



# 2016 HALF YEAR FINANCIAL RESULTS AND OUTLOOK

25 FEBRUARY 2016



**THIS PRESENTATION SHOULD BE READ IN CONJUNCTION WITH THE “FINANCIAL RESULTS AND OUTLOOK – HALF YEAR ENDED 31 DECEMBER 2015” ANNOUNCEMENT RELEASED ON 25 FEBRUARY 2016, 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 for H1 FY15 has been prepared to reflect the business as it is now structured and as though it was in effect for the period 1 July 2014 to 31 December 2014. The pro forma financial information is not prepared in accordance with IFRS.

## **FORWARD LOOKING STATEMENTS**

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

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

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

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

## **NON-IFRS FINANCIAL INFORMATION**

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

## **NO OFFER OF SECURITIES**

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

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

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



# H1 FY16 INTRODUCTION AND HIGHLIGHTS

GRAHAM KERR  
CEO



## 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 operations

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

**Continued optimisation of our operations and balance sheet**

**Controllable costs reduced by US\$182M**  
**Capital expenditure reduced by US\$88M**

**Net debt reduced to US\$116M**  
(US\$36M at 31 Jan 2016)

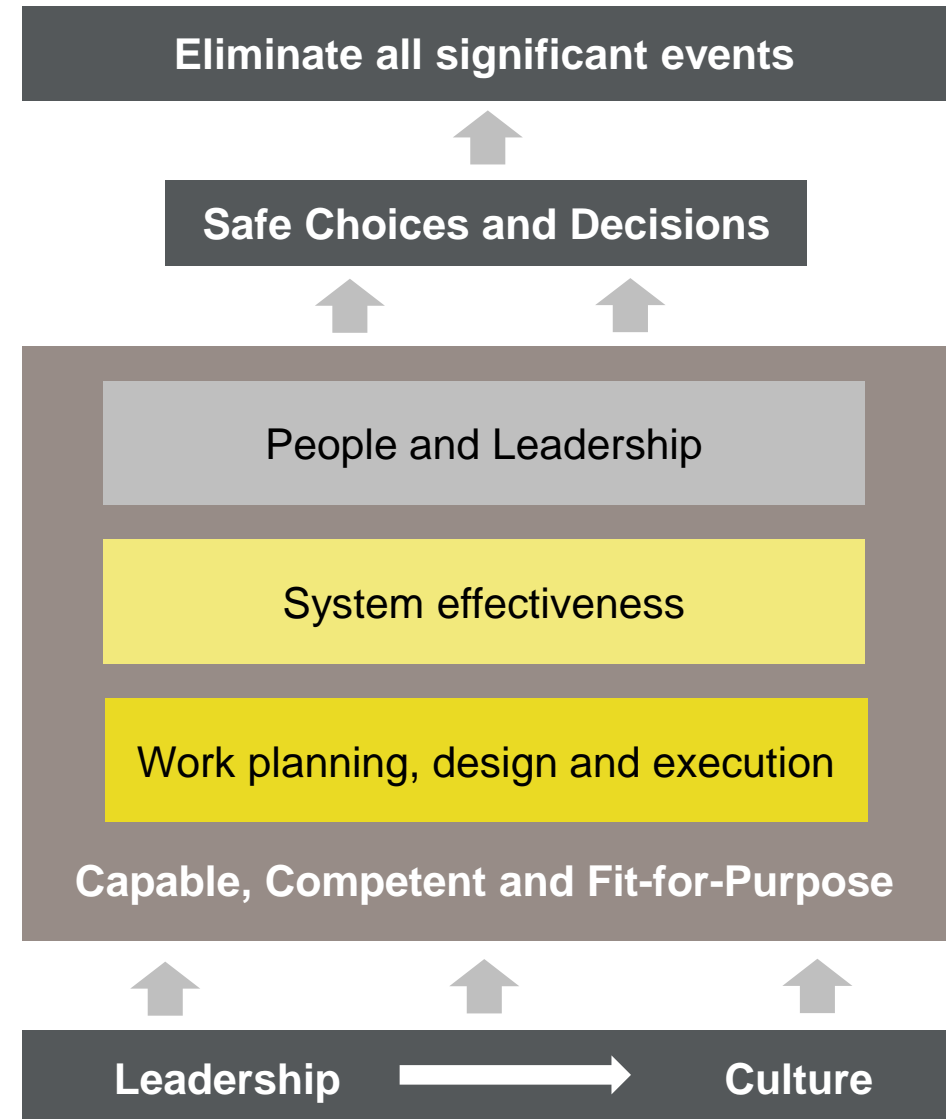
**Restructuring initiatives to stretch performance and increase cash flow**

**To significantly exceed US\$350M controllable cost savings target**

**Remain focused on value not volume**

# CARE IS A CORE VALUE

- One fatality is one too many
  - South Africa Aluminium July 2015
  - South Africa Manganese November 2015
- Implementing our Care and Safety Strategy
- Gap assessments completed in December 2015
- Key focus on:
  - Work planning, design and execution
  - System effectiveness
  - People and leadership





# H1 FY16 FINANCIAL RESULTS

BRENDAN HARRIS  
CFO



# NON-CASH IMPAIRMENT RELATED CHARGES



(US\$M)	Impairments	Significant Items	Earnings adjustments to equity accounted investments	Pre-tax total
Australia Manganese Investment	726	-	190	916
South Africa Manganese Investment	-	-	97	97
Manganese Marketing Investment	64	-	-	64
South Africa Energy Coal	442	-	-	442
Available for sale investments <sup>1</sup>	76	-	-	76
Brazil Alumina	65	32	-	97
Other <sup>2</sup>	11	-	-	11
<b>TOTAL</b>	<b>1,384</b>	<b>32</b>	<b>287</b>	<b>1,703</b>

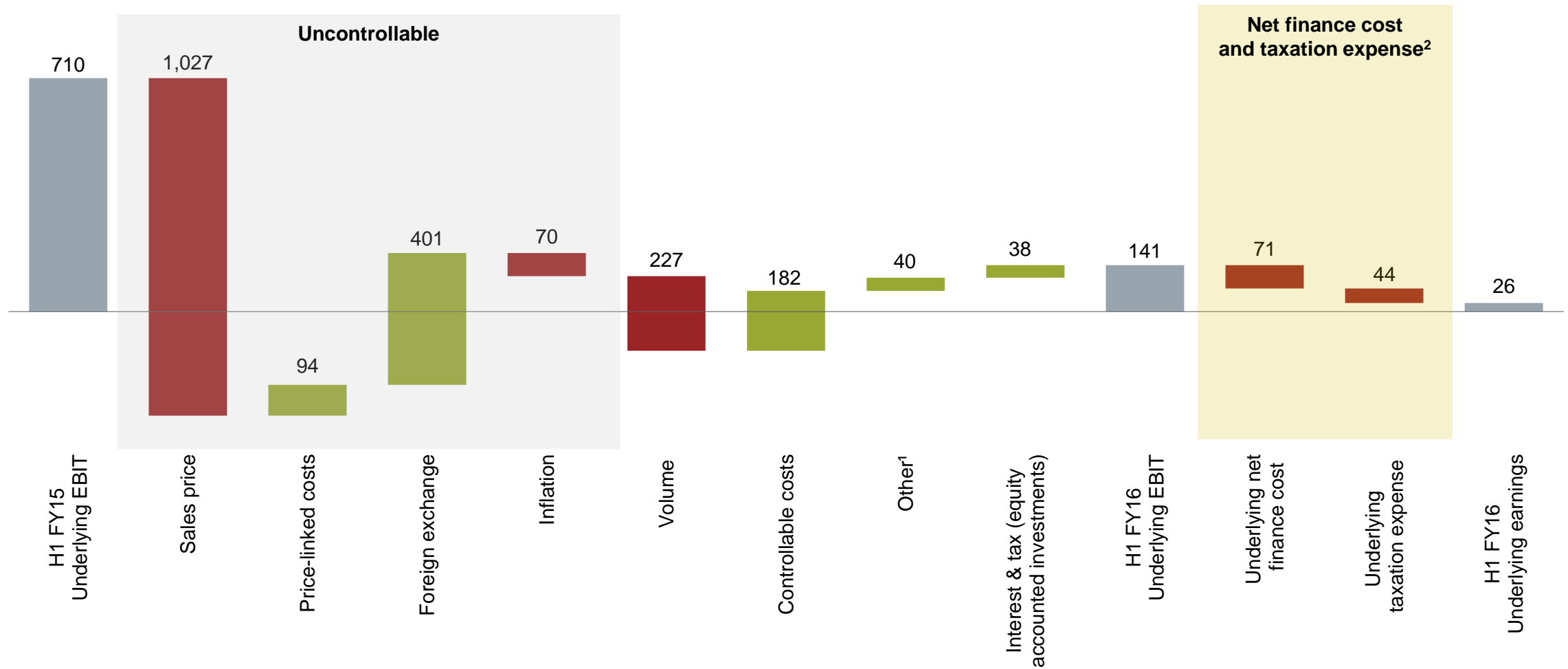
1. Available for sale investments relate to South Africa Energy Coal.

2. Other includes impairments related to South Africa Energy Coal and Illawarra Metallurgical Coal.



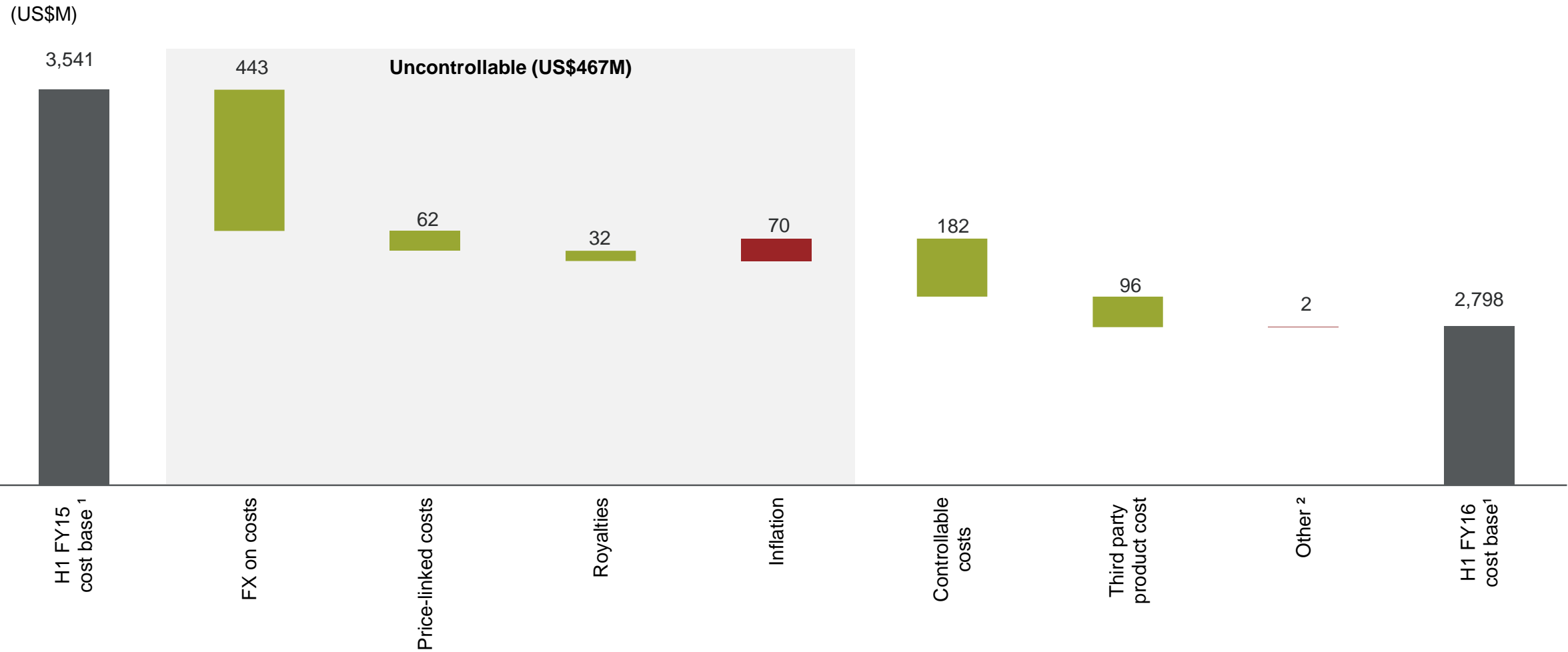
# EARNINGS ANALYSIS

(US\$M)



1. Other includes depreciation and amortisation, adjustments to provisions, ceased and sold operations, third party product sales and other income.  
 2. Underlying net finance cost and Underlying taxation expense are actual H1 FY16 results, not year-on-year variances.

# COST ANALYSIS

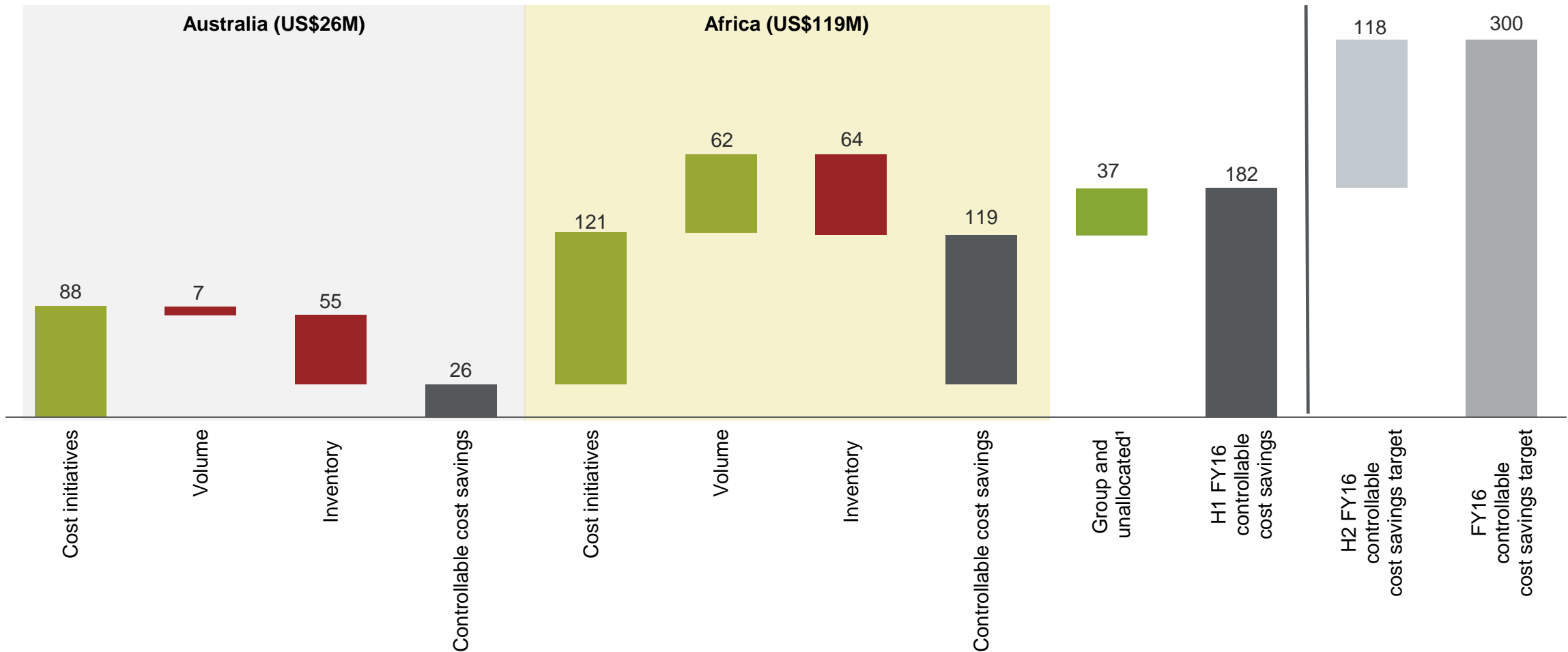


1. Cost base includes Equity Accounted Investments and adjustments for Other Income. H1 FY16 includes US\$237M of statutory adjustments and US\$122M Other Income adjustment to reconcile to Revenue minus Underlying EBITDA (H1 FY15: US\$429M and US\$150M respectively).
2. Other includes asset sales, ceased and sold operations and other costs, including accounting provisions and adjustments.

# CONTROLLABLE COSTS ANALYSIS



(US\$M)

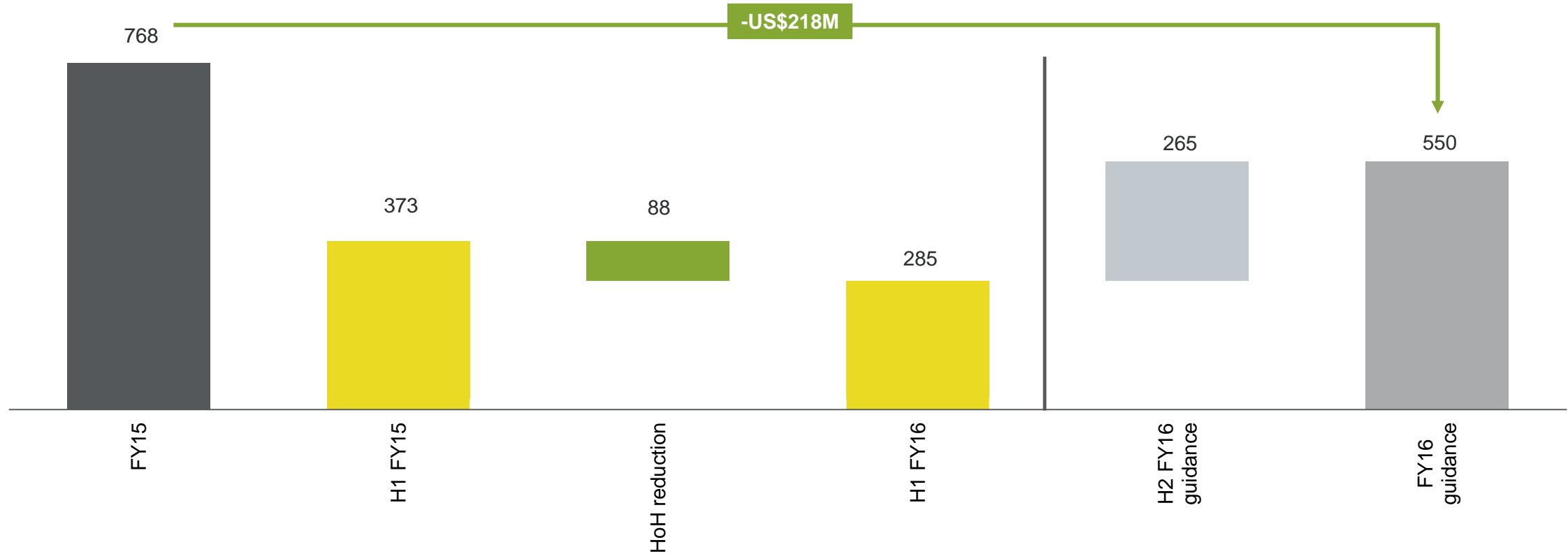


Note: Including Equity Accounted Investments.  
 1. Group and unallocated includes Brazil Alumina.

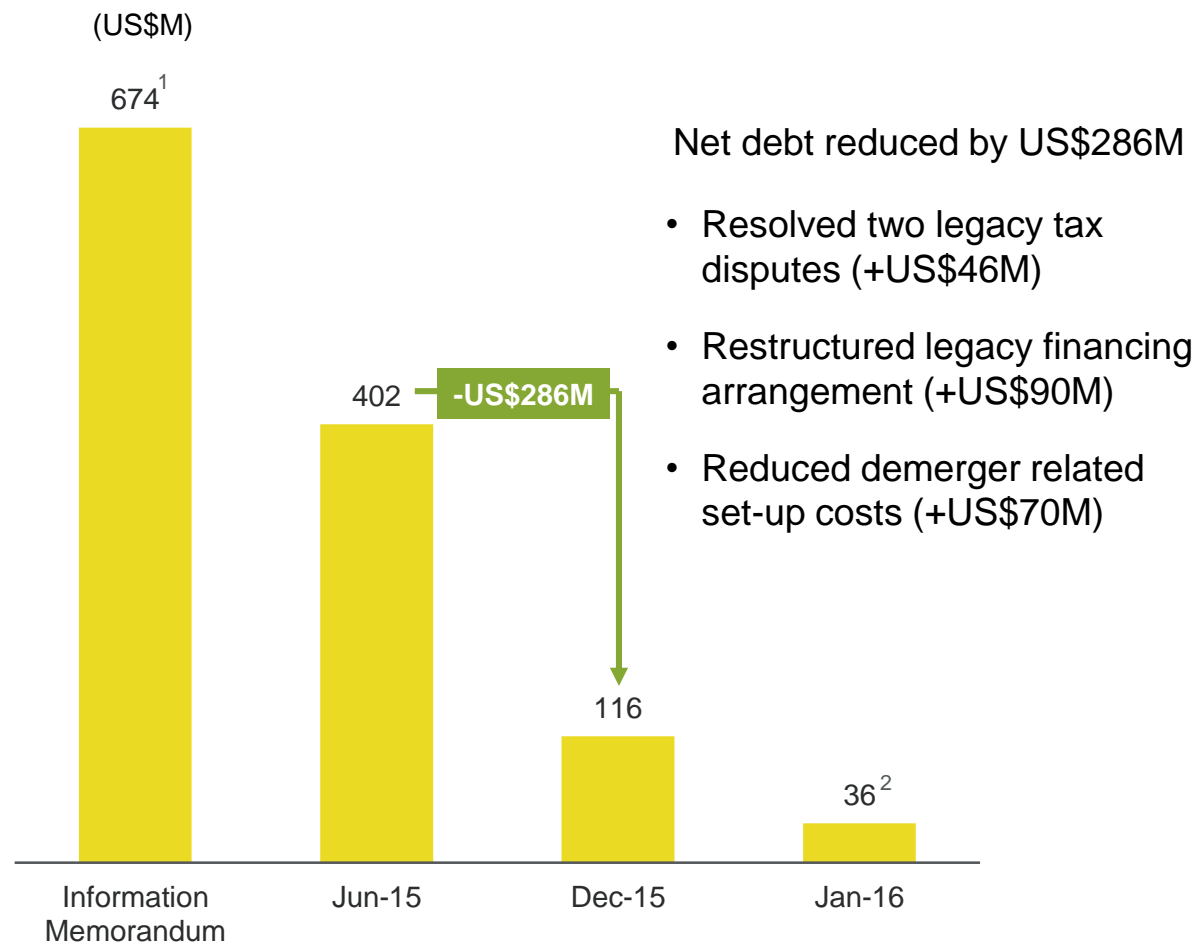
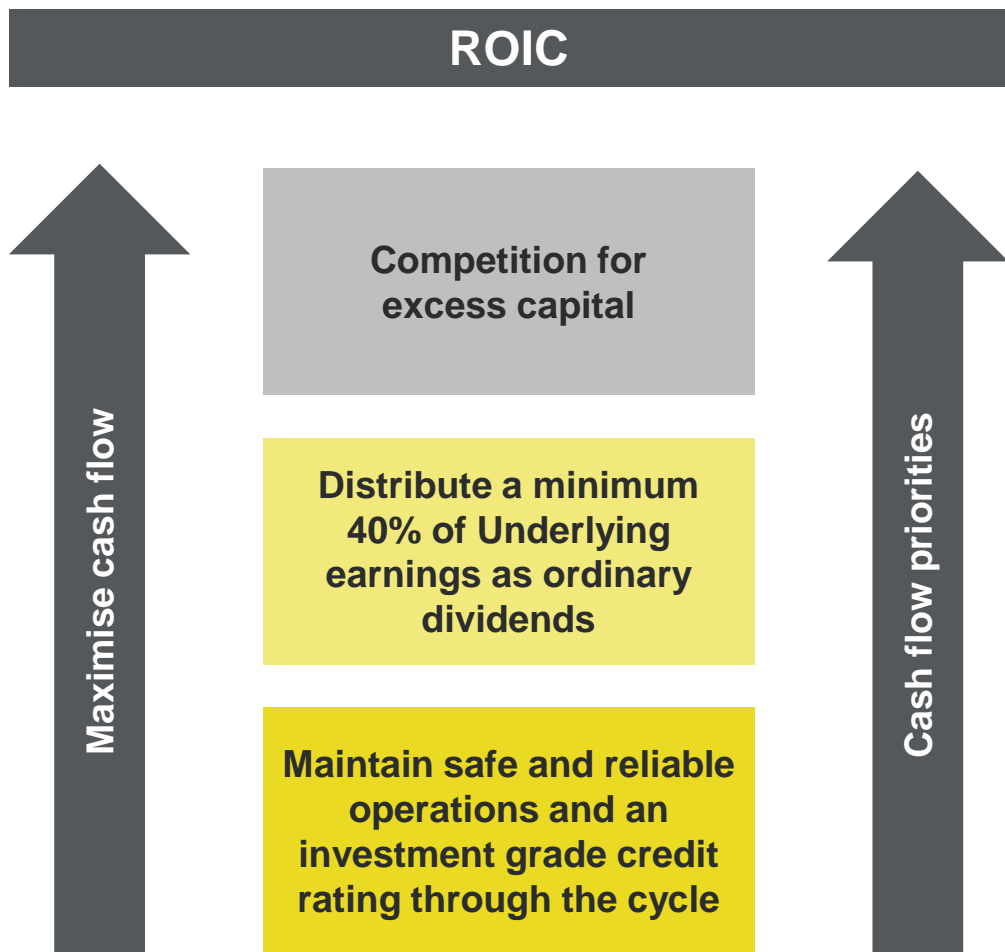
# CAPITAL EXPENDITURE ANALYSIS



(US\$M)



Note: Including Equity Accounted Investments capital expenditure. Excludes expenditure related to the purchase of intangibles and capitalised exploration expenditure of US\$16M in H1 FY16 (US\$13M in H1 FY15). Refer to Appendix 3 for further details.



1. Information Memorandum Net Debt as at 31 December 2014.  
 2. 31 January 2016 provisional, unaudited Net Debt.

# OUTLOOK

**GRAHAM KERR**  
CEO



## 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 operations

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Safety, volume, costs and capex

Maximise their potential

Convert high value resource to  
reserve

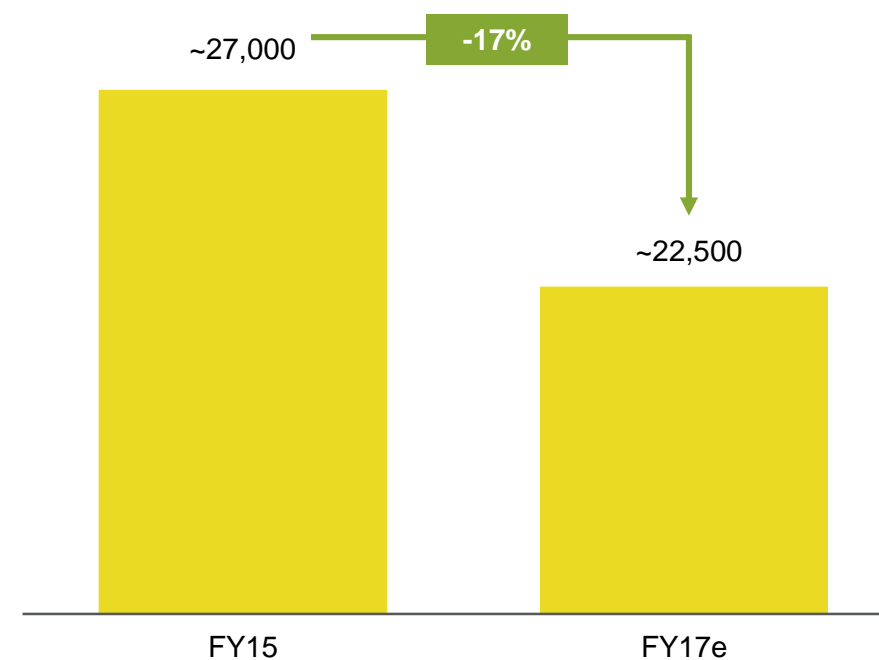
Identify new opportunities

Increase competition for capital

# MAJOR RESTRUCTURING UNDERWAY

- Particular focus on 5 operations:
  - South Africa Manganese
  - Worsley Alumina
  - Illawarra Metallurgical Coal
  - Australia Manganese
  - Cerro Matoso
- Restructuring initiatives to deliver:
  - Reduction of at least 1,750 employees and contractors
  - Procurement savings of ~US\$160M<sup>2,3</sup> in FY17
  - Reduce sustaining capital expenditure by US\$275M<sup>2,3</sup>
  - Pre-tax restructuring costs of US\$37M<sup>2</sup> anticipated in H2 FY16

Group employee and contractor headcount<sup>1,4</sup>



1. Compares employees and contractors at the end of FY17 with employees and contractors at the end of FY15.  
2. South32 share.  
3. Compares procurement savings and projected capital expenditure in FY17 with FY15. FY17 is predicated on an average AUD:USD exchange rate of 0.68, an average USD:ZAR exchange rate of 14.12 and an average USD:COP exchange rate of 3,170.  
4. Group employee and contractor headcount excluding non-operated Brazil Alumina. FY17 based on current activity level.



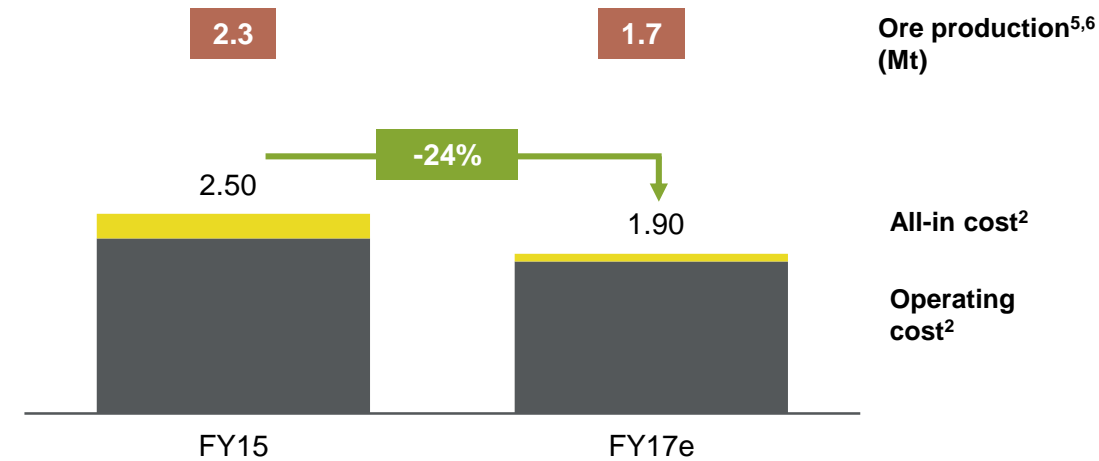
# RESETTING THE COST BASE: SOUTH AFRICA MANGANESE



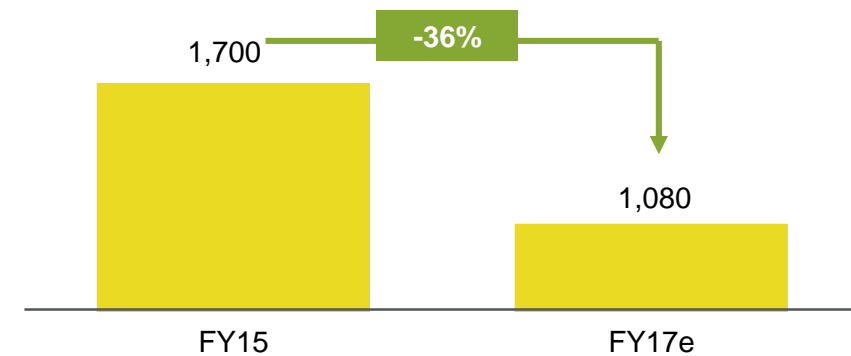
- 900ktpa<sup>1</sup> cut in saleable manganese ore production
- Hotazel all-in cost<sup>2</sup> decline by 24%<sup>3</sup> to US\$1.90/dmtu in FY17
  - Reduction of ~ 620<sup>4</sup> employees
  - Accelerate Central Block 2 development at Wessels to relocate closer to critical infrastructure and reduce cycle times
  - Optimise Mamatwan mining and processing operations
  - Reduce sustaining capital expenditure by ~80%<sup>3</sup> to US\$7M<sup>2,5</sup>
- Pre-tax restructuring costs of US\$10M<sup>5</sup> in H2 FY16

## All-in cost and volume

(US\$/dmtu)



## Employee headcount



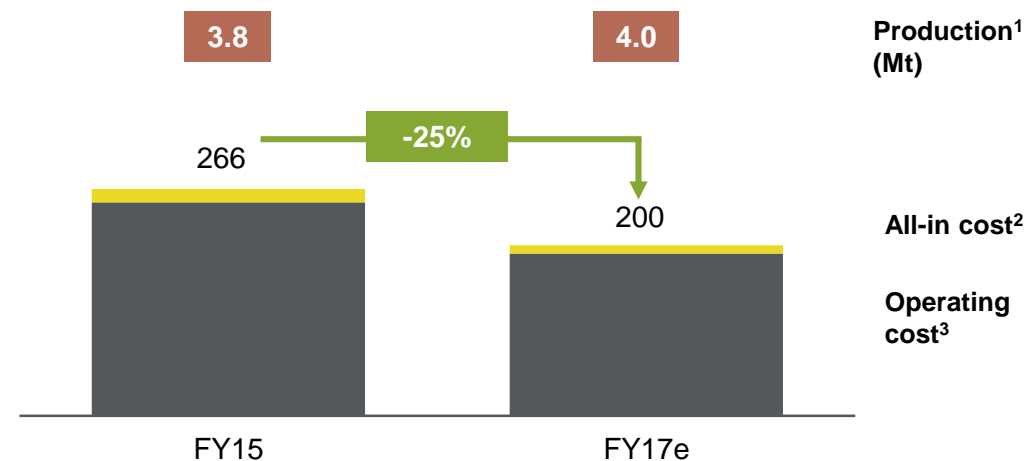
1. 100% basis. Compares FY17 with FY15.  
 2. All-in cost is operating cost plus sustaining capital expenditure. Operating costs is Revenue less Underlying EBITDA divided by sales. Projected all-in costs for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: a manganese ore price of US\$2.00/dmtu for 44% manganese product; and a USD:ZAR exchange rate of 14.12.  
 3. Compares FY17 with FY15.  
 4. Compares employees at the end of FY17 with employees at the end of FY15.  
 5. South32 share.  
 6. FY17e production guidance subject to market demand.

# RESETTING THE COST BASE: WORSLEY

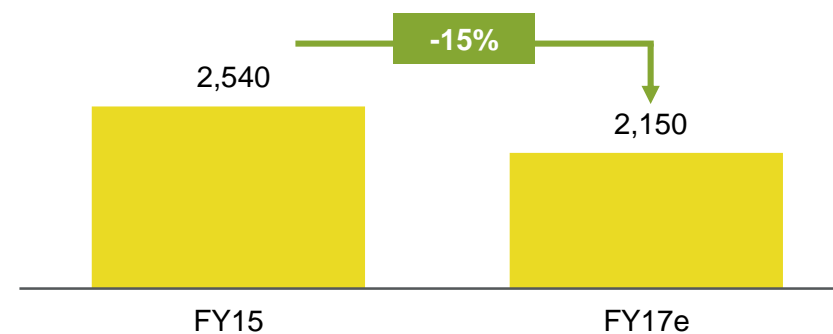
- Production guidance increase to 4.0Mt<sup>1</sup> in FY17
  - Targeting ~3% lift in refinery availability and utilisation
- All-in cost<sup>2</sup> to decline by 25%<sup>3</sup> to US\$200/t in FY17
  - Reorganisation of mining and refining into two operations
  - Reduction of 390<sup>4</sup> employees and contractors
  - Procurement savings of ~US\$65M<sup>1,3</sup>
  - Lower energy costs by optimising coal:gas mix
  - Reduce sustaining capital expenditure by 34%<sup>3</sup> to US\$41M<sup>1,2</sup>
- Pre-tax restructuring costs of US\$15M<sup>1</sup> in H2 FY16

## All-in cost and volume

(US\$/t)



## Employee and contractor headcount

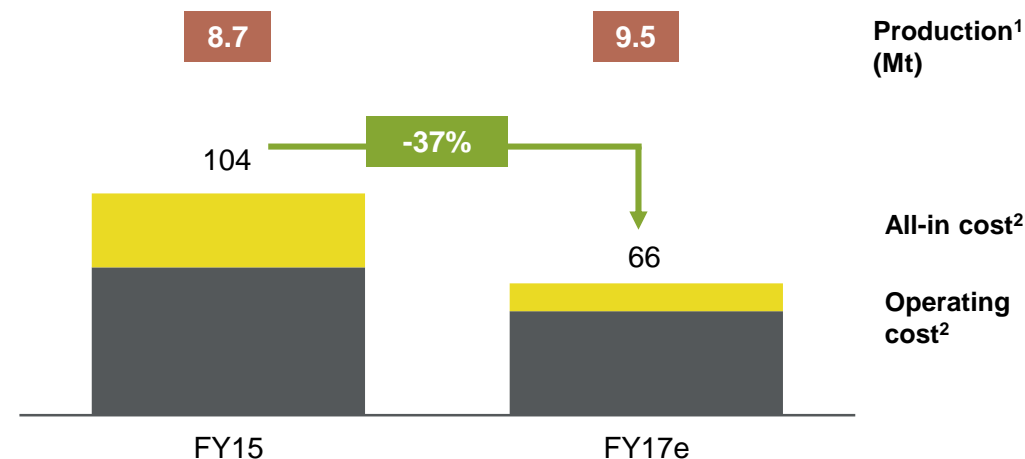


1. South32 share.  
 2. All-in cost is operating cost plus sustaining capital expenditure. Operating costs is Revenue less Underlying EBITDA divided by sales. Projected all-in costs for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: an alumina price of US\$255/t for royalty calculations and an average AUD:USD exchange rate of 0.68.  
 3. Compares FY17 with FY15.  
 4. Compares employees and contractors at the end of FY17 with employees and contractors at the end of FY15.

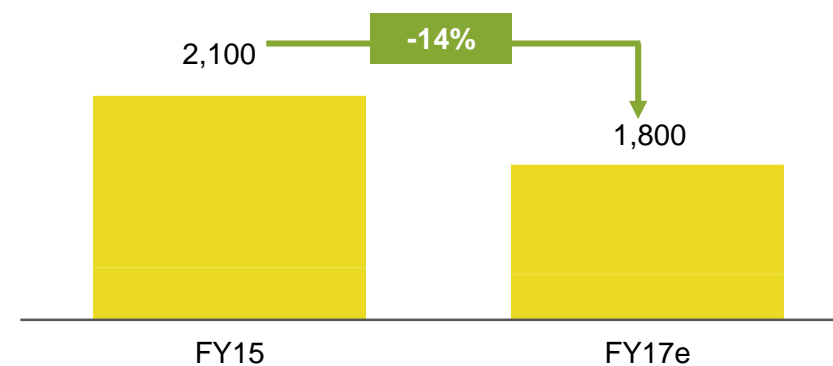
# RESETTING THE COST BASE: ILLAWARRA

- Stretching longwall utilisation to lift production to 9.5Mt<sup>1</sup> in FY17
- All-in costs<sup>2</sup> to decline by 37%<sup>3</sup> to US\$66/t in FY17
  - Reorganisation of mines into two operations
  - Reduction of at least 300<sup>4</sup> employees and contractors
  - Procurement savings of ~US\$50M<sup>1,3</sup>
  - Reduce sustaining capital expenditure, including development, by 58%<sup>3</sup> to US\$108M<sup>1,2</sup>
- Appin Area 9 project annualised capital expenditure, including development of US\$104M<sup>1</sup> in H1 FY16 will not carry forward beyond 3Q FY16
- Sustaining development of US\$58Mpa<sup>1</sup> ensures mines remain well capitalised
- Pre-tax restructuring costs US\$10M<sup>1</sup> in H2 FY16

## All-in cost and volume (US\$/t)



## Employee and contractor headcount



1. South32 share.  
 2. All-in cost is operating cost plus sustaining capital expenditure (including underground development). Operating costs is Revenue less Underlying EBITDA divided by sales. Projected all-in costs for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: a blended coal price of US\$65/t for royalty calculations and an average AUD:USD exchange rate of 0.68.  
 3. Compares FY17 with FY15.  
 4. Compares employees and contractors at the end of FY17 with employees and contractors at the end of FY15.

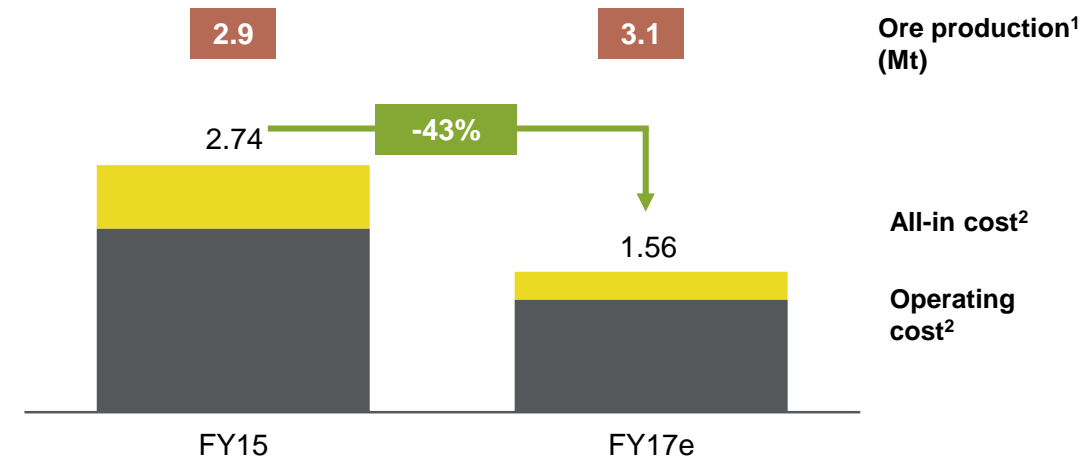
# RESETTING THE COST BASE: AUSTRALIA MANGANESE



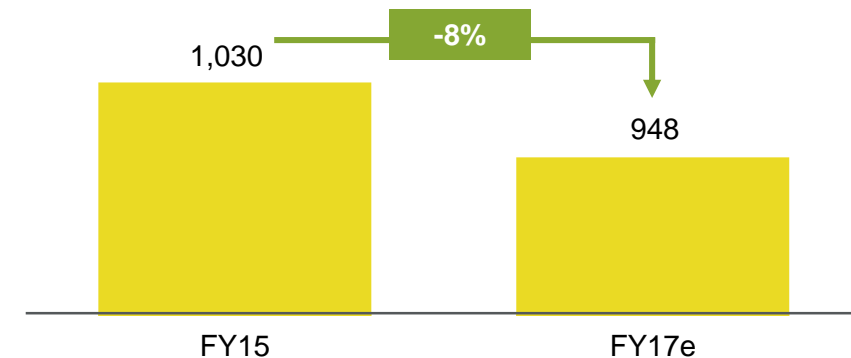
- Manganese saleable ore production guidance in FY17 is lowered by 4% to 3.1Mt<sup>1</sup>
  - Revised ramp up of Premium Concentrate Ore project
- All-in costs<sup>2</sup> expected to decline by 43%<sup>3</sup> to US\$1.56/dmtu in FY17
  - Reduction of 82<sup>4</sup> employees and contractors
  - Procurement savings of ~US\$10M<sup>1,3</sup>
  - Reduce sustaining capital expenditure by 56%<sup>3</sup> to ~US\$40M<sup>1,2</sup>
- Redundancy costs are not anticipated at GEMCO

## All-in cost and volume

(US\$/dmtu)



## Employee and contractor headcount



1. South32 share.  
 2. All-in cost is operating cost plus sustaining capital expenditure. Operating costs is Revenue less Underlying EBITDA divided by sales. Projected all-in costs for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: a manganese ore price of US\$2.00/dmtu (44% manganese product) for royalty calculations and an average AUD:USD exchange rate of 0.68. FY17 is on a FOB basis.  
 3. Compares FY17 with FY15.  
 4. Compares employees and contractors at the end of FY17 with employees and contractors at the end of FY15.

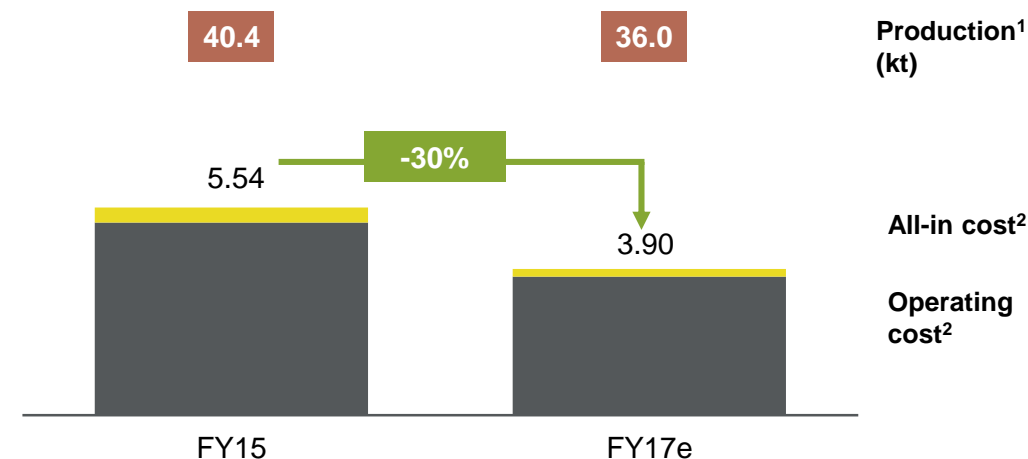
# RESETTING THE COST BASE: CERRO MATOSO



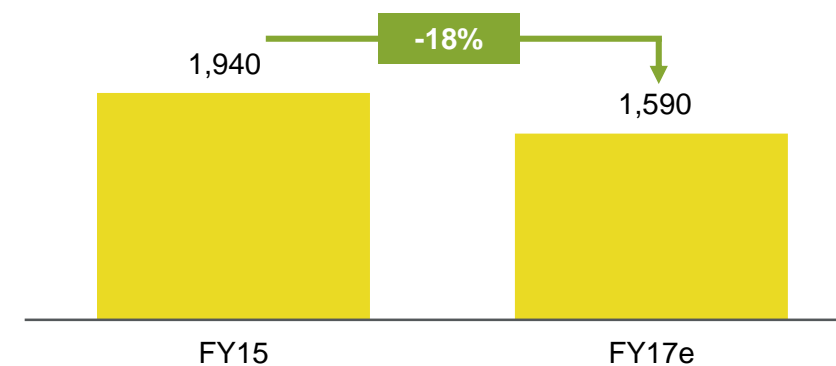
- No change in production guidance.
- All-in costs<sup>2</sup> expected to decline by 30%<sup>3</sup> to US\$3.90/lb in FY17
  - Reduction of at least 350<sup>4</sup> employees and contractors
  - Procurement savings of ~US\$37M<sup>1,3</sup>
  - Reduce sustaining capital expenditure by 56%<sup>3</sup> to US\$16M<sup>1,2</sup>
- Pre-tax restructuring costs of US\$2M<sup>1</sup> in H2 FY16

## All-in cost and volume

(US\$/lb)



## Employee and contractor headcount



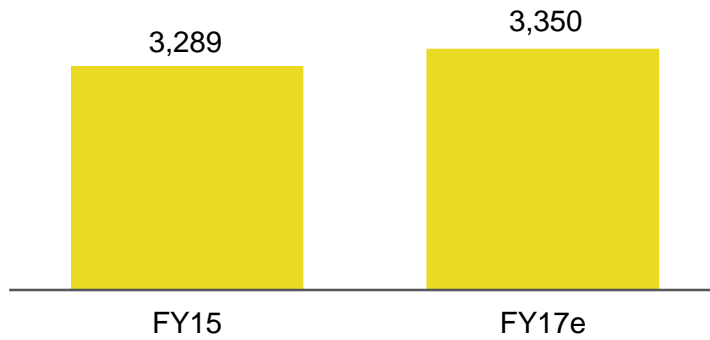
1. South32 share.  
 2. All-in cost is operating cost plus sustaining capital expenditure. Operating costs is Revenue less Underlying EBITDA divided by sales. Projected all-in costs for FY17 include royalties (where appropriate) and the influence of exchange rate assumptions, and are predicated on: a nickel price of US\$3.75/lb for royalty calculations and an average USD:COP exchange rate of 3,170.  
 3. Compares FY17 with FY15.  
 4. Compares employees and contractors at the end of FY17 with employees and contractors at the end of FY15.

# OPTIMISING PERFORMANCE ACROSS OUR PORTFOLIO

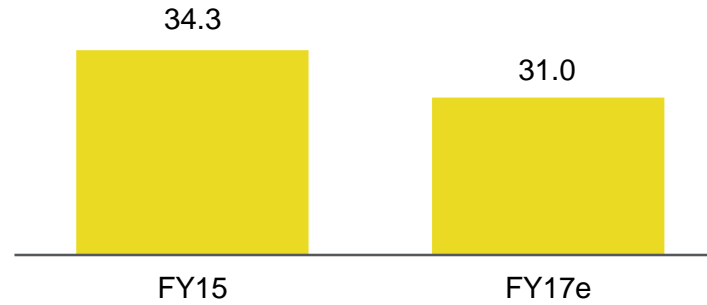


## Production<sup>1</sup>

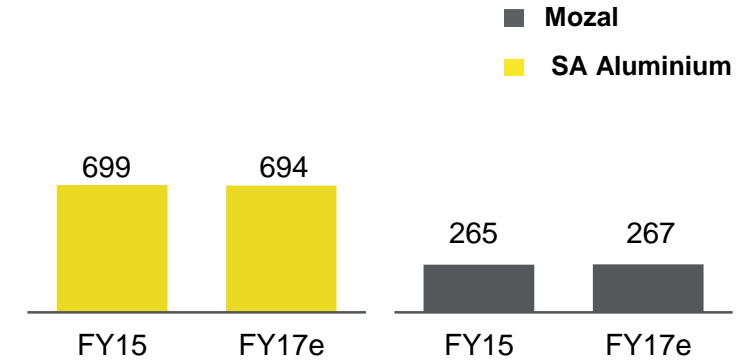
Ore processed (kt)



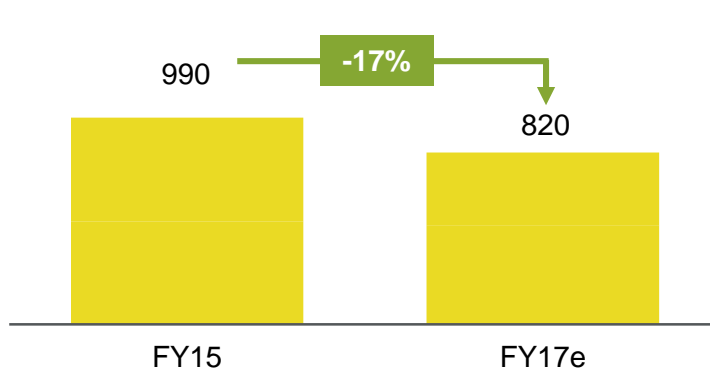
Coal production (Mt)



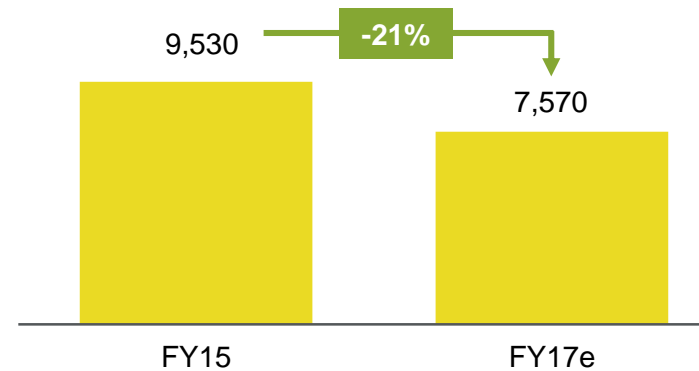
Saleable aluminium (kt)



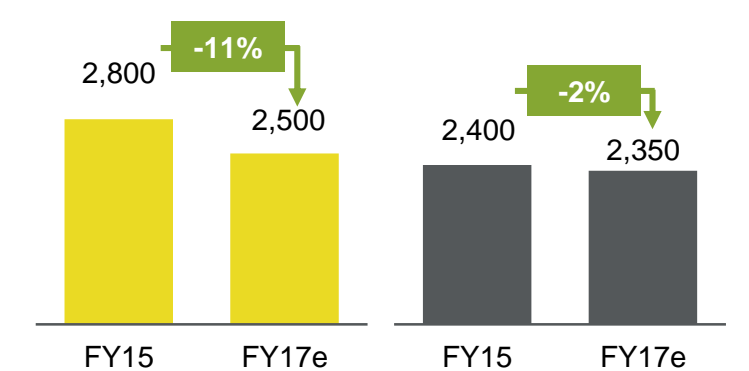
## Employee and contractor headcount<sup>2</sup>



Cannington



South Africa Energy Coal



African Aluminium smelters

1. South32 share, except South Africa Energy Coal (100%)  
2. Compares employees and contractors at the end of FY17 with FY15.

H1 FY16

**Optimising the performance of  
our operations**

**Controllable costs reduced by  
US\$182M**

**Capital expenditure reduced by  
US\$88M**

**Net debt reduced to US\$116M**  
(US\$36M at 31 Jan 2016)

FY16

**Focus on  
value not volume**

**Targeting US\$300M reduction  
in controllable costs and  
US\$218M reduction in capital  
expenditure**

**Low financial gearing +  
operational leverage =  
powerful combination**



# APPENDICES





# H1 FY16 FINANCIAL RESULTS



**Statutory loss of US\$1.7B  
includes non-cash  
impairments of US\$1.7B**

**Underlying EBITDA of  
US\$542M**  
**Operating margin of 20%**

**Underlying EBIT  
of US\$141M**  
**Underlying earnings  
of US\$26M**

**Free cash flow of operations of  
US\$192M**

**Net debt reduced to US\$116M**

**ROIC 1.4%**

# EARNINGS SENSITIVITIES



Estimated full-year impact on FY16 Underlying EBIT of a 10% change in commodity or currency	EBIT impact +/- 10% US\$M
Aluminium	147
Alumina	149
Energy coal	72
Metallurgical coal	68
Manganese ore <sup>1</sup>	47
Nickel	30
Silver	34
Manganese alloy <sup>1</sup>	20
Lead	32
Zinc	13
Australian dollar	159
South African rand	138
Colombian peso	37
Brazilian real	7

1. The sensitivity impact for manganese ore and manganese alloy are on a pre-tax basis. The Group's manganese operations 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 (South32 share)	FY15 US\$M	H1 FY15 US\$M	H1 FY16 US\$M	FY16e (Guidance) US\$M	FY16e (Prior Guidance) US\$M
Major projects	51	25	26	50	50
All other capital expenditure (including Deferred stripping)	578	292	211	410	550
<b>Capital expenditure (excluding equity accounted investments)</b>	<b>629</b>	<b>317</b>	<b>237</b>	<b>460</b>	<b>600</b>
Equity accounted investments	139	56	48	90	100
<b>Capital expenditure (including equity accounted investments)</b>	<b>768</b>	<b>373</b>	<b>285</b>	<b>550</b>	<b>700</b>
The purchase of intangibles and capitalised exploration expenditure	13	13	16		
<b>Total capital expenditure (including equity accounted investments)</b>	<b>781</b>	<b>386</b>	<b>301</b>		

# PRODUCTION GUIDANCE



Upstream production guidance (South32 share)	FY15	FY16e	FY17e
<b>Worsley Alumina</b>			
Alumina production (kt)	3,819	3,950	<i>(Revised ↑) 3,965</i>
<b>Brazil Alumina</b>			
Alumina production (kt)	1,328	1,320	1,320
<b>South Africa Energy Coal (100%)</b>			
Domestic coal production (kt)	18,123	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	<i>(Revised ↓) 6,900</i>	<i>(Revised ↑) 8,150</i>
Energy coal production (kt)	1,471	<i>(Revised ↓) 1,350</i>	<i>(Revised ↑) 1,380</i>
<b>Australia Manganese</b>			
Manganese ore production (kt)	2,942	3,050	<i>(Revised ↓) 3,120</i>
<b>South Africa Manganese</b>			
Manganese ore production (kt)	2,273	<i>Subject to demand</i>	<i>Subject to demand</i>
<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

