

# HITTING THE GROUND RUNNING

**FY15 FINANCIAL RESULTS AND OUTLOOK**  
AUGUST 2015



**THIS PRESENTATION SHOULD BE READ IN CONJUNCTION WITH THE “FINANCIAL RESULTS AND OUTLOOK - YEAR ENDED 30 JUNE 2015” ANNOUNCEMENT RELEASED ON 24 AUGUST 2015, WHICH IS AVAILABLE ON SOUTH32’S WEBSITE ([WWW.SOUTH32.NET](http://WWW.SOUTH32.NET)).**

## **FINANCIAL INFORMATION**

To assist shareholders in their understanding of the South32 Group, pro forma financial information has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2013 to 30 June 2015. The statutory financial results do not reflect the complete 12 months of performance of the South32 Group.

## **FORWARD LOOKING STATEMENTS**

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

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

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

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

## **NON-IFRS FINANCIAL INFORMATION**

This release includes certain non-IFRS financial measures, including Underlying earnings, Underlying EBIT and Underlying EBITDA, Underlying basic earnings per share, Underlying effective tax rate, Underlying EBIT margin, Underlying EBITDA margin, Underlying return on capital, Free cash flow, net debt, net operating assets and ROIC. These measures are used internally by management to assess the performance of South32’s business, make decisions on the allocation of its resources and assess operational management. Non-IFRS measures have not been subject to audit or review and should not be considered as an indication of or alternative to an IFRS measure of profitability, financial performance or liquidity.

## **NO OFFER OF SECURITIES**

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

## **NO FINANCIAL OR INVESTMENT ADVICE – SOUTH AFRICA**

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



# HITTING THE GROUND RUNNING

GRAHAM KERR  
CEO



**Record production at 4 assets**

**Pro forma EBIT  
+56% to US\$1B**

**Pro forma Underlying earnings  
+41% to US\$575M**

**Strong balance sheet  
Net debt US\$402M**

**Simple strategy to  
maximise ROIC**

**To reduce controllable costs  
by a further US\$350M by FY18**

**Sustaining capital expenditure  
to decline by 9% to US\$650M**

# SAFETY IS PARAMOUNT

- 2 fatalities in FY15 and another in FY16
  - Worsley (September 2014)
  - South Africa Manganese (May 2015)
  - South Africa Aluminium (July 2015)
- The loss of any colleague is unacceptable
- Safety underpins everything we do
  - We continue to build on our safety culture
  - We are sharpening our focus on material risk





# FY15 PRO FORMA FINANCIAL RESULTS

BRENDAN HARRIS  
CFO



- Important changes made since the publication of the Listing Documents
- Carrying value of our Manganese assets revised
  - Australia Manganese US\$1.1B (-US\$499M versus Listing Documents)
  - South Africa Manganese US\$576M (-US\$826M versus Listing Documents)
  - Annual D&A re-based to US\$172M in FY15 (-US\$60M<sup>1</sup> versus Listing Documents)
- The inclusion of additional corporate costs incurred as a stand-alone business
  - Approximately +US\$60M in FY14 and FY15 (versus Listing Documents)<sup>2</sup>
- Corporate costs have been reallocated to the assets to reflect the support the functions provide
- Recognised GEMCO Northern Territory royalty as a profits based tax

1. Represents the difference compared to the annualised H1 FY15 D&A rate for South32's manganese assets.

2. Specific costs were not included in the pro forma financial statements as noted in the South32 Listing Documents as required by various regulators.

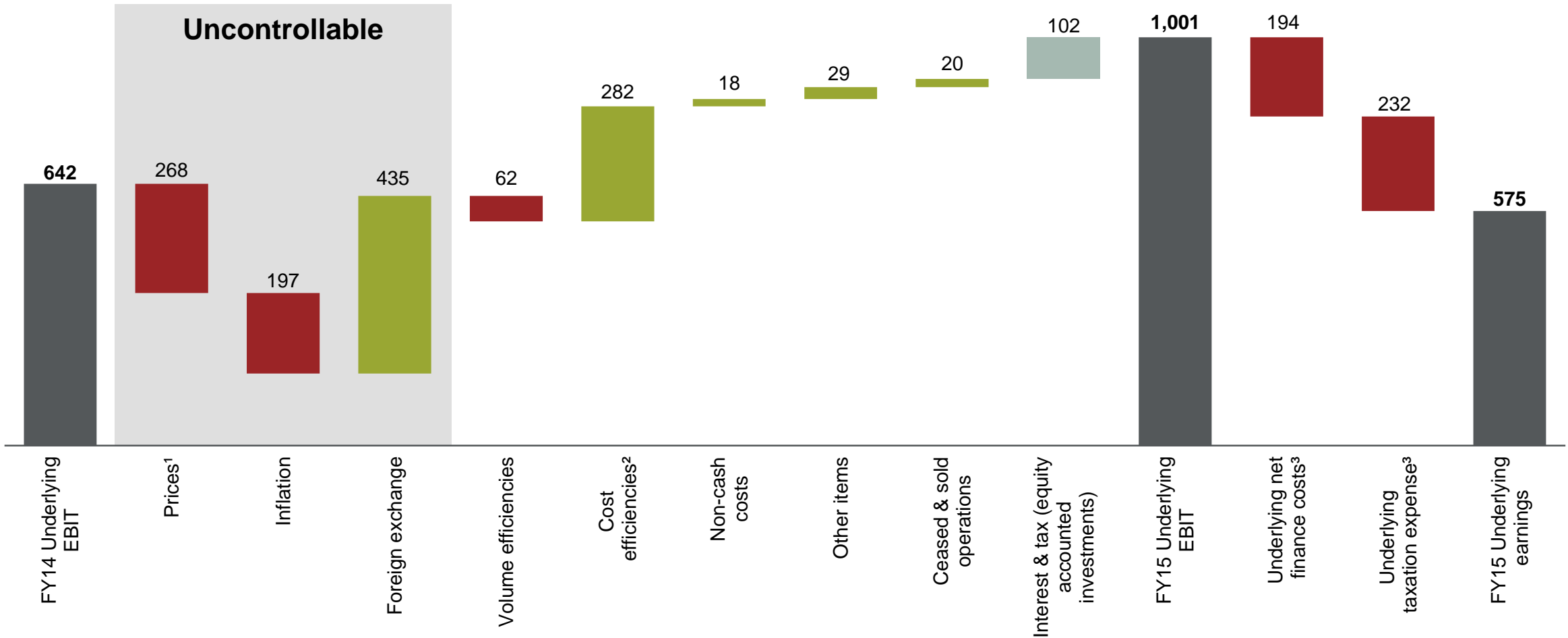
# UNDERLYING EARNINGS ADJUSTMENTS



Adjustments required to reconcile pro forma Profit after taxation to Underlying earnings	FY15 (Post tax) US\$M
<b>Profit after taxation</b>	<b>28</b>
Impairments	416
- <i>South Africa Energy Coal</i>	391
- <i>Cerro Matoso</i>	25
Repeal of Minerals Resource Rent Tax legislation	96
Exchange rate variations and other	35
<b>Underlying earnings</b>	<b>575</b>

# UNDERLYING EBIT WATERFALL

(US\$M)



1. Net of price-linked cost.

2. Cost efficiencies refer to the reduction in costs, excluding the impact of price-linked costs, exchange rate movements, inflation, non-cash costs, one-off items, ceased and sold operations, and other items.

3. Underlying net finance costs and Underlying taxation expense are actual FY15 results, not year-on-year variances.

Reconciliation of net finance costs	FY15 US\$M
Unwind of discount applied to restoration and rehabilitation provisions	120
Finance lease charges	60
Other	14
<b>Underlying net finance costs</b>	<b>194</b>
Exchange variations on net debt	(134)
<b>Net finance costs</b>	<b>60</b>

# CLOSURE PROVISIONS

Restoration and rehabilitation provisions by asset (our share)	FY15 US\$M
South Africa Energy Coal <sup>1</sup>	746
South Africa Aluminium <sup>2</sup>	237
Worsley Alumina	168
Cerro Matoso	85
Cannington	87
Mozal Aluminium	53
Illawarra Metallurgical Coal	45
Brazil Aluminium	43
<b>Total</b>	<b>1,464</b>

1. US\$132M relating to closed mines.
2. US\$178M relating to Bayside.



Closure provisions  
by geography

# A STRONG BALANCE SHEET

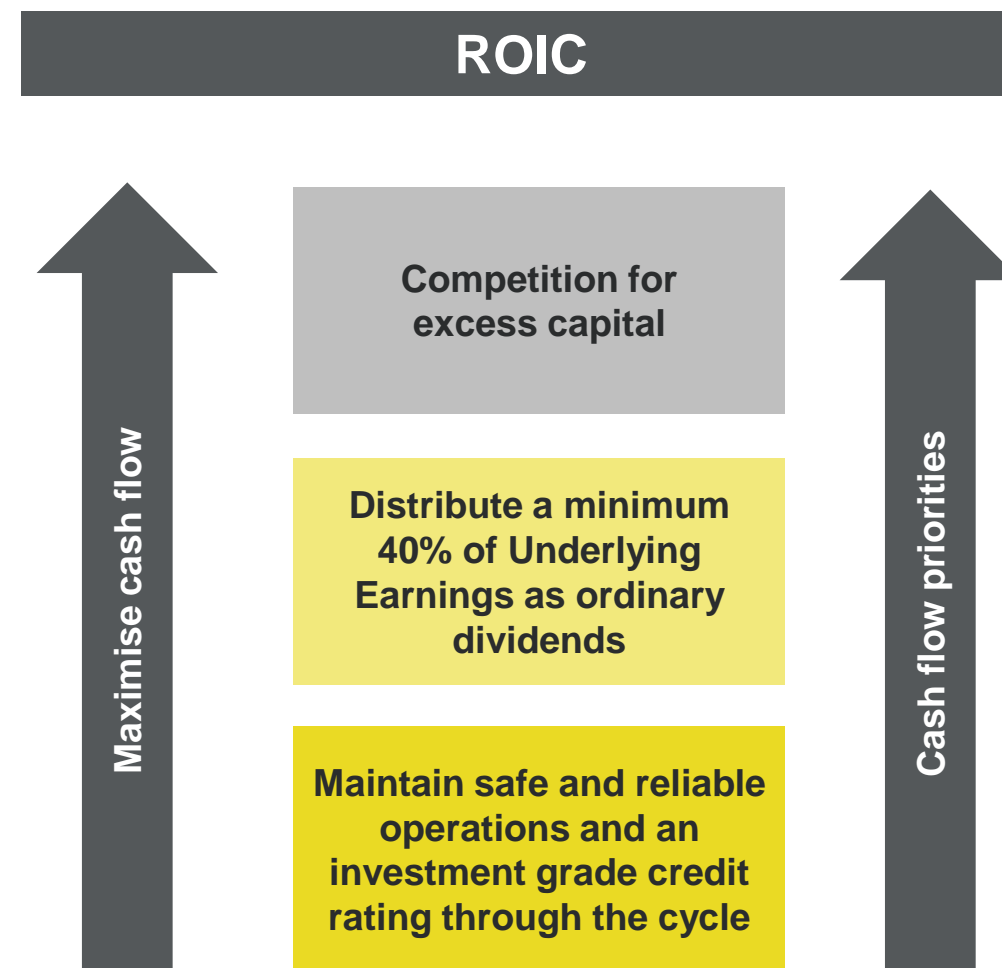
- Pro forma Free cash flow before interest and tax<sup>1</sup> of US\$1.7B in FY15
- Capital expenditure of US\$768M<sup>2</sup> in FY15
- Our strong balance sheet is a key differentiator
  - Net debt of US\$402M (includes finance leases of US\$631M) as at 30 June 15
  - Gearing ratio of 4% as at 30 June 15
- Liquidity underpinned by US\$1.5B Revolving Credit Facility
- Strong investment grade credit ratings with stable outlook
  - Moody's Baa1
  - Standard & Poor's BBB+

Balance sheet	30 June 15 US\$M
Current assets	2,868
Non-current assets	12,621
<b>Total assets</b>	<b>15,489</b>
Current liabilities	1,704
Non-current liabilities	2,750
<b>Total liabilities</b>	<b>4,454</b>
<b>Net assets</b>	<b>11,035</b>
<b>ROIC</b>	<b>6.2%</b>



1. 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.  
 2. Includes Major projects of US\$51M and equity accounted investment's capital expenditure of US\$139M.  
 3. FY2015 net operating assets, excluding Group and unallocated items.

- Well defined priorities for cash flow
  - Maintain safe and reliable operations and an investment grade credit rating through the cycle
  - Shareholder dividends
    - Intention to distribute a minimum of 40% of Underlying earnings as dividends following each six month reporting period
  - Drive intense competition for capital to maximise ROIC



# A SIMPLE STRATEGY TO MAXIMISE RETURNS

**GRAHAM KERR**  
CEO



**Talented people**

**High quality, well maintained,  
cash generative portfolio**

**Strong balance sheet**

**Systems and processes  
need to be tailored to suit  
the scale of our assets**

**Organic growth options  
require a fresh approach**

## OUR STRATEGY

Our strategy is to invest in high quality metals and mining operations where our distinctive capabilities and regional model enable us to stretch performance in a sustainable way. By maintaining financial discipline and continually optimising our portfolio we will deliver sector leading total shareholder returns.

## OUR PLAN

Optimise the performance of our existing assets

A relentless pursuit of the basics  
Safety, volume, costs and capex

Maximise their potential

Convert high value resource to  
reserve

Identify new opportunities

Increase competition for capital

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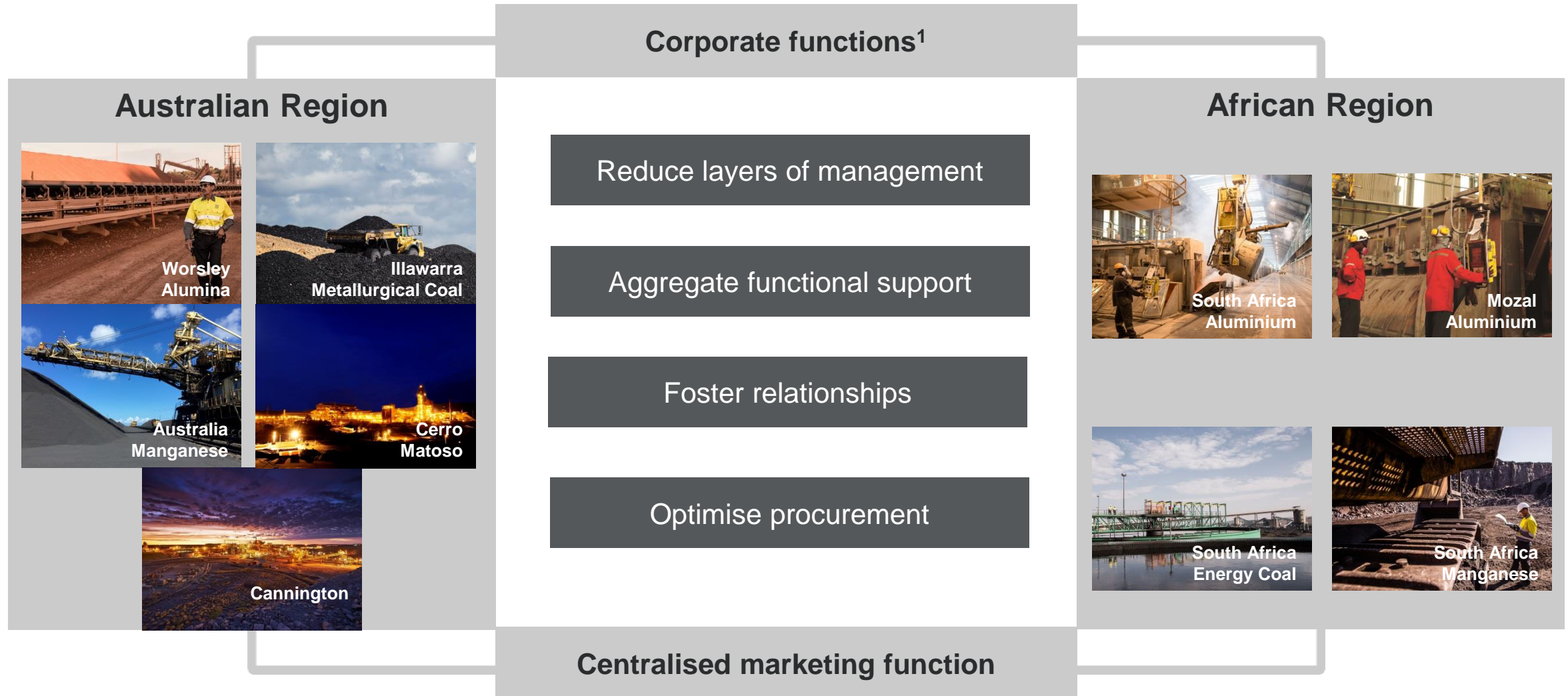
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# OUR REGIONAL MODEL IS A KEY ENABLER

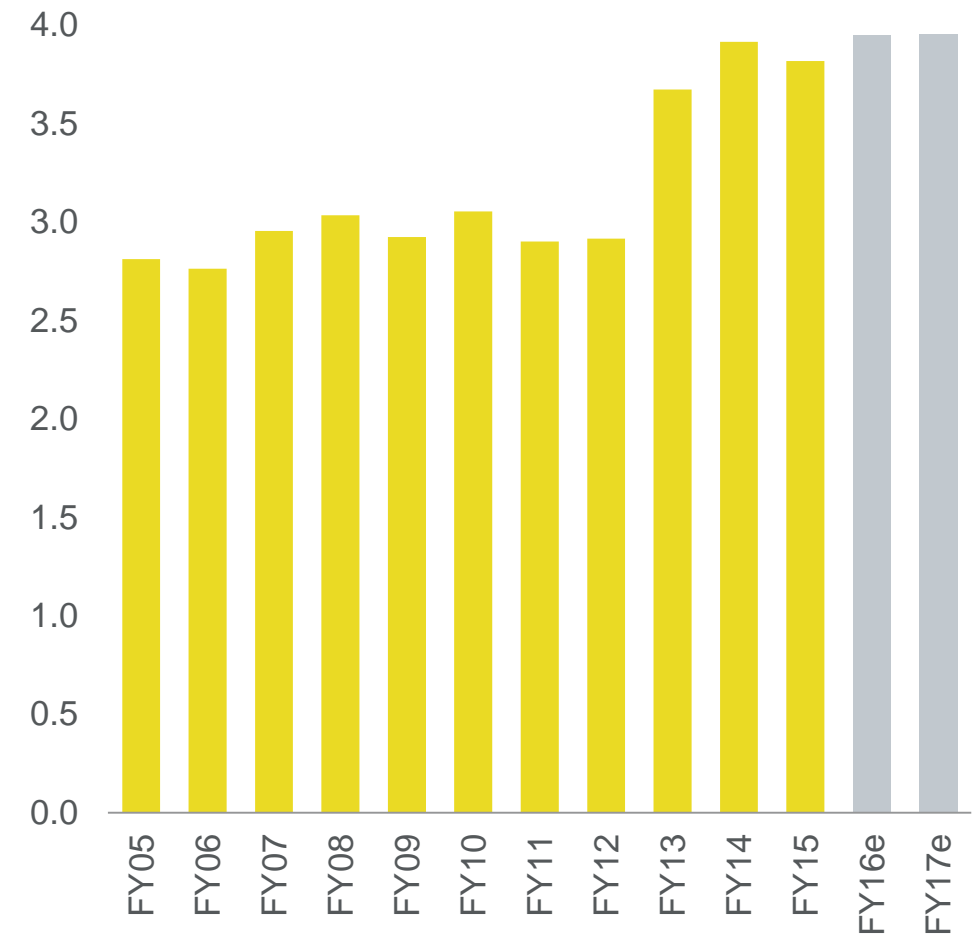


1. Our non-operated joint venture, Brazil Aluminium, is managed by the Corporate.

- Unlock incremental capacity
  - Targeting refinery availability of 96% in FY16
  - FY16 production guidance of 3.95 Mt, +3%
- Seeking to increase labour productivity by ~5% in FY16
  - Further reduce functional support
- Diversifying coal supply agreements
- Optimise the coal to gas fuel mix in the co-generation facility to reduce energy costs

## Alumina production

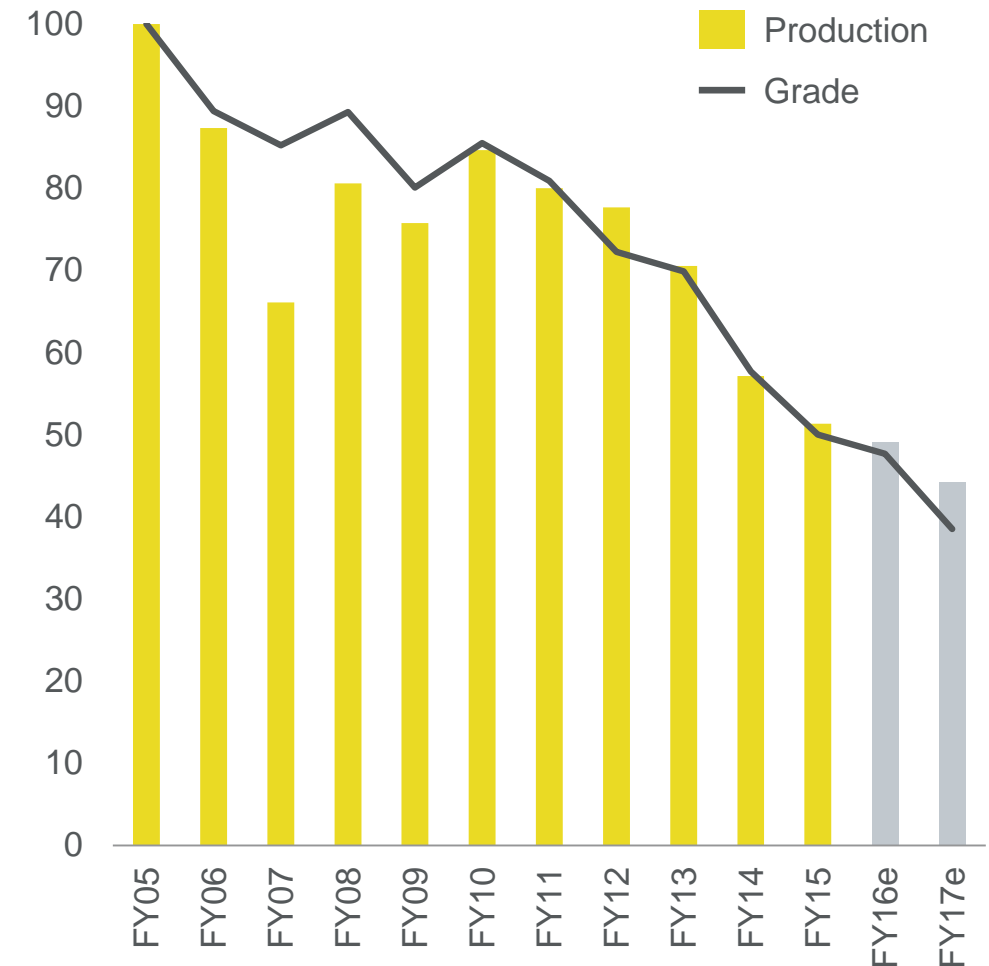
(Mt, our share)



- An improvement in paste plant performance is required to increase underground mining rates to mitigate grade decline
  - FY16 silver production guidance of 21.65 Moz, -4%
- Targeting a further increase in recoveries and mill performance
  - Pebble crusher upgrade
- Insourcing contractor activity and improving labour productivity by ~5% in FY16

## Silver production and grade

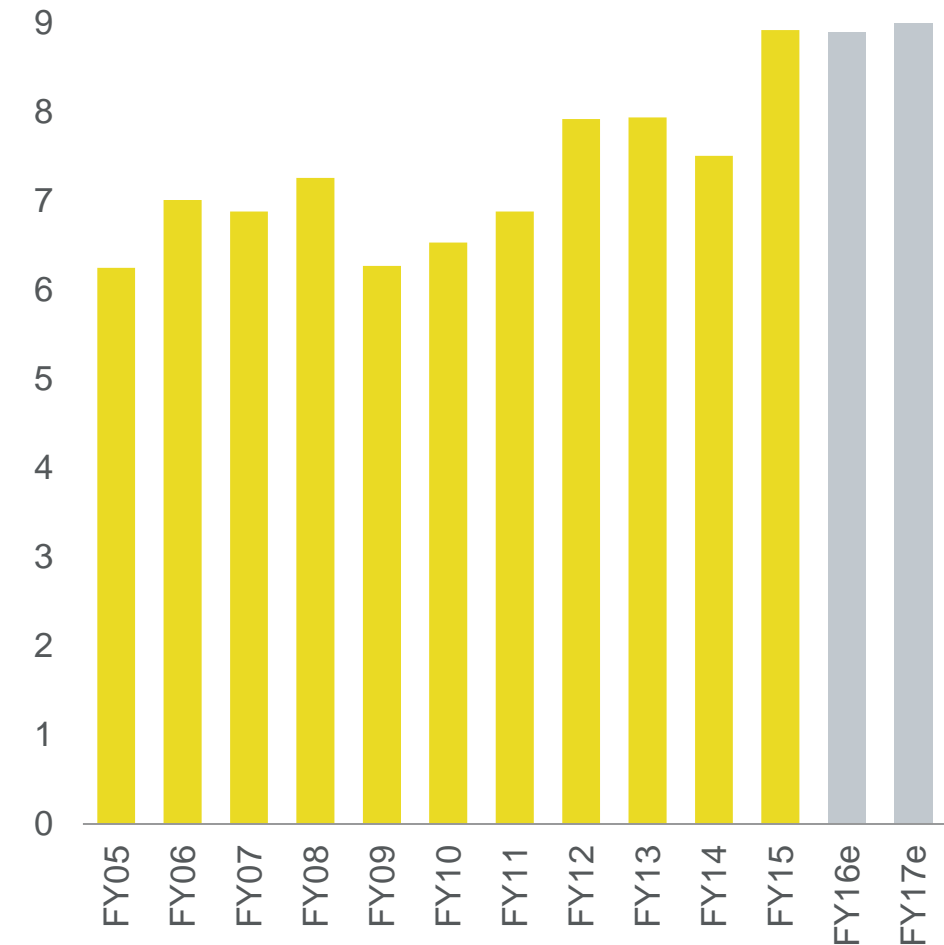
(FY05 index = 100)



# OPTIMISING CONTRACTOR USAGE AND RATES AT ILLAWARRA METALLURGICAL COAL

- Production for FY16 is broadly unchanged
  - Saleable coal production capacity of 9 Mtpa
  - Appin Area 9 project sustains capacity as West Cliff is depleted
- Seeking to increase labour productivity by 6% in FY16
  - Solely accounted for by a planned ~29% reduction in contractors
- Appin Area 9 project ahead of schedule and ~20% under budget

**Production**  
(Mt, our share)

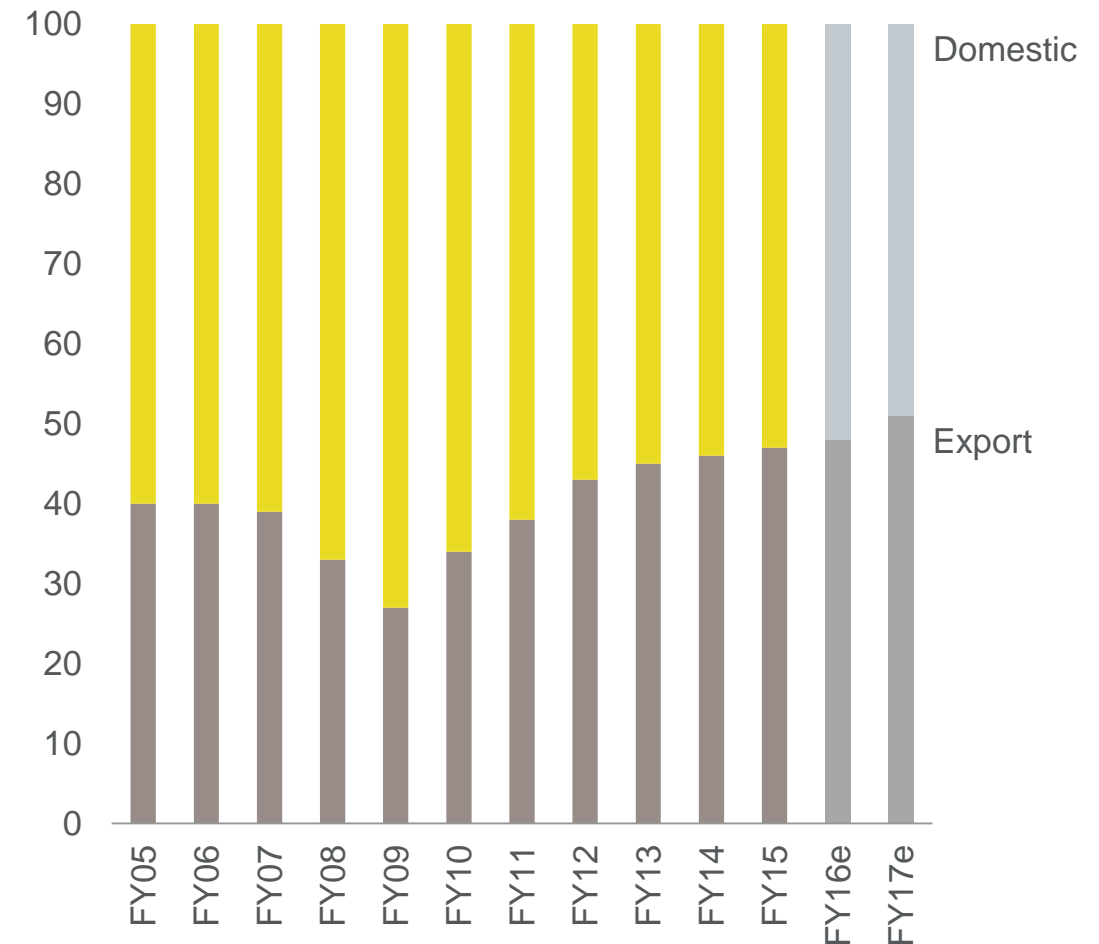


# OPTIMISING THE PRODUCT MIX AND COSTS AT SOUTH AFRICA ENERGY COAL

- Lower production expected due to the curtailment of mining activity in the Khutala open-cut
  - FY16 production guidance of 32.0 Mt, -7%
  - Increasing the proportion of export tonnage
- Insourcing activity and lowering contractor rates
  - Targeting a 13% decline in contractor numbers and a US\$30M reduction in contractor spend in FY16

## Production mix

(%)

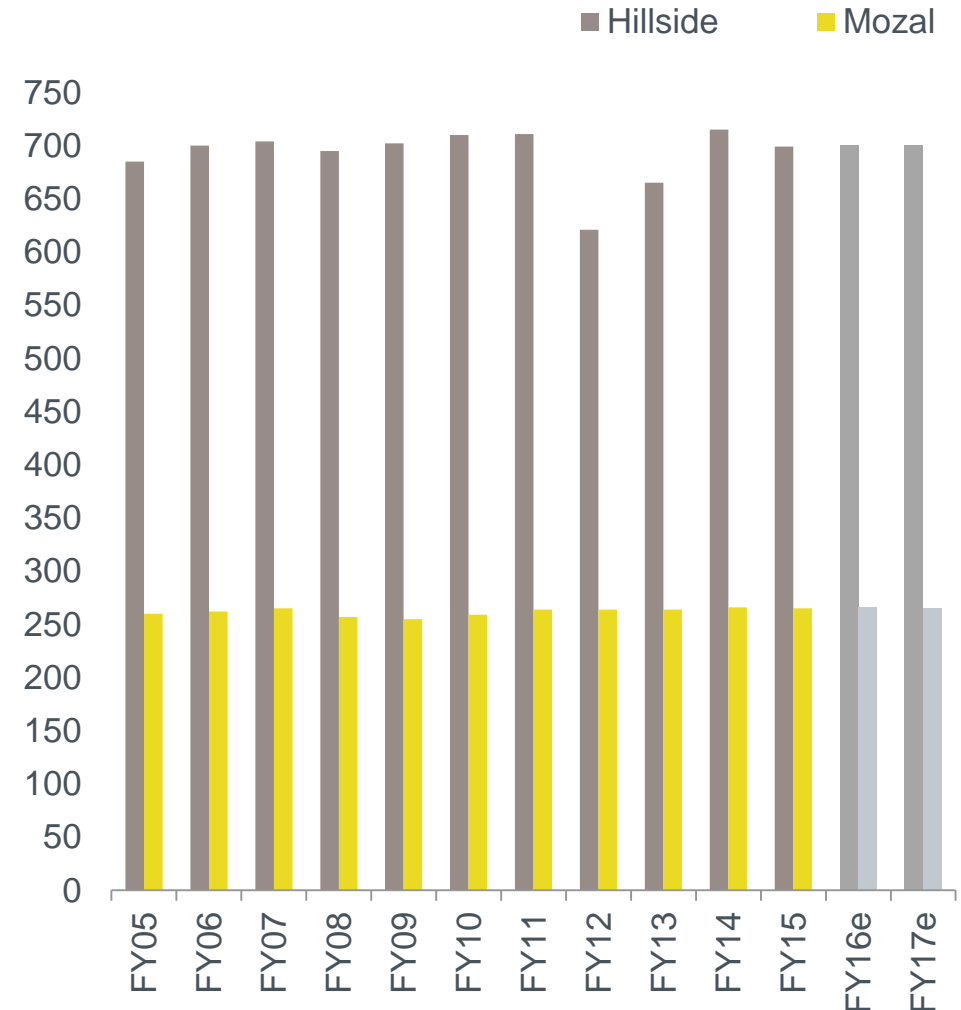


# OPTIMISING ENERGY EFFICIENCY AT OUR AFRICAN ALUMINIUM SMELTERS

- Electricity load shedding events increased in FY15
  - Remains within permissible limits
  - Hillside +100%
  - Mozal +50%
- Continual improvement in energy efficiency realised at both smelters in FY15
  - Hillside production -2%
  - Mozal production unchanged
- The AP3XLE technology project at Mozal is being actively studied
  - Low cost option
  - Delivers incremental energy efficiency and production
- Increase in pot-relining activity will adversely impact costs at Hillside in FY16

## Aluminium production

(kt, our share)



- GEMCO is a leading asset in the manganese industry
  - Low cost and high value in use
  - EBITDA margin of 46% in FY15
  - Increase in labour productivity and procurement initiatives designed to mitigate a rise in strip ratio
  - FY16 production guidance of 3.05 Mt, +4%
- Our South African assets are located in the higher cost Kalahari basin
- We acted decisively to suspend capacity at Metalloys
- A review of South Africa Manganese is currently underway
  - May lead to a reduction in ore and/or alloy capacity

## EBITDA margin



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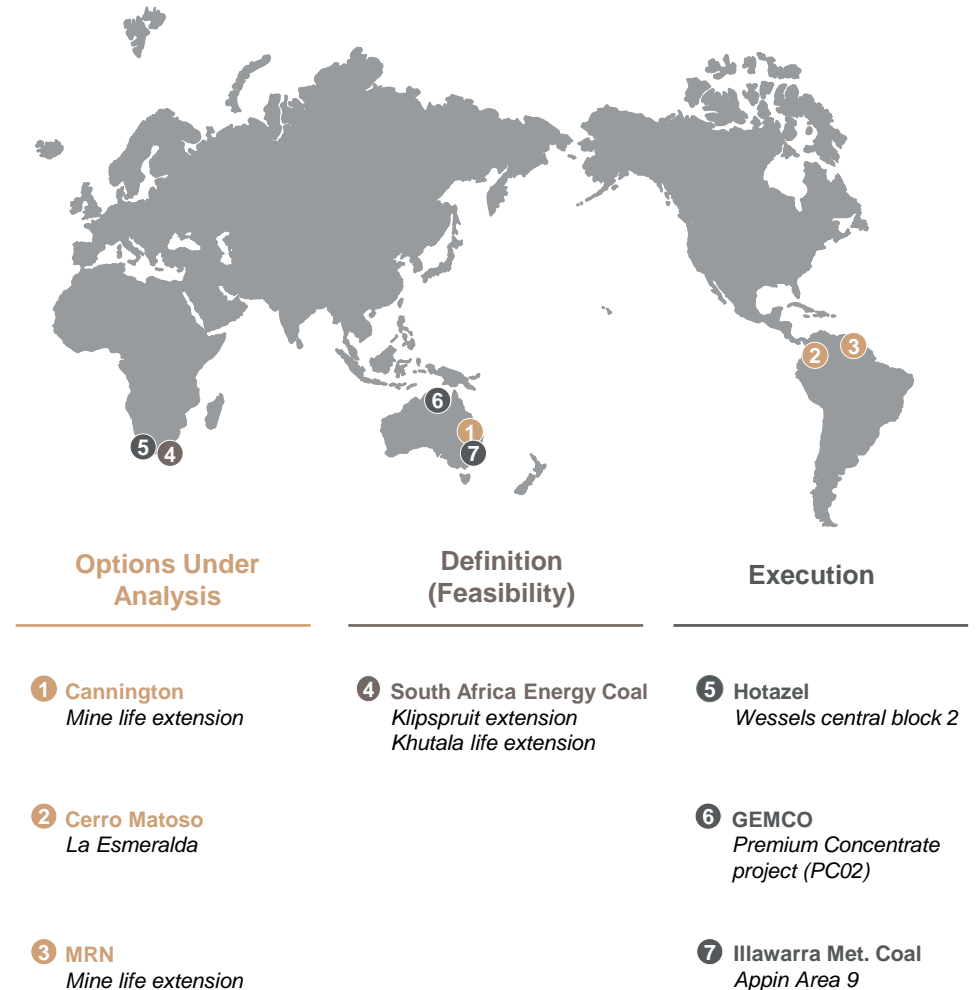
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# CONVERTING HIGH VALUE RESOURCE TO RESERVE

- Advancing major projects into feasibility in FY16
  - Large in-situ resource has the potential to underpin a 20 year extension of the export oriented Klipspruit mine
  - Assessing development options to significantly extend the life of the Khutala mine
- Studying less capital-intensive development options at Cannington
  - Both underground and open-cut solutions
- Working with our partners in the MRN bauxite mine to secure long-term feed for the refinery at Brazil Aluminium
- Progressing development plans for the higher grade La Esmeralda resource at Cerro Matoso



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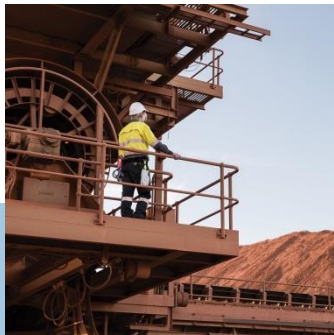
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# APPENDICES



# EARNINGS SENSITIVITIES



Estimated impact on FY15 Underlying EBIT of a 10% change in commodity or currency	EBIT impact +/- 10% US\$M
Aluminium	202
Alumina	174
Energy coal	92
Metallurgical coal	79
Manganese ore <sup>1</sup>	72
Nickel	56
Silver	40
Manganese alloy <sup>1</sup>	38
Lead	36
Zinc	16
Australian dollar	181
South African rand	148
Colombian peso	39
Brazilian real	16

1. The sensitivity impact for manganese ore and manganese alloy are on a pre-tax basis. The Group's manganese assets are reported as equity accounted investments. As a result, the Profit after taxation for Manganese is included in the Underlying EBIT of South32.

# CAPITAL EXPENDITURE GUIDANCE



Capital expenditure (our share)	FY15 US\$M	FY16e US\$M
Major projects	51	50
All other capital expenditure (including Deferred stripping)	578	550
<b>Total (excluding equity accounted investments)</b>	<b>629</b>	<b>600</b>
Equity accounted investments	139	100
<b>Total</b>	<b>768</b>	<b>700</b>

# PRODUCTION GUIDANCE



Production guidance for upstream asset (our share unless otherwise noted)	FY15	FY16e	FY17e
<b>Worsley Alumina</b>			
Alumina production (kt)	3,819	3,950	3,955
<b>Brazil Aluminium</b>			
Alumina production (kt)	1,328	1,320	1,320
<b>South Africa Energy Coal (100%)</b>			
Domestic coal production (kt)	18,127	16,650	15,300
Export coal production (kt)	16,150	15,300	15,700
<b>Illawarra Metallurgical Coal</b>			
Metallurgical coal production (kt)	7,455	7,200	7,500
Energy coal production (kt)	1,471	1,700	1,500
<b>Australia Manganese</b>			
Manganese ore production (kt)	2,942	3,050	3,250
<b>South Africa Manganese</b>			
Manganese ore production (kt)	1,682	1,650	1,650
<b>Cerro Matoso</b>			
Payable nickel production (kt)	40.4	36.5	36.0
<b>Cannington</b>			
Payable silver production (koz)	22,601	21,650	19,500
Payable lead production (kt)	183	175	168
Payable zinc production (kt)	72	80	78

