat dollar benefits and mixed benefit schemes that consist of a final salary defined benefit portion and a defined contribution portion.

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

Defined benefit post-retirement medical schemes

The Group operates two post-retirement medical schemes in South Africa. Full actuarial valuations are prepared for the schemes. The post-retirement medical schemes are unfunded.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

The Group's defined benefit pension and post-retirement medical schemes expose the Group to the following risks:

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

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

(a) Consolidated Balance Sheet disclosures

The amounts recognised in the Consolidated Balance Sheet are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY17**	**FY16**	**FY17**	**FY16**
Present value of funded defined benefit obligation	**109**	109	**-**	-
Present value of unfunded defined benefit obligation	**19**	16	**97**	88
Fair value of defined benefit scheme assets	**(129)**	(125)	**-**	-
Net (asset)/liability recognised in the Consolidated Balance Sheet	**(1)**	-	**97**	88

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

(b) Consolidated Income Statement disclosures

The amounts recognised in the Consolidated Income Statement are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY17**	**FY16**	**FY17**	**FY16**
Current service cost	**3**	4	**-**	-
Net interest (income)/expense on net defined benefit balance	**-**	(1)	**9**	8
Total expense recognised in the Consolidated Income Statement	**3**	3	**9**	8
- Recognised in employee benefits expense	**3**	4	**-**	-
- Recognised in net finance cost	**-**	(1)	**9**	8

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(c) Consolidated Statement of Comprehensive Income disclosures

The amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY17**	**FY16**	**FY17**	**FY16**
Actuarial (gains)/losses	**1**	(3)	**(9)**	-
Total amount recognised in the Consolidated Statement of Comprehensive Income(1)	**1**	(3)	**(9)**	-

(1) This total excludes the actuarial (gains)/losses of equity accounted investments which are reported in the Consolidated Statement of Comprehensive Income within equity accounted investments – share of Other Comprehensive Income/(loss).

(d) Movements in net asset/liability

The change in the net (asset)/liability is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY17**	**FY16**	**FY17**	**FY16**
Net liability at the beginning of the financial year	**-**	4	**88**	103
Amount recognised in the Consolidated Income Statement	**3**	3	**9**	8
Remeasurement (gains)/losses recognised in the Consolidated Statement of Comprehensive Income	**1**	(3)	**(9)**	-
Disbursements and settlements paid to participants	**-**	(3)	**(5)**	(5)
Employer contributions	**(4)**	(3)	**-**	-
Foreign exchange (gains)/losses	**(2)**	4	**13**	(18)
Transfer and other movements	**1**	(2)	**1**	-
Net (asset)/liability at the end of the financial year	**(1)**	-	**97**	88

The change in the present value of the defined benefit liability is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	**FY17**	**FY16**	**FY17**	**FY16**
Defined benefit liability at the beginning of the financial year	**125**	155	**88**	103
Current service cost	**3**	4	**-**	-
Interest cost	**10**	7	**9**	8
Actuarial (gains)/losses due to experience	**3**	(2)	**2**	(1)
Actuarial (gains)/losses due to demographic assumptions	**-**	2	**(1)**	1
Actuarial (gains)/losses due to changes in financial assumptions	**(2)**	(5)	**(10)**	-
Benefits paid to participants	**(18)**	(23)	**(5)**	(5)
Foreign exchange (gains)/losses	**6**	(11)	**13**	(18)
Transfer and other movements	**1**	(2)	**1**	-
Defined benefit liability at the end of the financial year	**128**	125	**97**	88

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(d) Movements in net asset/liability (continued)

Weighted average maturity profile of schemes:

	Defined benefit pension schemes		Post-retirement medical schemes	
Years	**FY17**	**FY16**	**FY17**	**FY16**
Weighted average duration of defined benefit obligation (years)	**9**	9	**12**	13

The change in the fair value of scheme assets is as follows:

	Defined benefit pension schemes	
US$M	**FY17**	**FY16**
Fair value of scheme assets at the beginning of the financial year	**125**	151
Interest income on scheme assets	**10**	8
Return on scheme assets (less)/greater than the discount rate	**-**	(2)
Employer contributions	**4**	3
Benefits paid to participants	**(18)**	(20)
Foreign exchange gains/(losses)	**8**	(15)
Fair value of scheme assets at the end of the financial year	**129**	125

(e) Plan assets

The fair value of scheme assets by major asset class is as follows:

Asset class	Fair value	
US$M	**FY17**	**FY16**
Bonds(1)	**67**	66
Equities	**12**	11
Cash and cash equivalents	**4**	5
Other(2)	**46**	43
Total	**129**	125

(1) Comprises Fixed Interest Government bonds of US$35 million (FY16: US$35 million) and Index Linked Government bonds of US$32 million (FY16: US$31 million).
(2) Primarily comprises of insurance contracts in South Africa.

The fair value of scheme assets does not include amounts relating to any of the Group's own financial instruments or any of the property occupied by, or other assets used by, the Group.

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

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

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

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(e) Plan assets (continued)

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

US$M	Defined benefit pension schemes	Post-retirement medical schemes
Estimated employer contributions for the year ending 30 June 2018	**1**	**-**
Estimated benefits paid to participants directly by the employer for the year ending 30 June 2018	**2**	**6**

(f) Actuarial assumptions

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

	Australia		South Africa		South America	
%	FY17	FY16	FY17	FY16	FY17	FY16
Discount rate	**3.9**	3.6	**9.8**	9.9	**9.2**	9.5
Pension increase rate	**n/a**	n/a	**7.3**	8.0	**5.2**	4.9
Future salary increases	**2.5**	2.9	**8.3**	9.5	**5.5**	4.5

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

	South Africa	
%	FY17	FY16
Discount rate	**10.1**	10.0
Medical cost trend rate (ultimate)	**8.9**	9.5

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

For the main post-retirement medical schemes, these tables imply the following expected future lifetimes (in years) for employees aged 65 as at the balance sheet date: South African males 19.5 (FY16: 19.4), South African females 24.0 (FY16: 23.9).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(f) Actuarial assumptions (continued)

Sensitivity of assumptions

The Group's defined benefit liability at the reporting date has been determined using actuarial calculations that require assumptions about future events. The estimated sensitivity to each significant assumption shown below has been determined at an individual scheme level if each assumption were changed in isolation. In practice, the schemes are subject to multiple external experience items which may vary the liability over time.

The estimated effects of variations in the principal actuarial assumptions at the reporting date are as follows:

	Increase/(decrease) in liability	
US$M	**Defined benefit pension schemes**	**Post-retirement medical schemes**
Discount rate		
Increase of 1%	(10)	(10)
Decrease of 1%	12	13
Future salary increases		
Increase of 1%	3	n/a
Decrease of 1%	(2)	n/a
Mortality		
Increase in life expectancy at age 65 of 1 year	2	4
Decrease in life expectancy at age 65 of 1 year	(2)	(4)
Medical cost trend rate (initial and ultimate)		
Increase of 1%	n/a	13
Decrease of 1%	n/a	(10)
Pension increase rate		
Increase of 1%	5	n/a
Decrease of 1%	(4)	n/a

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

24. RESERVES

(a) Movements of reserves

US$M	FY17	FY16
Employee share awards reserve		
At the beginning of the financial year	**25**	1
Accrued employee entitlement for unexercised awards	**37**	24
Employee share awards exercised	**(5)**	-
At the end of the financial year	**57**	25
Financial assets reserve		
At the beginning of the financial year	**10**	32
Net valuation (gains)/losses on available for sale investments taken to the Consolidated Income Statement	**-**	23
Deferred tax relating to revaluation losses taken to the Consolidated Income Statement	**-**	(5)
Net valuation gains/(losses) on available for sale investments taken to equity	**19**	(54)
Deferred tax relating to revaluation gains and losses	**1**	14
At the end of the financial year	**30**	10
Other reserves		
At the beginning of the financial year	**(3,590)**	(3,590)
At the end of the financial year	**(3,590)**	(3,590)
Total reserves	**(3,503)**	(3,555)

(b) Nature and purpose of reserves

Employee share awards reserve

The employee share awards reserve represents the accrued employee entitlements to share awards that have been charged to the Consolidated Income Statement and have not yet been exercised.

Financial assets reserve

The financial assets reserve represents the revaluation of available for sale financial assets. Where a revalued financial asset is sold or impaired, the relevant portion of the reserve is transferred to the Consolidated Income Statement.

Other reserves

Other reserves primarily consist of the common control transaction reserve of US$3,569 million which reflects the difference between consideration paid and the carrying value of assets and liabilities acquired, as well as the gain/loss on disposal of entities as part of the Demerger.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS

At 30 June 2017, the Group had the following employee share ownership arrangements:

- Awards granted to Lead Team members on 4 December 2015 or 2 December 2016:
  - the FY16 Long Term Incentive Plan
  - the FY17 Long Term Incentive Plan
  - the FY15 Deferred Short Term Incentive Plan
  - the FY16 Deferred Short Term Incentive Plan
  - the FY16 Executive Transitional Award Plan
  - the FY17 Executive Transitional Award Plan
- Awards granted to eligible employees on 30 October 2015, 13 May 2016, 17 November 2016 or 28 April 2017:
  - the FY16 Management Share Plan
  - the FY17 Management Share Plan
  - the 2015 AllShare Plan
  - the 2016 AllShare Plan
  - the FY16 Advance Award Plan
  - the FY16 Management Transitional Award Plan
  - the FY17 Management Transitional Award Plan
  - the FY15 Deferred Shares Plan
  - the FY15 MAP Replacement Plan
- Share ownership plans in existence at 30 June 2015:
  - the Replacement BHP Long Term Incentive Plan
  - the Replacement BHP Management Award Plan
  - the Replacement BHP Short Term Incentive Plan
  - the Replacement BHP Group Short Term Incentive Plan
  - the Replacement BHP Transitional Award Plan
  - the FY15 Transitional Award Plan

All awards take the form of rights to receive one share in South32 Limited for each right granted, subject to performance or service conditions being met. A portion of the 2015 and 2016 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 Limited shares at the time of payment. African employees are granted rights on the Johannesburg Stock Exchange (JSE) and all other employees are granted rights on the Australian Stock Exchange (ASX).

Performance conditions are based on the 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 International (MSCI) World Index
- Two thirds of performance rights are measured against the Euromoney Global Mining Index

Performance rights vest when the Group's TSR equals or outperforms the comparator index. Full vesting of performance rights occur if the Group's TSR outperforms both indexes by at least 5.5 per cent per annum (cumulative). 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 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 Limited's share capital.

The Replacement BHP Long Term Incentive Plan and AllShare JSE plans are eligible to receive a payment equal to the dividend amount that would have been earned on the underlying shares awarded to those participants (Dividend Equivalent Payment). The Dividend Equivalent Payment is made to participants once the underlying shares are issued or transferred to them. No Dividend Equivalent Payment is made in respect of awards that lapse. No other awards are eligible for a Dividend Equivalent Payment.

(a) Description of share-based payment arrangements

(i) Recurring share-based payment plans

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 and FY17 Long Term Incentive Plan

The Long Term Incentive Plan is the Group's long-term incentive plan for Lead Team members. Awards have a four year performance period from 1 July 2015 to 30 June 2019 and 1 July 2016 to 30 June 2020 respectively.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(a) Description of share-based payment arrangements (continued)

(i) Recurring share-based payment plans (continued)

FY15 and FY16 Deferred Short Term Incentive Plan

The FY15 and FY16 Deferred Short Term Incentive Plan is the Group's short-term incentive plan for Lead Team members. Awards vest in August 2017 and August 2018 provided participants remain employed by the Group.

FY16 and FY17 Management Share Plan

The FY16 and FY17 Management Share Plan is the Group's long-term incentive plan for eligible employees below the Lead Team. The Management Share Plan comprises two elements:

- Retention Rights vesting in August 2018 and August 2019 provided participants remain employed by the Group
- Performance Rights vesting in August 2019 and August 2020 subject to performance conditions

2015 and 2016 AllShare Plan

The 2015 and 2016 AllShare Plan is the Group's employee share plan for employees not eligible to participate in the other employee share plans. Awards to the value of at least US$1,250 per employee are granted annually. Awards will vest provided participants remain employed by the Group. The vesting period depends on the participants' location at the grant date:

- Participants in Africa including Mozambique: August 2018 and August 2019
- Participants elsewhere: August 2017 and August 2018

(ii) Transitional share-based payment plans

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

FY16 Advance Award Plan

The FY16 Advance Award Plan is a one-off grant made to all FY16 Management Share Plan participants in recognition of the different vesting periods under the FY16 Management Share Plan retention rights and FY16 Management Share Plan performance rights. The awards have a three year performance period from 1 July 2015 to 30 June 2018.

The following awards were made to former BHP employees, to compensate for BHP awards that were unvested at the time of Demerger. On 25 May 2015, participants received a one-time award of rights in South32 Limited shares at an equivalent value, on equivalent terms and conditions and with the same vesting date.

FY16 and FY17 Executive Transitional Award Plan

The FY16 Executive Transitional Award Plan is a one-off grant made to Lead Team members in recognition of their adjustment from a three year long-term incentive plan under the BHP incentive structure to a four year plan at the Group. Awards have a three year performance period from 1 July 2015 to 30 June 2018. The FY17 Executive Transitional Award Plan is a one-off grant made to one Lead Team member in recognition of their adjustment from the Management Share Plan (three year retention rights and four-year performance rights) to the four year plan at the Group . Awards have a three year performance period from 1 July 2016 to 30 June 2019.

FY16 and FY17 Management Transitional Award Plan

The FY16 and FY17 Management Transitional Award Plan is a grant made to certain eligible employees to bridge the gap between their total target reward at BHP and their total target reward at the Group. Transition awards will be made for a maximum of five years until FY20. The FY16 and FY17 Management Transitional Award Plans have the same conditions as the FY16 and FY17 Management Share Plan and comprises both service and performance conditions.

FY15 Deferred Shares Plan

The FY15 Deferred Shares Plan is a one-off grant made to individuals who were participating in the BHP Group Short-Term Incentive Plan prior to Demerger. Since the BHP Short-Term Incentive Plan was in place for FY15, the short-term incentive outcomes for participants who have joined the Group have been delivered in accordance with the BHP plan (i.e. 50 per cent of the outcome in cash, 50 per cent in share awards) except the awards are rights to South32 Limited shares, not BHP shares. There are no performance conditions attached to the FY15 Deferred Shares Plan awards. Awards vest in August 2017 provided participants remain employed by the Group.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(a) Description of share-based payment arrangements (continued)

(ii) Transitional share-based payment plans (continued)

FY15 MAP Replacement Plan

The FY15 MAP Replacement Plan is a one-off grant which has been made to eligible employees to replace the BHP Management Award Plan awards they would have received in March 2015 had they remained employed by BHP. Awards are made at an equivalent value, on equivalent terms and conditions and with the same vesting date as for the BHP Management Award Plan. 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 award) provided participants remain employed by the Group.

Replacement BHP Long Term Incentive Plan

The Replacement BHP Long Term Incentive Plan awards have a five year performance period from grant of the original BHP award. The performance hurdle testing for the awards is split into two periods: the BHP period (from grant up to 24 May 2015) and the Group period (from 25 May 2015 to the date of vesting). During the BHP period, performance was based on BHP's TSR relative to a combination of the Peer Group TSR (a specified group of peer companies) for two thirds of the award and the MSCI World Index for one third.

Replacement BHP Management Award Plan

There are no performance conditions attached to these awards. Awards will vest at the end of the vesting period (three years from grant of the original BHP award) provided participants remain employed by the Group.

Replacement BHP Transitional Award Plan

The Replacement BHP Transitional Award Plan has two tranches. The first tranche has a three year service and performance condition from grant of the original BHP award. The second tranche has a four year service and performance condition from grant of the original BHP award. The performance hurdle testing for the awards is split into two periods: the BHP period (from grant up to 24 May 2015) and the Group period (from 25 May 2015 to the date of vesting). The South32 Remuneration Committee has absolute discretion to determine whether the performance conditions have been met, having regard to: (1) TSR over the period, (2) the participant's contribution to company outcomes, and (3) the participant's personal performance. For each measure, the relevant performance outcomes for BHP or the Group are applied.

FY15 Transitional Award Plan

The FY15 Transitional Award Plan award is a one-off grant which has been made to one Lead Team member to bridge the gap between the total remuneration package whilst employed by BHP and the total remuneration package for the first three year's employment with the Group.

The award has three equal tranches, vesting in 2016, 2017 and 2018 respectively. Service and performance conditions apply for each period from grant. The South32 Remuneration Committee has absolute discretion to determine whether the performance conditions have been met, having regard to: (1) South32 Limited's TSR over the period, (2) the participant's contribution to South32 Limited's outcomes, and (3) the participant's personal performance.

(b) Employee Share Ownership Plan Trusts

The South32 Limited Employee Incentive Plans Trust is a discretionary trust for the benefit of employees of South32 Limited and its subsidiaries.

The trustee (CPU Share Plans Pty Ltd) is an independent company, resident in Australia. The Trust uses funds provided by South32 Limited and/or its subsidiaries to acquire shares to enable awards to be made or satisfied under the Group employee share ownership arrangements.

The shares may be acquired by purchase in the market or by subscription at not less than nominal value.

(c) Measurement of fair values

The fair value at grant date of equity-settled share awards is charged to the Consolidated 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.

Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognised is proportionately reversed. Where shares in South32 Limited are acquired by on-market purchases prior to settling the vested entitlement, the cost of the acquired shares is carried as treasury shares and deducted from equity. Where awards are satisfied by delivery of acquired shares, any difference between their acquisition cost and the remuneration expense recognised is charged directly to retained earnings. The tax effect of awards granted is recognised in income tax expense, except to the extent that the total tax deductions are expected to exceed the cumulative remuneration expense. In this situation, the excess of the associated current or deferred tax is recognised in the Consolidated Statement of Comprehensive Income and forms part of the employee share awards reserve.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(c) Measurement of fair values (continued)

The fair value of performance rights is measured using a Monte Carlo methodology. This model considers the following:

- Expected life of the award
- Current market price of the underlying shares
- Expected volatility (of the individual company and of each peer group)
- Expected dividends
- Risk-free interest rate
- Market-based performance hurdles

The fair value of retention rights is measured using a Black Scholes methodology. This model considers the following:

- Expected life of the award
- Current market price of the underlying shares
- Expected dividends
- Risk-free interest rate

The inputs used in the measurement of the fair values at grant date of the equity settled share based payments plans were as follows:

Year ended 30 June 2017	Fair value at grant date (US$)(1)	Share price at grant date (US$)	Expected volatility (%)(2)	Expected life (in years)(1)	Risk-free interest rate based on government bonds (%)(1)
Recurring plans					
FY17 Long Term Incentive Plan(3)	1.53	2.10	47.50	4.00	2.19
FY16 Deferred Short Term Incentive Plan(3)	1.98	2.10	47.50	2.00	n/a
FY17 Management Share Plan - Retention Rights(4)	1.86	1.96	47.50	3.00	n/a
FY17 Management Share Plan - Performance Rights(4)	1.46	1.96	47.50	4.00	1.94 - 8.38
2016 AllShare Plan(4)	1.91 - 2.02	1.96	47.50	2.00 - 3.00	n/a
Transitional plans					
FY17 Executive Transitional Award Plan(3)	1.59	2.10	47.50	3.00	2.03
FY17 Management Transitional Award Plan(4)(5)	1.46 – 1.86	1.96	47.50	3.00 - 4.00	1.94 - 8.38

(1) Represents the range of grant date fair values, expected life, and risk-free interest rates based on the amount of rights granted on the ASX or the JSE during the year, and the variations in offer terms and grant dates of each plan where applicable.

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

(3) Grant date 2 December 2016.

(4) Grant date 17 November 2016 or 28 April 2017.

(5) The range for performance based awards is 1.94 per cent - 8.38 per cent. There is no risk-free rate applicable to service based awards.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(c) Measurement of fair values (continued)

Year ended 30 June 2016	Fair value at grant date (US$)(1)	Share price at grant date (US$)(1)	Expected volatility (%)(2)	Expected life (in years)(1)	Risk-free interest rate based on government bonds (%)(1)
Recurring plans					
FY16 Long Term Incentive Plan(3)	0.41	0.86	40	4.00	2.45
FY15 Deferred Short Term Incentive Plan(3)	0.83	0.86	40	2.00	n/a
FY16 Management Share Plan - Retention Rights(4)	0.99	1.05 - 1.23	40	3.00	n/a
FY16 Management Share Plan - Performance Rights(4)	0.56 - 0.59	1.05 - 1.23	40	4.00	1.92 - 7.87
2015 AllShare Plan(4)	0.99 - 1.02	1.05 - 1.23	40	2.00 - 3.00	n/a
Transitional plans					
FY16 Executive Transitional Award Plan(3)	0.39	0.86	40	3.00	2.20
FY16 Advance Award Plan(4)	0.55 - 0.58	1.05 - 1.23	40	3.00	1.82 - 7.87
FY16 Management Transitional Award Plan(4)(5)	0.56 - 1.03	1.05 - 1.23	40	1.00 - 4.00	1.92 - 7.87
FY15 Deferred Shares Plan(4)	0.99 - 1.02	1.05 - 1.06	40	2.00 - 3.00	n/a
FY15 MAP Replacement Plan(4)	0.99	1.06	40	3.00	n/a

(1) Represents the range of grant date fair values, share price, expected life, and risk-free interest rates based on the amount of rights granted on the ASX or the JSE during the year, and the variations in offer terms and grant dates of each plan where applicable.

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

(3) Grant date 4 December 2015.

(4) Grant date 30 October 2015 or 13 May 2016.

(5) The range for performance based awards is 1.92 per cent - 7.87 per cent. There is no risk-free rate applicable to service based awards.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(d) Reconciliation of outstanding share awards

None of the awards listed below have an exercise price or are exercisable at 30 June 2017.

Year ended 30 June 2017	Rights at beginning of period	Granted during the period	Vested during the period	Forfeited during the period	Rights at end of the period
Recurring plans					
FY16 Long Term Incentive Plan	7,220,731	-	-	-	7,220,731
FY17 Long Term Incentive Plan	-	8,839,503	-	-	8,839,503
FY15 Deferred Short Term Incentive Plan	2,415,867	-	-	-	2,415,867
FY16 Deferred Short Term Incentive Plan	-	1,319,339	-	-	1,319,339
FY16 Management Share Plan - Retention Rights	5,014,619	50,000(1)	(342,796)	(642,952)	4,078,871
FY16 Management Share Plan - Performance Rights	12,666,275	-	-	(1,762,959)	10,903,316
FY17 Management Share Plan - Retention Rights	-	5,339,438	(51,068)	(139,894)	5,148,476
FY17 Management Share Plan - Performance Rights	-	12,995,501	-	(381,719)	12,613,782
2015 AllShare Plan	15,998,400	600(1)	(447,600)	(447,600)	15,103,800
2016 AllShare Plan	-	9,609,120	(77,040)	(162,000)	9,370,080
Transitional plans					
FY16 Executive Transitional Award Plan	1,423,506	-	-	-	1,423,506
FY16 Advance Award Plan	12,426,625	-	-	(1,525,244)	10,901,381
FY16 Management Transitional Award Plan	4,471,591	-	(68,113)	(495,538)	3,907,940
FY15 Deferred Shares Plan	3,836,617	-	(446,658)	(155,539)	3,234,420
FY15 MAP Replacement Plan	75,339	-	(7,692)	(1,220)	66,427
Replacement BHP Long Term Incentive Plan	7,286,350	-	-	-	7,286,350
Replacement BHP Management Award Plan	703,746	-	(359,084)	-	344,662
Replacement BHP Short Term Incentive Plan	1,018,425	-	(1,018,425)	-	-
Replacement BHP Group Short Term Incentive Plan	325,909	-	(325,909)	-	-
Replacement BHP Transitional Award Plan	689,799	-	(393,168)	(77,786)	218,845
FY15 Transitional Award Plan	1,616,241	-	(462,244)	(76,503)	1,077,494
FY17 Executive Transitional Award Plan	-	239,197	-	-	239,197
FY17 Management Transitional Award Plan	-	2,943,075	-	(193,383)	2,749,692
Total awards	**77,190,040**	**41,335,773**	**(3,999,797)**	**(6,062,337)**	**108,463,679**

(1) Retrospective grants related to prior year plans.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(d) Reconciliation of outstanding share awards (continued)

Year ended 30 June 2016	Rights at beginning of period	Granted during the period	Vested during the period	Forfeited during the period	Rights at end of the period
Recurring plans					
FY16 Long Term Incentive Plan	-	7,220,731	-	-	7,220,731
FY15 Deferred Short Term Incentive Plan	-	2,415,867	-	-	2,415,867
FY16 Management Share Plan - Retention Rights	-	5,566,687	(128,466)	(423,602)	5,014,619
FY16 Management Share Plan - Performance Rights	-	13,805,523	-	(1,139,248)	12,666,275
2015 AllShare Plan	-	17,722,200	(1,362,000)	(361,800)	15,998,400
Transitional plans					
FY16 Executive Transitional Award Plan	-	1,423,506	-	-	1,423,506
FY16 Advance Award Plan	-	13,557,290	-	(1,130,665)	12,426,625
FY16 Management Transitional Award Plan	-	5,343,248	(44,489)	(827,168)	4,471,591
FY15 Deferred Shares Plan	-	4,508,436	(671,819)	-	3,836,617
FY15 MAP Replacement Plan	-	75,339	-	-	75,339
Replacement BHP Long Term Incentive Plan	7,286,350	-	-	-	7,286,350
Replacement BHP Management Award Plan	703,746	-	-	-	703,746
Replacement BHP Short Term Incentive Plan	1,018,425	-	-	-	1,018,425
Replacement BHP Group Short Term Incentive Plan	325,909	-	-	-	325,909
Replacement BHP Transitional Award Plan	941,908	-	(221,856)	(30,253)	689,799
FY15 Transitional Award Plan	1,616,241	-	-	-	1,616,241
Total awards	11,892,579	71,638,827	(2,428,630)	(3,912,736)	77,190,040

26. CONTINGENT LIABILITIES

Contingent liabilities not otherwise provided for in the consolidated financial statements are categorised as arising from:

US$M	FY17	FY16
Subsidiaries and joint operations		
Actual or potential litigation[1]	**282**	203
Total contingent liabilities	**282**	203

(1) Excludes amounts indemnified by BHP, as per the Separation Deed.

The actual or potential litigation primarily relates to numerous tax assessments or matters arising from tax audits relating to transactions in prior years in Brazil, Colombia and South Africa. Additionally, there are a number of legal claims or potential claims against the Group, the outcome of which cannot be foreseen at present, and for which no amounts have been included. One specific Colombian health and environmental litigation matter has progressed during the year, however a provision has not been recognised as the potential financial impact of the litigation outcome cannot be reliably estimated at this time.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

27. COMMITMENTS

US$M	FY17	FY16
Capital expenditure commitments	**42**	63
Lease expenditure commitments		
Finance leases		
Within one year	**62**	62
After one year but not more than five years	**260**	252
More than five years	**1,000**	1,026
Total minimum lease payments under finance leases	**1,322**	1,340
Less amounts representing finance charges	**(709)**	(738)
Finance lease liability	**613**	602
Operating leases		
Within one year	**41**	36
After one year but not more than five years	**96**	118
More than five years	**26**	33
Total commitments for operating leases	**163**	187
Other expenditure commitments		
Within one year	**95**	111
After one year but not more than five years	**28**	17
More than five years	**25**	21
Total commitments for other expenditure	**148**	149

Operating lease assets are not capitalised and rental payments are included in the Consolidated Income Statement on a straight-line basis over the lease term. Provision is made for the present value of future operating lease payments in relation to surplus lease space, when it is first determined that the space will not be of probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

28. SUBSIDIARIES

Significant subsidiaries of the Group, which are those with the most significant contribution to the Group's net profit/(loss) or net assets, are as follows:

Significant subsidiaries	Country of incorporation	Principal activity	Effective interest FY17 %	Effective interest FY16 %
Cerro Matoso SA	Colombia	Nickel mining and ferronickel smelting	**99.9**	99.9
Dendrobium Coal Pty Ltd	Australia	Coal mining	**100**	100
Endeavour Coal Pty Ltd	Australia	Coal mining	**100**	100
Hillside Aluminium (Pty) Ltd	South Africa	Aluminium smelting	**100**	100
Illawarra Services Pty Ltd	Australia	Coal preparation plant	**100**	100
South32 Aluminium (Holdings) Pty Ltd	Australia	Investment holding company	**100**	100
South32 Aluminium (RAA) Pty Ltd	Australia	Bauxite mining and alumina refining	**100**	100
South32 Aluminium (Worsley) Pty Ltd	Australia	Bauxite mining and alumina refining	**100**	100
South32 Cannington Pty Ltd	Australia	Silver, lead and zinc mining	**100**	100
South32 Group Operations Pty Ltd	Australia	Administrative services	**100**	100
African Metals (Pty) Ltd	South Africa	Investment holding company	**100**	100
South32 Investment 12 B.V.	Netherlands	Investment holding company	**100**	100
South32 Marketing Pte Ltd	Singapore	Commodity marketing and trading	**100**	100
South32 Minerals SA	Brazil	Alumina refining and aluminium smelting	**100**	100
South32 SA Coal Holdings (Pty) Ltd(1)	South Africa	Coal mining	**100**	100
South32 SA Investments Limited	United Kingdom	Investment holding company	**100**	100
South32 SA Limited	South Africa	Administrative services	**100**	100
South32 Treasury Limited	Australia	Financing company	**100**	100

(1) The Group's effective interest in South32 SA Coal Holdings (Pty) Ltd will reduce to 92 per cent pursuant to Broad-Based Black Economic Empowerment transactions in South Africa. The Group's voting rights in South32 SA Coal Holdings (Pty) Ltd is 92 per cent.

Subsidiaries are entities controlled by the parent entity. Control exists where the parent entity is exposed, or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A parent entity has power over the subsidiary, when it has existing rights to direct the relevant activities of the subsidiary which are those which significantly affect the subsidiary's returns. The financial statements of subsidiaries are included in the consolidated financial statements for the period they are controlled.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. EQUITY ACCOUNTED INVESTMENTS

The Group's interests in equity accounted investments with the most significant contribution to the Group's net profit/(loss) or net assets are as follows:

					Ownership interest	
Significant joint ventures	**Country of incorporation/ principal place of business**	**Principal activity**	**Reporting date**	**Acquisition date**	**FY17 %**	**FY16 %**
Australia Manganese[(1)(2)]	Australia	Integrated producer of manganese ore and alloy	30 June 2017	8 May 2015	**60**	60
South Africa Manganese[(1)(3)]	South Africa	Integrated producer of manganese ore and alloy	30 June 2017	3 February 2015	**60**	60

(1) Whilst the Group holds a greater than 50 per cent interest in the joint ventures, joint control is contractually achieved as joint venture parties unanimously consent on decisions over the joint venture's relevant activities.

(2) Australia Manganese consists of an investment in Groote Eylandt Mining Company Pty Ltd.

(3) South Africa Manganese consists of an investment in Samancor Holdings (Pty) Ltd.

A reconciliation of the carrying amount of the equity accounted investments is set out below.

Investment in joint ventures

US$M	FY17	FY16
At the beginning of the financial year	**570**	1,707
Investment in equity accounted investments	**21**	1
Distribution from equity accounted investments	**(22)**	-
Share of profit/(loss)	**312**	(330)
Other Comprehensive Income/(loss)	**1**	1
Dividends received from equity accounted investments	**(313)**	(19)
Impairments[(1)]	**-**	(790)
At the end of the financial year	**569**	570

(1) Refer to note 13 Impairment of non-financial assets on pages 129 to 131.

Share of profit/(loss) of equity accounted investments

US$M	FY17	FY16
Australia Manganese and South Africa Manganese	**287**	(339)
Individually immaterial[(1)]	**25**	9
Total	**312**	(330)

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Samancor Marketing Pte Ltd (60 per cent), Richards Bay Coal Terminal Pty Ltd (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

Carrying amount of equity accounted investments

US$M	FY17	FY16
Australia Manganese and South Africa Manganese	**413**	409
Individually immaterial[(1)]	**156**	161
Total	**569**	570

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Samancor Marketing Pte Ltd (60 per cent), Richards Bay Coal Terminal Pty Ltd (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. EQUITY ACCOUNTED INVESTMENTS (CONTINUED)

The following table summarises the financial information relating to each significant equity accounted investment.

	Joint ventures			
	Australia Manganese	South Africa Manganese[1]	Australia Manganese	South Africa Manganese[1]
US$M	FY17		FY16	
Reconciliation of carrying amount of equity accounted investments				
Current assets	380	238	271	219
Non-current assets	735	688	766	765
Current liabilities	(267)	(107)	(626)	(70)
Non-current liabilities	(590)	(341)	(273)	(336)
Net assets – 100%	**258**	**478**	138	578
Net assets – the Group share	155	262	83	329
Fair value uplift	751	749	751	749
Impairment	(726)	(740)	(726)	(740)
Amortisation on fair value uplift	(28)	(10)	(28)	(10)
Elimination of gains/(losses) on intragroup sales	1	(1)	3	(2)
Carrying amount of equity accounted investments	**153**	**260**	83	326
Reconciliation of share of profit/(loss) of equity accounted investments				
Revenue – 100%	1,307	590	718	347
Profit/(loss) after tax – 100%	399	80	(261)	(240)
Profit/(loss) after tax – the Group share[2]	240	49	(157)	(160)
Amortisation of fair value uplift	-	-	(22)	-
Elimination of gains/(losses) on intragroup sales	(2)	-	-	-
Share of profit/(loss) of equity accounted investments	**238**	**49**	(179)	(160)
Other balances of equity accounted investments presented on a 100% basis				
Cash and cash equivalents	**-**	**13**	1	10
Current financial liabilities (excluding trade and other payables and provisions)	**-**	**(5)**	(500)	(4)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(280)**	**(94)**	-	(100)
Depreciation and amortisation	**(87)**	**(44)**	(129)	(56)
Interest income	**1**	**5**	-	3
Interest expense	**(24)**	**(33)**	(32)	(2)
Income tax (expense)/benefit (excluding royalty related tax)	**(231)**	**(38)**	(2)	26

(1) South Africa Manganese includes a 60 per cent interest in Samancor Manganese (Pty) Ltd and 54.6 per cent interest in Hotazel Manganese Mines (Pty) Ltd.
(2) US$190 million for Australia Manganese and US$97 million for South Africa Manganese in FY16 relates to impairment.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

29. EQUITY ACCOUNTED INVESTMENTS (CONTINUED)

The following table summarises the Group's share of contingent liabilities and commitments of significant equity accounted investments.

US$M	FY17	FY16
Share of contingent liabilities relating to joint ventures	**-**	2
Share of commitments relating to joint ventures(1)(2)	**17**	38
Total	**17**	40

(1) Australia Manganese: Commitments with a maturity of less than a year includes capital commitments of US$7 million (FY16: US$6 million) and other commitments of nil (FY16: US$16 million). Commitments with a maturity of 1 to 5 years includes other commitments of US$1 million (FY16: nil). Commitments with a maturity greater than five years includes other commitments of US$3 million (FY16: nil).

(2) South Africa Manganese: Commitments with a maturity of less than a year includes capital commitments of US$3 million (FY16: US$2 million), other commitments of US$1 million (FY16: US$10 million) and finance leases of US$2 million (FY16: US$2 million). Commitments with a maturity of 1 to 2 years include finance leases of nil (FY16: US$2 million).

The Group uses the term equity accounted investments to refer to associates and joint ventures collectively.

Associates are entities in which the Group holds significant influence. If the Group holds 20 per cent or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it can be clearly demonstrated that this is not the case. Significant influence can also arise when the Group has less than 20 per cent of voting power but it can be demonstrated that the Group has the power to participate in the financial and operating policy decisions of the associate. Investments in associates are accounted for using the equity method.

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. Joint arrangements exist when two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A separate vehicle, not the parties, will have the rights to the assets and obligations to the liabilities, relating to the arrangement. If more than an insignificant share of output from a joint venture is sold to third parties, this indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement. Joint ventures are accounted for using the equity method.

Equity accounted investments are initially recorded at cost, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the investment is adjusted to reflect the share of post-acquisition profit or loss and Other Comprehensive Income. After application of the equity method, including recognising the Group's share of the joint ventures' results, the value of the investment will be assessed for impairment if there is objective evidence that an impairment of the investment may have occurred. Where the carrying value of an equity accounted investment is reduced to nil after having applied equity accounting principles (and the Group has no legal or constructive obligation to make further payments, nor has made payments on behalf of the associate or joint venture), dividends received from the associate or joint venture will be recognised as a Share of profit/(loss) of equity accounted investments.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

30. INTERESTS IN JOINT OPERATIONS

Significant joint operations of the Group, which are those with the most significant contributions to the Group's net profit/(loss) or net assets, are as follows:

				Effective interest	
Significant joint operations	Country of operation	Principal activity	Acquisition date	FY17 %	FY16 %
Brazil Alumina	Brazil	Alumina refining	3 July 2014	**36**	36
		Aluminium smelting	3 July 2014	**40**	40
Mozal Aluminium SARL[1]	Mozambique	Aluminium smelting	27 March 2015	**47.1**	47.1
Worsley Alumina[2]	Australia	Bauxite mining and alumina refining	8 May 2015	**86**	86

(1) This joint arrangement is an incorporated entity. It is classified as a joint operation as the participants are entitled to receive output, not dividends, from the arrangement.
(2) Whilst the Group holds a greater than 50 per cent interest in Worsley Alumina, participants jointly approve the operating and capital budgets. The Group therefore has joint control over the relevant activities of Worsley Alumina.

Joint operations are joint arrangements in which the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The activities of a joint operation are primarily designed for the provision of output to the parties to the arrangement, indicating that:

- The parties have the rights to substantially all the economic benefits of the assets of the arrangement
- All liabilities are satisfied by the joint participants through their purchases of that output. This indicates that, in substance, the joint participants have an obligation for the liabilities of the arrangement

The consolidated financial statements of the Group include its share of the assets and liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Group's interest in the joint operation.

31. KEY MANAGEMENT PERSONNEL

(a) Key management personnel compensation

US$'000	FY17	FY16
Short-term employee benefits	**7,334**	7,225
Post-employment benefits	**129**	108
Other long-term benefits	**306**	310
Share-based payments	**7,761**	8,464
Total	**15,530**	16,107

(b) Transactions with key management personnel

There were no transactions with key management personnel during the year ended 30 June 2017 (FY16: nil).

(c) Loans to key management personnel

There were no loans with key management personnel during the financial year and as at 30 June 2017 (FY16: nil).

(d) Transactions with key management personnel related entities

There were no transactions with entities controlled or jointly controlled by key management personnel and there were no outstanding amounts with those entities as at 30 June 2017 (FY16: nil).

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

32. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity of the Group is South32 Limited, which is domiciled and incorporated in Australia.

(b) Subsidiaries

The percentage of shares held in significant subsidiaries is disclosed in note 28 Subsidiaries on page 160.

(c) Joint ventures

The percentage interest held in significant joint ventures is disclosed in note 29 Equity accounted investments on pages 161 to 163.

(d) Joint operations

The percentage interest held in significant joint operations is disclosed in note 30 Interests in joint operations on page 164.

(e) Associates

The percentage interest held in associates is disclosed in note 29 Equity accounted investments on pages 161 to 163.

(f) Key management personnel

Disclosures relating to key management personnel are set out in note 31 Key management personnel on page 164.

(g) Transactions with related parties

Transactions with related parties

	Joint ventures		Associates	
US$'000	**FY17**	**FY16**	**FY17**	**FY16**
Sales of goods and services	**165,455**	143,502	**2,920**	2,838
Purchases of goods and services	**-**	-	**66,289**	33,162
Interest income	**6,902**	9,892	**-**	33
Dividend income	**313,180**	18,685	**-**	-
Interest expense	**6,522**	2,647	**-**	-
Short-term financing arrangements to/(from) related parties	**(110,347)**	(19,319)	**-**	-
Loans made to/(from) related parties	**(131,175)**	-	**29,812**	28,374

Outstanding balances with related parties

	Joint ventures		Associates	
US$'000	**FY17**	**FY16**	**FY17**	**FY16**
Trade amounts owing to related parties	**-**	-	**3,219**	583
Other amounts owing to related parties(1)	**379,473**	269,126	**-**	-
Trade amounts owing from related parties	**35,987**	31,216	**-**	-
Other amounts owing from related parties	**218**	-	**-**	-
Loan amounts owing from related parties	**168,825**(2)	300,000	**82,126**	52,314

(1) Amount owing relates to short-term deposits and cash managed by the Group. Interest is paid based on the three month LIBOR and the one month JIBAR.
(2) Amount includes a loan made on a commercial basis, with interest charged at commercial rates and is due to be repaid no later than 30 June 2019.

Terms and conditions

Sales to, and purchases from, related parties of goods and services are transactions at market prices and on commercial terms.

Outstanding balances at year-end are unsecured and settlement mostly occurs in cash.

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

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

Transactions with BHP

Prior to the Demerger, the Group entered into a Separation Deed with BHP. The Separation Deed deals with matters arising in connection with the Demerger of the Group from BHP.

The Separation Deed principally covers the following key terms: assumption of liabilities, limitations and exclusions from indemnities and claims, contracts, financial support, Demerger costs and litigation.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

33. PARENT ENTITY INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity, South32 Limited, show the following aggregate amounts:

US$M	FY17	FY16
Result of parent entity		
Profit/(loss) after tax for the year	**1,376**	(1,852)
Total Comprehensive Income	**1,376**	(1,852)
Financial position of parent entity at year end		
Current assets	**1,210**	77
Total assets	**11,533**	10,554
Current liabilities	**142**	94
Total liabilities	**156**	131
Net assets	**11,377**	10,423
Total equity of the parent entity comprising		
Share capital	**14,747**	14,958
Other reserves	**37**	4
Profit reserve(1)	**1,132**	-
Retained earnings/(accumulated losses)	**(4,539)**	(4,539)
Total equity	**11,377**	10,423

(1) Current year profits have been appropriated to a profits reserve for future dividend payments.

(b) Parent company guarantees

The parent entity has guaranteed a US commercial paper program of US$1,500 million. The parent entity has also guaranteed a Group Revolving Credit Facility of US$1,500 million, which backs the US commercial paper program and remains undrawn as at 30 June 2017.

The parent entity is party to a Deed of Support with the effect that the Company guarantees debts in respect of South32 Group Operations Pty Ltd.

(c) Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2017 (FY16: nil).

(d) Commitments

The parent entity did not have any contractual commitments for the acquisition of property, plant and equipment at 30 June 2017 (FY16: nil).

34. SUBSEQUENT EVENTS

On 24 August 2017, the Directors resolved to pay a fully franked final dividend of US 6.4 cents per share (US$334 million) in respect of the 2017 financial year. The dividend will be paid on 12 October 2017. The dividend has not been provided for in the consolidated financial statements and will be recognised in the 2018 financial year.

On 24 August 2017, the Group also announced an extension of the existing on-market share buy-back program, announced on 27 March 2017, by US$250 million to a total of US$750 million. This program has US$539 million remaining with 105.8 million shares having been purchased to 30 June 2017 for a cash consideration of US$211 million.

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

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:

   (a) The consolidated financial statements and notes that are set out on pages 101 to 166 and the Remuneration Report in section 7 of the Annual Report are in accordance with the Corporations Act, including:

      (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

   (ii) Complying with Australian Accounting Standards and Corporations Regulations 2001.

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

   2. The Directors have been given the declarations required by Section 295A of the Corporations Act from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.

3. The Directors draw attention to note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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

David Crawford AO
Chairman

Graham Kerr
Chief Executive Officer and Managing Director

Date: 13 September 2017

KPMG

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 audit for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

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KPMG

DMcComish

Denise McComish
Partner

Perth

13 September 2017

KPMG

INDEPENDENT AUDITOR'S REPORT

To: the shareholders of South32 Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of South32 Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the **Group**'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated balance sheet as at 30 June 2017
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated cash flow statement for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

- We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
- Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report section of our report*.
- We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Asset valuation
- Closure and rehabilitation provision
- Tax matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Asset valuation	
Refer to Note 13 Impairment of non-financial assets to the consolidated financial statements. As at 30 June 2017 the Group's balance sheet includes property, plant and equipment (PPE) amounting to US$8,373m, intangible assets amounting to US$252m, and equity accounted investments of US$569m, assessed for impairment purposes as cash generating units (CGUs).	
The key audit matter	**How the matter was addressed in our audit**
The assessment of the existence of impairment indicators and any resultant impairment testing in respect of the asset valuation of cash generating units was a key audit matter given the size of PPE, intangible assets and EAI and the sensitivity of valuations to certain assumptions. Historically the Group has impaired the carrying value of some CGUs to recoverable amount. Combined with the volatility in both commodity and foreign exchange markets, this increases the sensitivity of the carrying value of the Group's CGUs to potential impairment and reversal. The Group uses sophisticated models to perform their assessment of impairment indicators and any resultant impairment testing. This testing also included the one CGU which contains goodwill (South Africa Aluminium). The models are largely developed in-house, use life of operation plans, Board approved budgets, allocations of corporate costs to CGUs, and a range of external sources as inputs to the assumptions. Complex modelling using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. We focused on the significant forward-looking assumptions the Group applied in their models, including: ■ forecast commodity prices and foreign exchange rates – certain sectors in which the Group operates have experienced significant volatility in forecast short and long-run commodity prices, particularly manganese and alumina, and volatility in other short-run commodity prices. The Group's models are sensitive to small changes in these price assumptions, as well as changes to foreign exchange rates, particularly the South African Rand and the Australian Dollar, increasing the risk of inaccurate forecasting ■ forecast operating cash flows, production and sales volumes, and capital expenditure – these are determined based on historical performance adjusted for expected changes. This drives additional audit effort specific to the feasibility of the forecasts and consistency with the Group's strategy ■ discount rates - these are complicated in nature and vary according to the conditions and environment the CGUs are subject to from time to time. Where impairment testing is undertaken, the Group uses fair value less cost of disposal models to assess recoverable amount in accordance with the accounting standards. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: Testing key controls in the assessment of impairment indicators and any resultant impairment testing. These included review and authorisation controls on the models and key inputs and forecasts, across all CGUs, including: ■ commodity prices ■ capital expenditure ■ production and sales volumes ■ operating cash flows ■ foreign exchange rates ■ discount rates. We considered the appropriateness of the fair value less costs of disposal method applied by the Group for impairment testing, in accordance with the accounting standards. We, with our modelling specialists, assessed the integrity and consistency of the models used on a sample basis, including the accuracy of the underlying calculation formulas. We compared the forecast operating cash flows, production levels and capital expenditure contained in the models to Board approved budgets derived from the life of operation plans. We assessed the accuracy of the Group's previous forecasts to inform our evaluation of forecasts incorporated in the models. We used our knowledge of the Group and our industry experience to check the consistency of forecast operating cash flows and production levels, based on the Group's past performance. Additional consideration was applied regarding the feasibility of the forecasts for consistency with the Group's strategy. We assessed the Group's allocation of corporate costs to CGUs for consistency based on the requirements of the accounting standards. Working with our valuation specialists we compared the discount rates and foreign exchange rates to publicly available market data for comparable entities or published views of market commentators on future trends. We compared forecast commodity prices to published views of market commentators on future trends. We considered the sensitivity of the models by varying key assumptions, such as forecast commodity prices, foreign exchange rates and discount rates, within a reasonably possible range, to identify those CGUs with impairment or reversal indicators which will require impairment testing. We assessed the disclosures in the Financial Report using our understanding of the issues obtained from our testing and against the requirements of the accounting standards.

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Closure and rehabilitation provision	
Refer to Note 15 Provisions to the consolidated financial statements. As at 30 June 2017 the Group's balance sheet includes current and non-current closure and rehabilitation provisions of US$1,565m.	
The key audit matter	**How the matter was addressed in our audit**
Closure and rehabilitation provisioning was a key audit matter due to the size of the provision and the judgement we used to audit the provision across the multiple sites that the Group operates. Due to its mining and processing operations, the Group has obligations to restore and rehabilitate the environment disturbed by these operations. Closure and rehabilitation activities are governed by group policies based on legislative requirements, which differ across multiple jurisdictions. We focused on the following assumptions and estimates the Group applied in determining the provisions in accordance with the closure and rehabilitation plans: ■ the nature and extent of closure and rehabilitation activities required, including the magnitude of possible contamination ■ the timing of when closure and rehabilitation will take place ■ the forecast costs associated with closure and rehabilitation activities, which may include the use of the Group's external contractor estimates ■ economic assumptions, including country specific discount rates and foreign exchange rates, primarily the Australian Dollar and South African Rand.	Our audit procedures included: Testing key controls in the provision estimation process. These include review and authorisation controls on activities such as: plans for closure and rehabilitation in accordance with legislative requirements and Group policies; and sourcing inputs to the estimation models. Assessing the scope, objectivity and competence of the Group's external contractors engaged to provide rehabilitation cost estimates where used. Evaluating key assumptions used in the provision, relevant to the jurisdictions of the Group's sites, by: ■ comparing activities costed to the closure and rehabilitation plans ■ comparing the timing of closure and rehabilitation activities to the life of operation plans and/or relevant environmental legislation ■ comparing a sample of cost estimates of the activities to the Group's external contractor estimates, underlying documentation and against our knowledge of the Group, its industry and significant changes in future cost estimates from the prior year. Working with our valuation specialists we compared the discount rates and foreign exchange rates to published views of market commentators on future trends.

Tax matters	
Refer to Note 6 Tax and Note 26 Contingent Liabilities to the consolidated financial statements. As at 30 June 2017, the Group has recognised current tax assets of US$27m, deferred tax assets of US$276m, current tax payables of US$116m, deferred tax liabilities of US$518m and has disclosed a contingent liability of US$282m which includes tax-related exposures.	
The key audit matter	**How the matter was addressed in our audit**
Tax matters was a key audit matter due to the greater level of audit effort required to evaluate the Group's assumptions in classifying and quantifying provisions and contingent liabilities arising from significant tax matters. The application and administration of tax legislation in Colombia, Brazil and South Africa is inherently complex and highly specialised and gives rise to a number of industry related tax risks, including income tax, royalties and other resource and production based taxes. The Group is also subject to regular inspections by local tax authorities in these jurisdictions during the normal course of business operations. The key issues we focused on was the application of tax legislation, its administration by the relevant tax authorities and the operation of any agreements the Group has for indemnities. Where the amount of tax payable is uncertain, the Group records provisions based on its best estimate of the most likely outcome. We involved our tax specialists, in relevant countries, to supplement our senior audit team members in assessing this key audit matter.	Involving our tax specialists, our audit procedures included: Testing key controls, including review and authorisation of the Group's tax risk matters. Challenging the quantification of tax provisions and contingent liabilities, in key tax jurisdictions, using our knowledge and experience of the Group's operations. We did this by: ■ Considering the current status of tax assessments and investigations and monitoring developments in ongoing inspections by local tax authorities ■ Reading recent rulings, correspondence with local tax authorities and external advice received by the Group, for consistency with the assumptions in the provisions ■ Assessing the underlying documentation for key taxation issues against our understanding of tax legislation application and criteria in the accounting standards ■ Reading agreements and any related correspondence to evaluate the operation of the indemnities. Assessing the disclosures in the Financial Report using our understanding of the issues obtained from our testing and against the requirements of the accounting standards.

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Other Information

Other Information is financial and non-financial information in South32 Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the Corporations Act 2001
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: *http://www.auasb.gov.au/auditors_files/ar2.pdf*. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of South32 Limited for the year ended 30 June 2017 complies with Section 300A of the Corporations Act 2001.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001.

Our responsibilities

We have audited the Remuneration Report included in pages 72 to 94 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Denise McComish

Denise McComish
Partner

Perth
13 September 2017

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

VOTING RIGHTS

South32 Limited ordinary shares carry voting rights of one vote per share.

Shareholders may hold a beneficial entitlement to dematerialised ordinary shares, UK Depositary Interests and American Depositary Shares (ADS) through the Central Securities Depositories of Strate (Strate), CREST and Depository Trust Company respectively. Each share held dematerialised in Strate, or as a Depositary Interest held in CREST, entitles the holder to one vote. Each ADS is represented by five ordinary shares, with ADS voting managed by South32 Limited's ADS Depositary.

SUBSTANTIAL SHAREHOLDERS

As at 24 August 2017, South32 Limited has two substantial shareholders who, together with their associates, hold five per cent or more of the voting rights, as notified to South32 under the Australian Corporations Act and the UK Disclosure Guidance and Transparency Rules (DTR).

Name	Date of notice	Number of shares	Percentage of capital
Blackrock Group	3 Jan 2017	375,932,833(1)	7.20%
Schroder	19 July 2017	264,009,940	5.06%

(1) The number of shares includes 25,980 American Depositary Shares, representing an interest in 129,900 ordinary shares in South32 Limited.

DISTRIBUTION OF SHAREHOLDINGS AND NUMBER OF SHAREHOLDERS

The following table shows the distribution of shareholders by size of shareholding and number of shareholders as at 24 August 2017.

Size of holding	Number of shareholders	Number of shares	Percentage of capital
1 – 1,000	165,540	81,823,735	1.57
1,001 – 5,000	101,836	234,249,316	4.49
5,001 – 10,000	21,289	153,546,941	2.94
10,001 – 100,000	18,141	403,655,739	7.74
100,001 and over	598	4,344,644,157	83.26
Total	**307,404**	**5,217,919,888**	**100.00%**

RIGHTS HOLDINGS IN SOUTH32 LIMITED

The following table shows the distribution of rights holders by size of rights holdings and number of rights holders as at 24 August 2017.

Size of holding	Number of rights holders	Number of rights
1 – 1,000	377	271,320
1,001 – 5,000	12,508	23,870,901
5,001 – 10,000	2	17,777
10,001 – 100,000	96	5,320,852
100,001 and over	131	77,764,566
Total	**13,114**	**107,245,416**

20 LARGEST SHAREHOLDERS

The following table sets out the 20 largest shareholders of fully paid ordinary shares listed on our shareholder register and the details of their shareholding as at 24 August 2017.

	Name	Number of fully paid shares	Percentage of capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,500,253,321	28.75
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	824,252,175	15.80
3	COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C>	608,820,473	11.67
4	CITICORP NOMINEES PTY LTD	304,339,015	5.83
5	SOUTH AFRICA CONTROL A/C	273,744,111	5.25
6	NATIONAL NOMINEES LIMITED	150,623,981	2.89
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	128,544,768	2.46
8	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	85,424,250	1.64
9	CITICORP NOMINEES PTY LIMITED <CITIBANK NY ADR DEP A/C>	82,391,845	1.58
10	BNP PARIBAS NOMS PTY LTD <DRP>	67,425,105	1.29
11	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	35,458,706	0.68
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	21,055,370	0.40
13	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	13,990,941	0.27
14	AMP LIFE LIMITED	13,083,948	0.25
15	NATIONAL NOMINEES LIMITED <DB A/C>	9,004,541	0.17
16	CPU SHARE PLANS PTY LTD <S32 ASP UNALLOCATED A/C>	8,705,842	0.17
17	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING	7,378,000	0.14
18	ARGO INVESTMENTS LIMITED	7,265,004	0.14
19	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <VFA A/C>	6,107,460	0.12
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	5,954,245	0.11

RESTRICTED AND ESCROWED SECURITIES

As at 24 August 2017, South32 Limited does not have any restricted securities or securities subject to voluntary escrow on issue.

SHAREHOLDERS WITH LESS THAN A MARKETABLE PARCEL

As at 24 August 2017, there were 13,758 shareholders on the Australian register holding less than a marketable parcel (A$500) based on the closing market price of A$2.94.

On 25 August 2016, South32 Limited established a small shareholder sale facility (Sale Facility) for eligible shareholders on its Australian register with holdings valued at less than A$500 to sell their South32 Limited shares without incurring brokerage or handling costs. On 10 October 2016 this Sale Facility was closed. There were 9,085,702 ordinary shares sold through the Sale Facility at a volume weighted average price of A$2.6109 per share. These shares were held by 92,873 shareholders (20.68 per cent of total shareholders).

ON-MARKET PURCHASES OF SOUTH32 LIMITED SECURITIES

During FY17, 14,345,000 South32 Limited ordinary shares were purchased on-market for the ESOP Trusts for the purposes of the South32 Equity Incentive Plan. The average price at which the shares were purchased was A$2.4634.

DIVIDEND POLICY

Our dividend policy is determined by the Board at its discretion. Our priorities for cash flow are to maintain safe and reliable operations and an investment grade credit rating through the cycle.

South32 intends to distribute a minimum 40 per cent of Underlying earnings as dividends to our shareholders following each six-month reporting period. South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system.

DIVIDEND DETERMINATION AND PAYMENT

Our dividends are determined in US dollars.

Dividends for shareholders on the Australian register are paid by direct credit into their nominated bank account in Australian dollars, UK pounds sterling, New Zealand dollars or US dollars, provided direct credit details and currency election information are submitted no later than close of business on the dividend record date.

Dividends for shareholders on the South African branch register and UK Depositary Interest holders are paid by direct credit in South African rand and UK pounds sterling respectively. For further information about dividends visit *www.south32.net*[1].

(1) *www.south32.net/investors-media/all-financial-results*.

CAPITAL MANAGEMENT AND ON-MARKET SHARE BUY-BACK

On 27 March 2017, we announced an intention to return an additional US$500 million to shareholders. This capital management program complements the Group's dividend policy and was commenced as an on-market share buy-back in Australia. Purchasing commenced on 19 April 2017 and the program is expected to be completed over an 18 month period and is ongoing at the date of this report. As at 30 June 2017, South32 Limited had purchased 105,843,013 shares under the on-market share buy-back, which represented 2.03 per cent of the issued share capital in South32 Limited. On 24 August 2017, we announced our intention to increase the capital management program to US$750 million. The total consideration paid for the shares bought back up to 30 June 2017 and as at 24 August 2017 is US$211 million.

ANNUAL GENERAL MEETING (AGM)

Our AGM will be held on Thursday 23 November 2017 at 10.30am Australian Western Standard Time (AWST) in the Golden Ballroom at the Pan Pacific Hotel, 207 Adelaide Terrace, Perth, Western Australia 6000, Australia. If there is a change to the date, time or location of the AGM, then all relevant stock exchanges will be notified.

Announcements delivered at the AGM and the results of voting at the AGM will be provided to all stock exchanges and will be available on our website.

STOCK EXCHANGES

As at 24 August 2017, South32 Limited has a primary listing on the Australian Securities Exchange, a secondary listing on the Johannesburg Stock Exchange, is admitted to the standard segment of the Official List of the UK Listing Authority and its ordinary shares are traded on the London Stock Exchange. South32 Limited also has a Level 1 American Depositary Receipts program, which trades in the United States over-the-counter market.

SHAREHOLDER ENQUIRIES

Shareholders can access their current holding details as well as their transaction history, view dividend statements and payments made, download statements and documents, change their address, update their communication preferences and banking details, and check their tax details online via Computershare Investor Centre at *www.computershare.com*.

Alternatively, refer to the relevant contacts below:

SHARE REGISTRIES

AUSTRALIA

Computershare Investor Services Pty Limited
Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

Telephone (Australia):	1800 019 953
Telephone (International):	+61 (3) 9415 4169
Facsimile:	+61 (3) 9473 2500

SOUTH AFRICA

Computershare Investor Services (Pty) Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

Telephone:	+27 (0) 11 373 0033
Facsimile:	+27 (0) 11 688 5217
Email enquiries:	web.queries@computershare.co.za

Holders of shares dematerialised into Strate should contact their Central Securities Depository Participant or stockbroker.

UNITED KINGDOM

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZZ

Telephone:	+44 (0) 370 873 5884
Facsimile:	+44 (0) 370 703 6101
Email enquiries:	web.queries@computershare.co.uk

AMERICAN DEPOSITARY RECEIPTS (ADR)

ADR holders should deal directly with Citibank Shareholder Services.

Citibank Shareholder Services

PO Box 43077
Providence, Rhode Island 02940-3077

Telephone:	+1 877 248 4237 (+1-877-CITIADR) (toll-free within US) +1 781 575 4555 (outside of US)
Facsimile:	+1 201 324 3284
Email enquiries:	citibank@shareholders-online.com
Website:	*www.citi.com/dr*

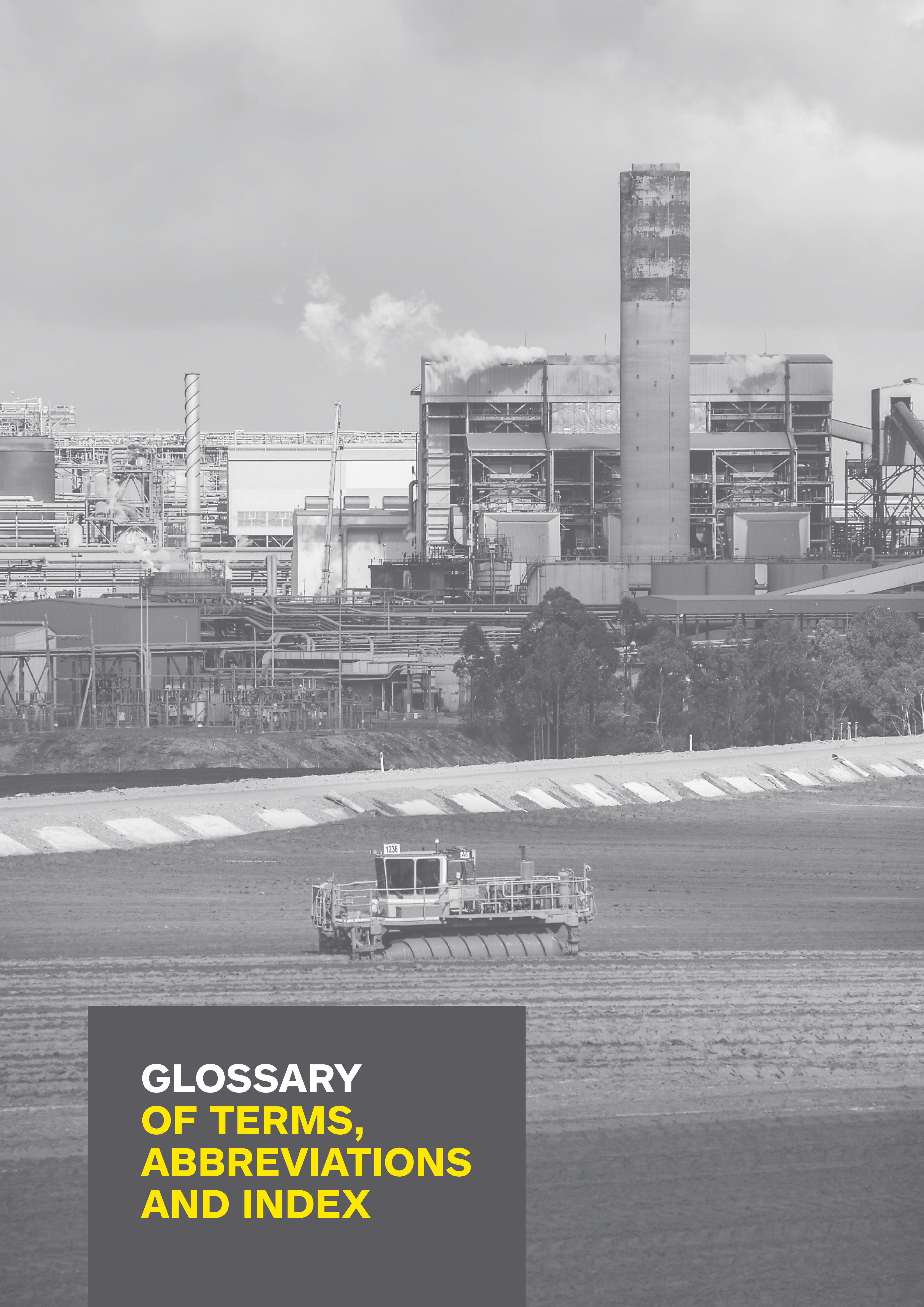
BRANCHES

In accordance with DTR 4.1.11R(5), South32, through various subsidiaries, has established branches in a number of different jurisdictions in which the business operates.

REGISTERED OFFICE

Information regarding the South32 Registered Office is included in the Corporate Directory on the inside back cover.

Shareholders are encouraged to access all South32 communications electronically at *www.south32.net*. Shareholders that wish to receive electronic communications can update their preferences online or telephone the relevant Computershare Investor Centre.



GLOSSARY OF TERMS, ABBREVIATIONS AND INDEX

MINING RELATED TERMS

Alumina
Aluminium oxide (Al_2O_3). Alumina is produced from bauxite in the Bayer refining process. Alumina is then converted (reduced) in an electrolysis cell to produce aluminium metal.

Ash
Inorganic material remaining after combustion of coal.

ASX Listing Rules (Chapter 5): Additional reporting on mining and oil and gas production and exploration activities
This chapter of the ASX Listing Rules sets out additional reporting and disclosure requirements for mining entities and oil and gas entities, and other entities reporting on mining and oil and gas activities.

AusIMM
The Australasian Institute of Mining and Metallurgy.

Bauxite
Principal commercial ore of aluminium.

Beneficiation
The process of physically separating ore from gangue to produce a higher grade concentrate prior to subsequent processing.

Brownfield
An exploration or development project located within an existing mineral province, which can share infrastructure and management with an existing operation.

Coal Reserve
The same meaning as Ore Reserve, but specifically concerning coal.

Coal Resource
The same meaning as Mineral Resource, but specifically concerning coal.

Coking coal
Used in the manufacture of coke, which is used in the steelmaking process by virtue of its carbonisation properties. Coking coal may also be referred to as metallurgical coal.

Competent Person
A minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Professional Organisation' (RPO), as included in a list available on the JORC and ASX websites. These organisations have enforceable disciplinary processes, including the powers to suspend or expel a member.

A Competent Person must have a minimum of five years' relevant experience in the style of mineralisation or type of deposit under consideration and in the activity that the person is undertaking (JORC Code).

Cut-off grade
A nominated grade above which is defined some mineral aspect of the reserve or resource. For example, the lowest grade of mineralised material that qualifies as economic for estimating an Ore Reserve.

Energy coal
Used as a fuel source in electrical power generation, cement manufacture and various industrial applications. Energy coal may also be referred to as steaming or thermal coal.

Flotation
A method of selectively recovering minerals from finely ground ore using a froth created in water by specific reagents. In the flotation process, certain mineral particles are induced to float by becoming attached to bubbles of froth and the unwanted mineral particles sink.

Grade
The relative quantity, or the percentage, of metal or mineral content in an orebody.

Greenfield
The development or exploration located outside the area of influence of existing mine operations/infrastructure.

Indicated Mineral Resource
That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.

Inferred Mineral Resource
That part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity.

JORC
Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy (AusIMM), Australian Institute of Geoscientists (AIG) and Minerals Council of Australia (MCA) and is also represented by Australian Securities Exchange (ASX), the financial services Institute of Australasia (FinSIA) and the accounting profession.

JORC Code
The Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the JORC, 2012 Edition.

Leaching
The process by which a soluble metal can be economically recovered from minerals in ore by dissolution.

Marketable Coal Reserves
Represents beneficiated or otherwise enhanced coal product where modifications due to mining, dilution and processing have been considered, must be publicly reported in conjunction with, but not instead of, reports of Coal Reserves.

MAusIMM
Member of the Australasian Institute of Mining and Metallurgy.

MAusIMM (CP)
Accredited Chartered Professional status of members of the Australasian Institute of Mining and Metallurgy that have undergone an assessment of their competencies and which are maintained through continuing professional development activities.

Measured Mineral Resource
That part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit.

Metallurgical coal
A broader term than coking coal, which includes all coals used in steelmaking, such as coal used for the pulverised coal injection process.

Modifying Factors
Considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors.

Mineral Resource
A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling (JORC Code).

Mineralisation
Any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest.

MSAIMM
Member of the Southern African Institute of Mining and Metallurgy.

Net Smelter Return (NSR)
NSR is an estimate of the gross value of in situ metal once metallurgical recovery, royalties, concentrate transport, refining cost and other deductions are considered. All metal used in the NSR calculation are assumed to be recovered into concentrate and sold.

OC/OP (Open-cut/open-pit/open-cast)
Surface working in which the working area is kept open to the sky.

Ore Reserves
The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of modifying factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

Probable Ore Reserves
The economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve. Consideration of the confidence level of the Modifying Factors is important in conversion of Mineral Resources to Ore Reserves. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit (JORC Code).

Proved Ore Reserves
A Proved Ore Reserve represents the highest confidence category of reserve estimate and implies a high degree of confidence in geological and grade continuity, and the consideration of the Modifying Factors. The style of mineralisation or other factors could mean that Proved Ore Reserves are not achievable in some deposits (JORC Code). Implies the highest degree of geological, technical and economic confidence in the estimate at the level of production increments used to support mine planning and production scheduling.

Pr.Sci.Nat.
Professional Natural Scientist of the South African Council for Natural Scientific Professions.

Reserve Life
The scheduled extraction period in years for the Total Ore Reserves in the approved Life of Operation Plan reported to two significant figures.

ROM (Run of Mine product)
Product mined in the course of regular mining activities.

SACNASP
South African Council for Natural Scientific Professions.

SAIMM
Southern African Institute of Mining and Metallurgy.

Sands
Tailings produced as a by-product during beneficiation of ore.

SP (Stockpile)
An accumulation of ore or mineral built up when demand slackens or when the treatment plant or beneficiation equipment is incomplete or temporarily unable to process the mine output; any heap of material formed to create a buffer for loading or other purposes, or material dug and piled for future use.

Tailings
Those portions of washed or milled ore that are too poor to be treated further or remain after the required metals and minerals have been extracted.

Total Coal Reserves
Run of mine Coal Reserves as outputs from the mining activities.

Total Ore Reserves
Proved Ore Reserves plus Probable Ore Reserves.

Total Mineral Resources
The sum of Inferred Mineral Resources, Indicated Mineral Resources and Measured Mineral Resources.

Yield
The proportion of metal contained in ore that can be extracted during processing.

FINANCE, MARKETING AND GENERAL TERMS

AASB
Australian Accounting Standards Board.

Adjusted ROIC (Adjusted Return On Invested Capital)
Calculated as Underlying EBIT, adjusted for uncontrollable and one-off impacts in the current financial year, divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories. Underlying EBIT is adjusted by excluding the current period impacts of foreign currency on revenue and cost, and commodity prices on revenue and associated price-linked costs, adding back depreciation from current period impairments in respect of fixed assets, less the discount on rehabilitation provisions included in net finance cost, and tax effected by the South32 Group's prior period Underlying effective tax rate.

ADR (American Depositary Receipt)
An American Depositary Receipt, being a receipt to ADSs.

ADS (American Depositary Share)
An American Depositary Share is a share issued under a deposit agreement that has been created to permit US resident investors to hold and trade in shares in non-US companies.

AGM
Annual General Meeting.

AllShare Plan
An annual gift to South32 employees of rights to receive South32 Limited shares or cash rights.

AO
Officer of the Order of Australia.

ASIC (Australian Securities and Investments Commission)
The Australian Government agency that enforces laws relating to companies, securities, financial services and credit in order to protect consumers, investors and creditors.

ASX
Australian Securities Exchange.

ASX Listing Rules
The rules governing the listing of an entity and the quotation of its securities on the ASX.

ASX Recommendations
The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition).

AUD/A$
Australian dollars being the currency of the Commonwealth of Australia.

B-BBEE
Broad-Based Black Economic Empowerment.

BHP
The group of companies headed by, and including, BHP Billiton Ltd and BHP Billiton plc.

BRL
Brazilian Real being the currency of Brazil.

Board
The Board of Directors of South32 Limited.

BUSA
Business Unity South Africa.

CEO
Chief Executive Officer.

CFaR
Cash Flow at Risk.

CFO
Chief Financial Officer.

CGU
Cash generating unit.

CIF
Cost, insurance and freight.

CO_2-e
Carbon dioxide equivalent.

COO
Chief Operating Officer.

Community investment
Contributions made to support communities in which we operate or have an interest. Our contributions to community programs comprise cash, in-kind support and administration costs.

Corporations Act
Corporations Act 2001 (Cth).

CREST
Central securities depository and settlement system operated by Euroclear UK & Ireland Limited.

DDP
Delivered duty paid.

Demerger
The separation of South32 from BHP effected in May 2015 to create a separate entity listed on the ASX, LSE and JSE.

DTR
UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules. Where a reference to DTR is followed by a number, this means a specific rule under the DTR.

EAI
Equity accounted investments.

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EPS
Earnings per share.

ESOP Trusts
The trusts which purchase and hold South32 Limited shares for the purpose of the South32 Equity Incentive Plan.

ETR/Underlying effective tax rate
See Underlying Effective Tax Rate.

Executive
Management who are members of the Lead Team.

Executive KMP
Lead Team members who are classified as KMP.

External Auditor
KPMG

FOB (Free On Board)
The seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of, or damage to, the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport.

Free cash flow
Free cash flow before interest and tax represents operating cash flows from continuing operations including dividends received from equity accounted investments, before financing activities and tax, and after capital expenditure.

FVLCD
Fair value less cost of disposal.

FX
Foreign exchange.

FYXX
Refers to the financial year ending 30 June 20XX, where XX is the two-digit number for the year.

Gearing
The ratio of net debt to net debt plus net assets.

GHG (Greenhouse Gas)
For South32 reporting purposes, these are the aggregate anthropogenic carbon dioxide equivalent (CO_2 -e) emissions of carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6). Measured according to the World Resources Institute/ World Business Council for Sustainable Development Greenhouse Gas Protocol.

GRI (Global Reporting Initiative)
The world's most widely used sustainability reporting framework, consisting of principles, guidelines and indicators to measure and report on an organisation's economic, environmental and social performance. The G4 Guidelines is the fourth and current generation of this framework. The GRI Navigator and Sustainability data tables are available on the South32 website at *www.south32.net*.

Group
Refers to South32 Limited and its controlled entities.

HSEC
Health, safety and environment and community.

IASB
International Accounting Standards Board.

ICMM (International Council on Metals and Mining)
A membership organisation led by the Chief Executive Officers of 23 mining and metals companies, along with national and regional mining associations and global commodity associations. ICMM is an international organisation dedicated to improving the social and environmental performance of the mining and metals industry.

IFRS (International Financial Reporting Standards)
Accounting standards as issued by the International Accounting Standards Board.

ILO
International Labour Organisation.

JSE
Johannesburg Stock Exchange.

KMP
Key management personnel are those individuals who have authority and responsibility for planning, directing and controlling the activities of South32 either directly or indirectly.

LBMA
London Bullion Market Association.

LME
London Metal Exchange.

LSE
London Stock Exchange.

LTI
Long-term incentive.

MAP
Management Award Plan, a BHP long-term incentive plan.

Margin on third party products
Comprises Underlying EBIT on third party products, divided by third party product revenue.

MRN
Mineração Rio do Norte.

MSR
Minimum shareholding requirement.

Net cash
Comprises cash and cash equivalents less interest bearing liabilities, including finance leases.

Net debt
Comprises interest bearing liabilities, including finance leases, less cash and cash equivalents.

Net operating assets
Represents operating assets net of operating liabilities which predominantly excludes the carrying value of equity accounted investments and cash, interest bearing liabilities and tax balances.

Occupational illness
An illness that occurs as a consequence of work-related activities or exposure. It includes acute or chronic illnesses or diseases, which may be caused by inhalation, absorption, ingestion or direct contact.

OEL (Occupational Exposure Limit)
The concentration of a substance or agent, exposure to which, according to current knowledge, should not cause adverse health effects nor cause undue discomfort to nearly all workers.

OSHA
The Occupational Safety and Health Administration (OSHA) of the United States Department of Labor. We adopt these guidelines for the recording and reporting of occupational injuries and illnesses to ensure that classifications are applied uniformly across our workforce.

Post-demerger
The period from 25 May 2015 when South32 began as an independent entity.

Pre-demerger
The period from 1 July 2014 to 24 May 2015 when South32 Limited and its controlled entities were subsidiaries of BHP.

Rand/ZAR
South African rand being the currency of South Africa.

ROIC (Return On Invested Capital)
Calculated as Underlying EBIT less the discount on rehabilitation provisions included in net finance costs, tax effected by the South32 Group's Underlying effective tax rate, divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories.

Shared value
The identification of opportunities that create economic value while also advancing the environmental and social outcomes of the communities and regions in which South32 operates.

South32 Equity Incentive Plan

A plan that allows the Board to make offers to employees to acquire securities in South32 Limited and to otherwise incentivise employees.

Strate
Central Securities Depositories of Strate.

STI
Short-term incentive.

Transformation
A national strategy in South Africa aimed at attaining national unity, promoting reconciliation through negotiated settlement and non-racism.

TRIF (Total Recordable Injury Frequency)
The sum of (fatalities + lost-time cases + restricted work cases + medical treatment cases) x 1,000,000 ÷ actual hours worked. Stated in units of per million hours worked. We adopt the United States Government Occupational Safety and Health Administration guidelines for the recording and reporting of occupational injury and illnesses.

TRILF (Total Recordable Illness Frequency)
The sum of total occupational illness x 1,000,000 ÷ actual hours worked, for employees and contractors. Stated in units of per million hours worked.

TSR (Total Shareholder Return)
TSR measures the return delivered to shareholders over a certain period through the change in share price and any dividends paid. It is the measure used to compare South32's performance to that of relevant peer groups under the LTI.

TSX
Toronto Stock Exchange.

Underlying earnings
Underlying earnings is profit after tax and earnings adjustment items. Earnings adjustments represent items that do not reflect the underlying operations of South32. We believe that Underlying earnings provides useful information, but should not be considered as an indication of, or an alternative to, attributable profit as an indicator of operating performance.

Underlying EBIT
Underlying EBIT is profit from continuing operations before net finance costs, tax and after any earnings adjustment items, including impairments, impacting profit from continuing operations. Underlying EBIT is reported inclusive of South32's share of net finance costs and tax of equity accounted investments. Underlying EBIT is not an IFRS measure of profitability, financial performance or liquidity and may be defined and used in differing ways by different entities. We believe that Underlying EBIT provides useful information, but should not be considered as an indication of, or alternative to, profit from continuing operations or attributable profit as an indicator of operating performance.

Underlying EBIT margin
Comprises Underlying EBIT excluding third party product EBIT, divided by revenue excluding third party product revenue.

Underlying EBITDA
Underlying EBIT before depreciation and amortisation.

Underlying EBITDA margin
Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.

Underlying Effective Tax Rate (ETR)
Comprises Underlying income tax expense excluding royalty related tax divided by Underlying profit before tax; both the numerator and denominator exclude equity accounted investments.

USD/US$
The Group's reporting currency and the functional currency of the majority of operations is the US dollar, as this is assessed to be the principal currency of the economic environments in which they operate. US dollar also being the currency of the United States of America.

VWAP
Volume weighted average share price.

TERMS USED IN RESOURCES AND RESERVES

A.Al_2O_3
available alumina

Ag
silver

Al_2O_3
alumina

CV
calorific value

Fe
iron

HCFeMn
high-carbon ferromanganese

Met
metallurgical coal

Mn
manganese

Ni
nickel

Pb
lead

R.SiO_2
reactive silica

S
sulphur

SiO_2
silica

SiMn
silica manganese

Th
thermal coal

VM
Volatile Matter

Zn
zinc

UNITS OF MEASURE

%
percentage or per cent

dmt
dry metric tonne

dmtu
dry metric tonne unit

g/t
grams per tonne

ha
hectare

KCal/Kg
Kilo calories per kilogram

kdmt
thousand dry metric tonne

kL
kilolitre

km
kilometre

koz
thousand ounces

kt
kilotonnes

ktCO_2-e
kilotonnes of carbon dioxide equivalent

ktpa
kilotonnes per annum

kV
kilovolt

kW
kilowatt

kwmt
thousand wet metric tonnes

m
metre

ML
megalitre

Moz
million ounces

MW
megawatt

Mt
million tonnes

Mtpa
million tonnes per annum

mwmt
million wet metric tonnes

oz
ounce

t
tonnes

TJ
terajoule

tpa
tonnes per annum

tpd
tonnes per day

tph
tonnes per hour

US$/oz
US dollars per ounce

US$/t
US dollars per tonne

INDEX

CORPORATE DIRECTORY

GROUP HEADQUARTERS (REGISTERED OFFICE)

Level 35
108 St Georges Terrace
Perth 6000
Western Australia

Phone: +61 8 9324 9000
Facsimile: +61 8 9324 9200

SOUTH AFRICA OFFICE

39 Melrose Boulevard
Melrose Arch
Johannesburg 2076
South Africa

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Marshalltown 2107

Phone: +27 11 376 9111

SINGAPORE MARKETING OFFICE

South32 Marketing Pte Ltd
138 Market Street
#26-01 CapitaGreen
Singapore 048946

Phone: +65 6679 2600
Facsimile: +65 6826 4143

LONDON MARKETING OFFICE

South32 SA Investments Limited
4th Floor, 62 Buckingham Gate
London SW1E 6AJ
United Kingdom

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MARKETING TOLL-FREE NUMBERS

China:	4001 206295
Japan:	0034 800 400418
India:	000 800 8522 034
South Korea:	00798 852 10017

COMPANY SECRETARIES

Nicole Duncan - Chief People and Legal Officer

Melanie Williams - Head of Legal (Corporate) and Company Secretariat

OUR NAME - SOUTH32

South32 is a business built in the Southern Hemisphere, with a reach and ambition that encircles the globe. Our two primary regions – Australia and Africa – are linked by the thirty-second parallel south, and bound by a resilience and pioneering spirit inherent to our history. This connection illustrates our common spirit, wherever we do business in the world.

OUR SYMBOL - THE WEAVE

The weave is a traditional technique for creating materials by binding together individual threads to create a stronger fabric. The use of this theme in our brand mark reflects our belief that working together, we can make a difference.

SOUTH32.NET

The paper stock used in this publication is FSC® certified and printed in facilities that are ISO 14001 accredited.