7 September 2018

South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
ASX / LSE / JSE Share Code: S32 ADR: SOUHY
ISIN: AU000000S320
south32.net

2018 ANNUAL REPORT

South32 Limited (ASX, LSE, JSE: S32; ADR: SOUHY) (South32) today releases its 2018 Annual Report, Corporate Governance Statement and Appendix 4G. These documents are also available online at https://www.south32.net/investors-media/annual-report-suite.

The Notice of Annual General Meeting will be dispatched by no later than 26 September 2018. A hard copy of the Annual Report will also be dispatched on the same day to those shareholders who have requested one.

Yours sincerely

Nicole Duncan
Company Secretary

About South32

South32 is a globally diversified mining and metals company. We produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc at our operations in Australia, Southern Africa and South America. We are also the owner of a high grade zinc, lead and silver development option in North America and have several partnerships with junior explorers with a focus on base metals. Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come, and to be trusted by our owners and partners to realise the potential of their resources.

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

JSE Sponsor: UBS South Africa (Pty) Ltd
7 September 2018

SOUTH32

ANNUAL REPORT 2018

SOUTH32

WHO WE ARE

South32 is a globally diversified mining and metals company. We produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc at our operations in Australia, Southern Africa and South America. We are also the owner of a high grade zinc, lead and silver development option in North America and have several partnerships with junior explorers with a focus on base metals.

CONTENTS

This Annual Report is a summary of the operations, activities and performance of South32 Limited (ABN 84 093 732 597) and its controlled entities and joint arrangements for the year ended 30 June 2018 and its financial position as at 30 June 2018.

South32 Limited is the parent company of the South32 Group of companies. In this report, unless otherwise stated, references to South32, the South32 Group, the Company, we, us and our, refer to South32 Limited and its controlled entities and joint arrangements, 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 2017 to 30 June 2018 (FY18). 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) Standards '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 or statements of fact. 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. South32 makes no representation, assurance or guarantee as to the accuracy or likelihood or fulfilment of any forward-looking statement or any outcomes expressed or implied in any forward-looking statement. 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*.

HOW WE WORK

When we started our journey as South32 we knew that if done well and sustainably, developing natural resources can change people's lives for the better.

We are working together to create an inclusive workplace where we hold ourselves and each other to account by living our values of care, trust, togetherness and excellence. Our values govern how we act, work, speak to each other and how we evaluate our behaviour. They guide us and are part of every decision we make.

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.

THE VALUES THAT GUIDE US

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

TOGETHERNESS
We value diference, listen and share, knowing that together we are better.

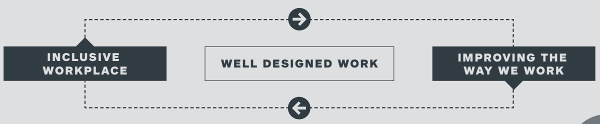
TRUST
We deliver on our commitments and rely on each other to do the right thing.

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

THE WAY WE WORK

Together we will create an inclusive workplace where we hold ourselves and each other to account to demonstrate our values.

We ensure all work is well designed and reliably delivers safe outcomes, with a focus on continuously improving and learning.



HOW WE MAKE A DIFFERENCE

- We all guarantee everyone goes home safe and well
- We are meaningfully connected and believe in our purpose
- Our operations run to their full potential and maximise return on investment
- Our functions are lean and enable our operations to deliver their full potential
- Technology and innovation is radically lifting our performance
- We create value through our environmental and social leadership
- We have optimised our portfolio and have multiple growth options with a bias to base metals

GOVERNANCE

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

OUR BREAKTHROUGHS

This year we have introduced seven breakthroughs, which describe how we make a difference.

Breakthrough	How the breakthrough is delivered
We all guarantee everyone goes home safe and well	The most important thing we can all do is make sure that everyone goes home safe and well at the end of every shift. Together we will achieve this by creating an inclusive workplace where all work is well designed, and we continuously improve and learn.
We are meaningfully connected and believe in our purpose	We will work together as one company. We will enrol all our stakeholders - our people, the communities where we work and their governments, our customers, contractors, suppliers, partners and our shareholders - in our purpose by communicating openly and delivering on our commitments.
Our operations run to their full potential and maximise return on investment	We will be the safest and a leading operator in our industry, recognised for stable and predictable performance that maximises the potential of our operations. We will do this with well-designed work that is supported by systems that provide smart data and are easy to use.
Our functions are lean and enable our operations to deliver their full potential	Our functions will be high performing. We will focus on the critical elements that support our strategy and governance, and the stable and predictable performance of our operations.

Our breakthroughs are our new business strategy, and enable us to focus on what is important, balance our priorities and ensure we are all aligned to deliver on our purpose. Our breakthroughs form the foundation of how we plan our business. While no breakthrough has more importance than another, safety sits at the top of the list of seven as it is at the forefront of everything we do. Our breakthroughs bring us together as one South32 to create long-term value for all.

Breakthrough	How the breakthrough is delivered
BREAKTHROUGH 5 Technology and innovation is radically shifting our performance	We will transform the way we work by connecting our people and enabling better decisions. Our technology, innovation and improvement mindset will enable us to work safely, be more inclusive, improve performance, reduce our environmental footprint and future-proof our strategy.
BREAKTHROUGH 6 We create value through our environmental and social leadership	We will continually find ways to reduce our land requirements, biodiversity impacts, waste, carbon and water usage. Our climate change strategy will guide us to ensure our business is resilient. We will progress initiatives in collaboration with our host communities that will deliver enduring social, environmental and economic benefit.
BREAKTHROUGH 7 We have optimised our portfolio and have multiple growth options with a bias to base metals	We will position ourselves for the next phase of growth in demand by creating a pipeline of opportunities to compete for capital, with a bias towards base metals.

CHAIRMAN'S REPORT

Creating sustainable value

On behalf of the Board, I am pleased to present our 2018 Annual Report.

At South32 our purpose is to make a difference in people's lives, now and for generations to come. This year we continued to focus on securing the long-term success and sustainability of our business. This includes aligning our people to our purpose and values, creating an inclusive workplace that is as diverse as the communities where we operate and managing our portfolio for the long-term.

We are committed to ensuring our people go home safe and well at the end of every shift. While our overall safety performance in terms of total recordable injury frequency has improved year on year, it is with deep regret that one of our colleagues was fatally injured during the year. Any fatality is unacceptable and we remain uncompromising in our efforts to ensure a safe working environment. The Board continues to work closely with the Lead Team as they focus on leadership capability, hazard identification and improving risk management.

Our financial performance this year has been influenced by a range of market factors and trends. Commodity prices have continued to rise, driven by growth in key markets, tighter supply and increasing inflation.

We generated revenue of US$7.5 billion and significantly increased Underlying earnings by 16 per cent to US$1.3 billion, and our statutory profit by 8 per cent to US$1.3 billion. This strong financial performance translated into free cash flow from operations, including net distributions from equity accounted investments, of US$1.4 billion and an increase in our net cash balance to finish the year at US$2.0 billion.

We also delivered a 13.5 per cent return on invested capital, and total shareholder returns of 53 per cent. We maintained our focus on strong cost control and following the decision to manage South Africa Energy Coal as a stand-alone business we expect to deliver annual cost savings of US$50 million from FY20.

We are committed to our investment grade credit rating and broader capital management framework, which prioritises investment in our business and ordinary dividends, with excess capital returned to shareholders in the most efficient way. Consistent with this, returns to shareholders were US$946 million in respect of the period. This included a fully franked interim dividend of US$221 million, a fully franked final dividend of US$317 million, and the return of US$408 million through our ongoing capital management program. During the year, our capital management program was increased by US$250 million to US$1 billion. We expect to return the remaining US$380 million balance of the capital management program to shareholders in FY19.

We remain positive about global growth in the longer term and are adding high quality options to our portfolio to set us up for the future. Using the strength of our balance sheet we entered into an agreement to acquire a 50 per cent interest in the Eagle Downs metallurgical coal project and most recently we completed the US$1.3 billion acquisition of Arizona Mining.

We value diversity and are focused on building an inclusive workplace. We continue to close the gender and ethnicity pay gap investing an additional US$1 million this year, bringing our total investment to US$2.8 million over the past two years.

We have also strengthened the long-term capability and diversity of experience and industry knowledge of the Board with the appointment of two female Directors this year, Dr Xiaoling Liu and Ms Karen Wood.

As with last year, in FY18 we did not increase Fixed Remuneration for any of our Non-Executive Directors or Executive Key Management Personnel (KMP). Our short-term incentive outcomes are below target, primarily due to the fatality this year and lower than expected production volumes, particularly at Illawarra Metallurgical Coal and Cannington. As a result of the increase in our share price and positive total shareholder returns over the performance period, the share plans that vested this year have been the most significant contributor in an increase in actual pay for the Executive KMP in FY18.

We recognise the importance of our social licence to operate and work with our communities to deliver social, environmental and economic benefits. This year we invested US$20.4 million in our communities, an increase of US$6.1 million from FY17.

In April, our Cerro Matoso operation was notified of a decision handed down by the Constitutional Court of Colombia in relation to alleged health and environmental impacts on the surrounding community. While respectful of the Colombian authorities we disagree with the judgment and are in the process of appealing the decision. Cerro Matoso has an excellent track record of environmental compliance and operates to international standards of occupational health and environmental management.

We continued to integrate the management of climate change into our business. During the year we began assessing our operations' resilience to the physical impacts of an extreme climate change scenario. To reflect this, we have expanded our climate change reporting, which is in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

Looking forward we are confident that we have set ourselves up to deliver long-term value to our shareholders, our people and the communities where we operate.

On behalf of the Board and all shareholders I thank Chief Executive Officer, Graham Kerr and his Lead Team, along with all our people for their role in South32's success over the past three years.

Thank you to our shareholders for your support and we look forward to continuing this journey with you.

David Crawford AO
Chairman

CEO'S REPORT

Reshaping our business for the future

During the year we continued to focus on creating an inclusive workplace, where work is well designed, we continuously learn and improve, and everyone acts in accordance with our values.

Tragically in April this year one of our colleagues was fatally injured while working at our Metalloys manganese smelter in South Africa. We have deeply reflected on this incident and have engaged extensively with our people to ensure all work is well designed and reliably delivers safe outcomes. We are also investing in our leaders to develop the right skills and capabilities to improve our safety performance, while empowering our people to speak up and stop when work isn't safe.

Throughout the year we focused on embedding our purpose and values to better connect our people to what we want to achieve as an organisation. We also introduced seven 'breakthroughs' which outline the strategic imperatives that will make a difference across the areas of safety, stakeholder engagement, operations, functions, technology, environmental and social leadership, and portfolio optimisation. These breakthroughs guide the structure of our business plans to ensure the entire organisation is united by and working towards our purpose.

Part of this involves actively reshaping our portfolio and creating a pipeline of opportunities to ensure we are well positioned for the future. In April 2018, we started managing South Africa Energy Coal as a stand-alone business, allowing us to collapse the regional model, consolidate our support structures and change the way we work. Consistent with our objective to transform South Africa Energy Coal, we also commenced a process to broaden its ownership in the September 2018 quarter.

This new way of working is also scalable, allowing us to expand our global footprint and invest in opportunities where we believe we can create value.

In August 2018, we completed the US$1.3 billion acquisition of Arizona Mining, adding the high grade zinc, lead and silver Hermosa project and a prospective land package to our portfolio. We also entered into a conditional agreement to acquire a 50 per cent interest in the Eagle Downs project, exercised the second year of our Trilogy Metals option and entered into a number of exploration agreements with junior partners. In parallel, we continue to invest in our exisiting portfolio to ensure our operations remain competitive.

We must continue to focus on running all of our operations to their full potential. We delivered record production at Australia Manganese and a 10 per cent increase in total manganese ore production as we responded to favourable market conditions. We also achieved another production record at Mozal Aluminium and increased production at Cerro Matoso by 20 per cent as we benefitted from a full year of higher grade ore from La Esmeralda. At the same time, we realised a significant lift in the operating margin of our aluminium value chain as a result of tight markets and our long alumina position.

There is still work to do to overcome operational challenges experienced during the year. At Illawarra Metallurgical Coal we are re-establishing minimum performance criteria and implementing work practices to improve longwall and development performance. We believe these initiatives will enable production rates to return to historical levels. Similarly, we are facing increasing complexity in the underground mine at Cannington and have responded by resetting mining and processing rates in order to improve the stability and predictability of our performance.

We have also delivered an improvement in equipment productivity at a number of our operations and have renegotiated energy supply and logistics contracts to deliver additional value. At Worsley Alumina, we have developed the low reactive silica West Marradong resource, which is allowing us to optimise caustic soda consumption rates. This disciplined approach has helped mitigate broader inflationary pressure, particularly in our downstream processing facilities.

We continue to transform the composition of our business and have made progress towards achieving our diversity targets. Overall representation of women in our workforce increased to 17 per cent, while the representation of women in our Lead Team increased to 29 per cent. We are closing the gender and ethnicity pay gap, committing US$1 million to this area in the 2018 financial year. Pleasingly, the representation of Black People in our workforce in South Africa increased to 81 per cent.

Environmental and social leadership is an important factor in long term value creation. Throughout our 2018 Annual Reporting Suite you will find examples of our commitment to environmental management, local employment and the work we are undertaking in collaboration with our host communities. As part of reducing our carbon footprint, we commenced construction of a six-hectare, three-megawatt solar farm at Cannington, representing our first solar installation. The solar farm will deliver reduced greenhouse gas emissions by offsetting gas consumption with solar energy.

Looking ahead, we are well positioned for the future. Stronger production from many of our operations along with a continued focus on productivity gains and procurement savings will allow us to further mitigate industry wide inflationary pressure.

We are excited to be adding high quality development options to our portfolio and will continue to reshape our portfolio as we seek to maximise total shareholder returns. Creating a safe and inclusive workplace for our people and making a positive difference to the communities where we work will be fundamental to our success.

Graham Kerr
Chief Executive Officer

ACTIVELY RESHAPING OUR PORTFOLIO

We are actively reshaping our portfolio and creating a pipeline of opportunities to compete for capital, with a bias to base metals. In FY18 and subsequent to year end we:

1. Acquired the remaining 83 per cent of Arizona Mining, owner of the zinc, lead and silver Hermosa project
2. Exercised the second year option with Trilogy Metals targeting a high grade copper extension at Bornite in Alaska
3. Entered a strategic alliance with North Queensland Resources to appraise several exploration opportunities targeting gold, silver and base metals
4. Signed an agreement to acquire a 50 per cent interest in the Eagle Downs metallurgical coal project in Queensland
5. Signed an exploration option agreement with Vancouver based Silver Bull Resources
6. Executed an option agreement with EMX for the Riddarhyttan iron oxide copper gold and massive sulfide project in Sweden

In April 2018, we started managing South Africa Energy Coal as a stand-alone business, enabling us to improve the operation's competitiveness and ensure its ongoing sustainability. In the September 2018 quarter, we commenced a process to increase its local ownership.

A NEW WAY OF WORKING

We have a single set of global functions, a centralised marketing model and global business services that support our evolving portfolio of operations and development options.

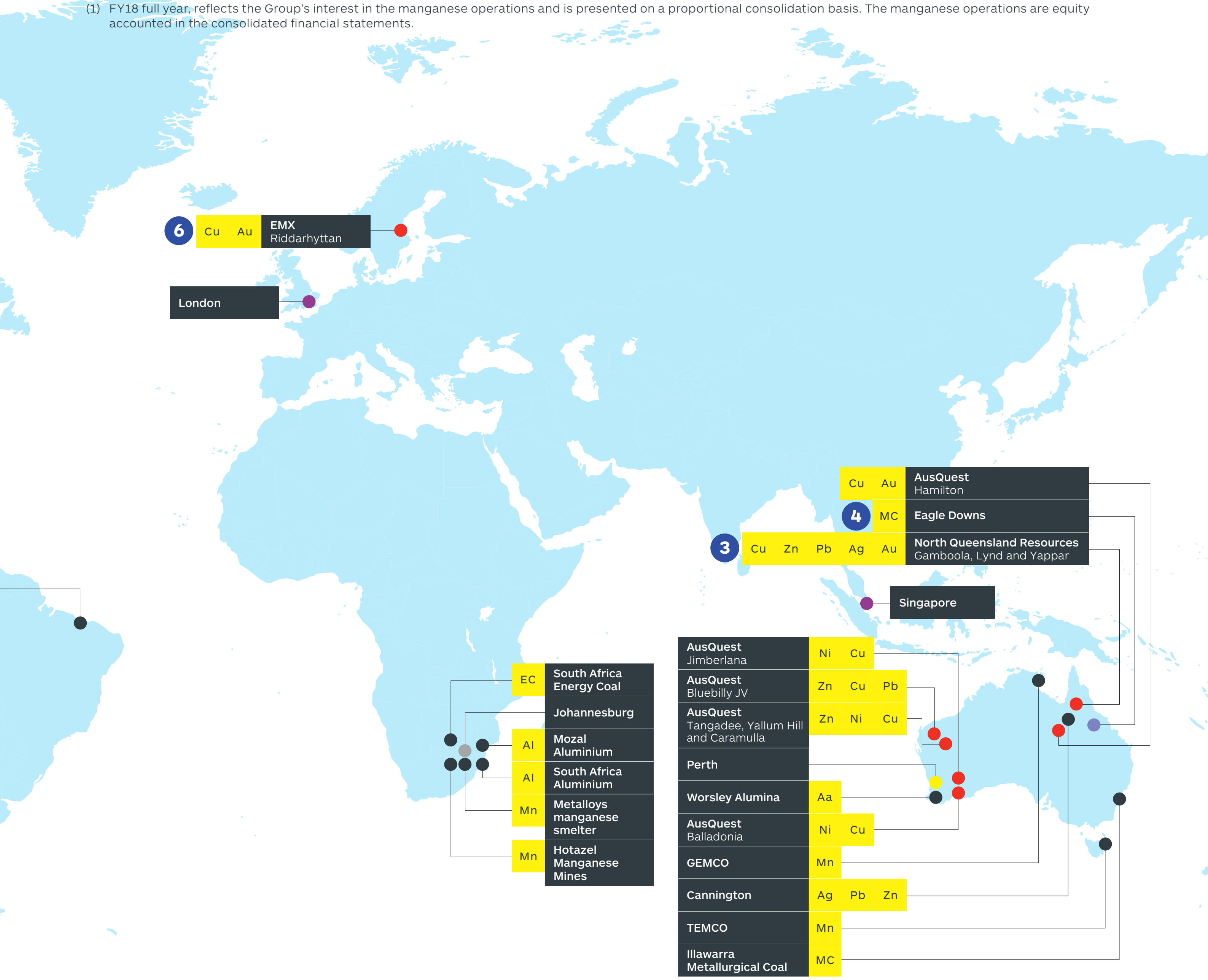
COMMODITIES

	Underlying EBITDA Contribution (%)(1)	Underlying EBITDA Margin (%)(1)	
Al Aa	40%	34%	**Bauxite, Alumina, Aluminium** Large alumina refineries and high quality bauxite resources integrated with our African aluminium smelters with a significant long alumina position.
EC	12%	26%	**Energy Coal** One of the largest coal exporters and domestic suppliers in South Africa.
Mn	31%	58%	**Manganese** World's largest producer of manganese ore and a top producer of alloy.
MC	3%	15%	**Metallurgical Coal** A major exporter of high quality metallurgical coal.
Ni	7%	37%	**Nickel** One of the world's largest ferronickel producers.
Ag Pb Zn	7%	39%	**Silver, Lead, Zinc** One of the world's largest producers of silver and lead.

Cu **Copper** Co **Cobalt**
Au **Gold**

Global Headquarters · Corporate Office · Marketing Office
Current Operation · Development Option · Exploration Project

(1) FY18 full year, reflects the Group's interest in the manganese operations and is presented on a proportional consolidation basis. The manganese operations are equity accounted in the consolidated financial statements.



PERFORMANCE SUMMARY – FY18

SUSTAINABILITY

Our Sustainability Policy defines our economic, environmental, social and governance principles and affirms our commitment to sustainable development. This policy is available at *www.south32.net*. We are a member of the International Council on Mining and Metals (ICMM) and contribute to specific targets of the UN Sustainable Development Goals. Our sustainability information is reported in accordance with the Global Reporting Initiative (GRI) Standards 'Core'. Our GRI Navigator is available at *www.south32.net*.

OUR PEOPLE(1)

Our people are the foundation of our success. Together we want to create an inclusive workplace where we hold ourselves and each other to account to demonstrate our values. Further reporting on People can be found at *www.south32.net*.

In FY18, we employed

14,192

people across

7 COUNTRIES

Permanent	Temporary or fixed-term
95%	5%

In addition to our employees, approximately

11,290(2)

full time equivalent contractors contributed to the success of our business.

Our voluntary turnover rate for FY18 was

3.2%

We committed US$1 million to address gender and ethnicity pay equity

Representation of women

Our workforce

Year	%
FY18	17%
FY17	16%
FY16	16%

Board(3)

Year	%
FY18	33%
FY17	14%
FY16	13%

Lead Team

Year	%
FY18	29%
FY17	17%
FY16	17%

Senior Leadership(4)

Year	%
FY18	31%
FY17	32%

Operational Leadership(5)

Year	%
FY18	18%
FY17	18%

Representation of Black People(6) in our workforce in South Africa

Total employees

Year	%
FY18	81%
FY17	79%
FY16	79%

Management roles

Year	%
FY18	45%
FY17	42%
FY16	45%

(1) Employee data is sourced from our internal Human Resources system, excludes Non-Executive Directors and reflects data as at 30 June in each respective financial year, except where stated otherwise.
(2) Average number of full-time equivalent contractors during FY18 sourced from internal monthly reporting.
(3) Includes Non-Executive Directors.
(4) South32 leaders who report directly to the Lead Team.
(5) South32 leaders who are based at an operation and report directly into a member of the Senior Leadership team (excludes functional roles).
(6) Refers to 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)).

OUR OUTLOOK

BREAKTHROUGH 2

Improve representation of women in leadership teams by 30 June 2020.

Targets

Senior Leadership(4)

40%

Operational Leadership(5)

20%

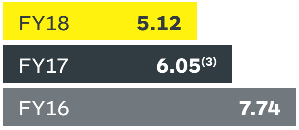
Year on year improvement in representation of Black People(6) across all levels of management in South Africa.

SAFETY AND HEALTH(1)

We have continued to improve our systems and processes to make a positive step change in our safety and health performance. Further reporting on Safety and Health can be found at *www.south32.net*.

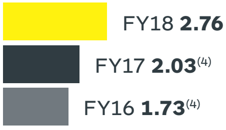
Occupational injury(2)

Total recordable injury frequency



Employee occupational illness(2)

Employee recordable illness frequency



Occupational exposures

% change from FY17

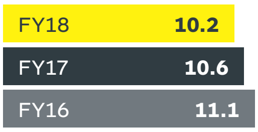
Potential exposures to carcinogens	↓ **13**% decrease
Potential exposure to airborne contaminants	↓ **19**% decrease
Potential exposures to noise	↑ **3**% increase

ENVIRONMENT AND SOCIETY(1)

We are creating a sustainable future for the communities we are a part of and the environments where we work. Further information on Environment, Community and Society can be found at *www.south32.net*.

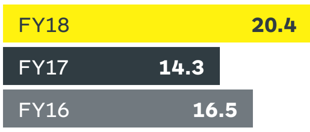
Greenhouse gas Scope 1 emissions(5)

Millions of tonnes



Community investment(6)

US$ million



CLIMATE CHANGE

We report on climate-related risks and opportunities in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures. Further reporting on Our Approach to Climate Change can be found at *www.south32.net*.

TRANSPARENCY

We include all payments to governments in our annual Tax Transparency and Payments to Governments Report which meets the requirements of mandatory and voluntary disclosure initiatives. Our Tax Transparency and Payments to Governments Report and a full list of South32's subsidiaries, including their country of tax residency, are available at *www.south32.net*.

OUR OUTLOOK

BREAKTHROUGH 1

Our people go home safe and well at the end of every shift.

Our annual targets focus on year on year reductions.

BREAKTHROUGH 6

We create value through our environmental and social leadership.

Our goal is net zero CO_2-e emissions by 2050.(5)

We have committed to review our emissions reduction target every five years.

(1) All as at 30 June in each respective financial year.
(2) Total recordable injury frequency (TRIF) per million hours worked and Employee Occupational Illness (EOI) per million hours worked, are all calculated in accordance with the United States Government Occupational Safety and Health Assessment (OSHA) guidelines for the recording and reporting of occupational injuries and illnesses.
(3) Figure has been restated since it was previously reported due to reclassification of a recordable illness to a recordable injury.
(4) Figure has been restated since it was previously reported due to reclassification of noise induced hearing loss cases.
(5) Carbon dioxide equivalent. Measured according to the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol (WRI/WBCSD).
(6) Community investment consists of cash, in-kind support and administrative costs and includes donations and investments of funds in the broader community where the target beneficiaries are external to the company. The amount accounts for actual expenditure in the reporting period, not commitments, is prepared on an accruals basis and represents South32's equity share.

PERFORMANCE SUMMARY – FY18

FINANCIAL

We delivered strong financial performance.

Underlying EBITDA(1)

US$ million

FY18	2,516
FY17	2,411
FY16	1,131

Underlying earnings(1)

US$ million

FY18	1,327
FY17	1,146
FY16	138

Net cash balance(1)

US$ million

FY18	2,041
FY17	1,640
FY16	312

Sustaining capital expenditure(2)

US$ million

FY18	433
FY17	337
FY16	430

Return on invested capital(1)

FY18	13.5%
FY17	11.4%
FY16	1.7%

Total shareholder returns(5)

FY18	53%
FY17	70%
FY16	(22%)

CAPITAL MANAGEMENT

We are investing in our business, reshaping our portfolio and returning excess capital to shareholders.

Ordinary dividends paid

US$ million

FY18	554
FY17	244

Ordinary dividends per share(6)

US cents per share

FY18	10.5
FY17	10.0
FY16	1.0

Cash returned through our US$1 billion Capital Management Program

US$ million

FY18	408(7)
FY17	211

(1) The FY18 Annual Report includes certain non-IFRS financial measures, including Underlying earnings, Underlying EBIT and Underlying EBITDA, Basic Underlying earnings per share, Underlying effective tax rate, Underlying EBIT margin, Underlying EBITDA margin, Underlying return on invested capital, Free cash flow, net debt, net cash, net operating assets and ROIC. These measures are used internally by management to assess the performance of our business, make decisions on the allocation of our resources and assess operational management. Non-IFRS measures should not be considered as an indication of or alternative to an IFRS measure of profitability, financial performance or liquidity.

(2) Sustaining capital expenditure includes equity accounted investments and excludes Group and unallocated and intangibles.

(3) Revenue equivalent production based on FY18 prices.

(4) FY19 production guidance assumptions are available on page 51 of the Annual Report.

(5) One-month average TSR June to June.

(6) FY18 ordinary dividend per share is calculated as H1 FY18 ordinary dividend announced (US$223 million) divided by the number of shares on issue at 31 December 2017 (5,181 million) plus H2 FY18 ordinary dividend announced (US$317 million) divided by the number of shares on issue at 30 June 2018 (5,120 million). FY17 ordinary dividend per share is calculated as H1 FY17 ordinary dividend announced (US$192 million) divided by the number of shares on issue at 31 December 2016 (5,324 million) plus the H2 FY17 ordinary dividend announced (US$334 million) divided by the number of shares on issue at 30 June 2017 (5,218 million). FY16 ordinary dividend per share is calculated as H2 FY16 ordinary dividend announced (US$53 million) divided by the number of shares on issue at 30 June 2016 (5,324 million).

(7) Includes US$154 million returned via special dividend paid on 5 April 2018 with the balance returned via on-market buy-back.

OUR OUTLOOK

Sustaining capital expenditure guidance(2)

FY19: US$**575** million

Production expected to increase by 5% in FY19(3)(4)

- Worsley Alumina ↑ **5.3%**
- South Africa Aluminium ↑ **1.1%**
- Mozal Aluminium ↓ **0.7%**
- Brazil Alumina ↑ **3.9%**
- South Africa Energy Coal ↑ **6.3%**
- Illawarra Metallurgical Coal ↑ **43.7%**
- Australia Manganese ↓ **1.4%**
- South Africa Manganese ↓ **4.4%**
- Cerro Matoso ↓ **7.5%**
- Cannington(3) ↑ **0.5%**

We are committed to our investment grade credit rating and broader capital management framework which prioritises investment in our business and ordinary dividends with excess capital returned to shareholders in the most efficient way.

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 be positioned well for future growth.

Nine Directors currently serve on the South32 Board, eight are Non-Executive Directors and seven 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 in pages 13 to 15.

David Crawford

AO, BCOMM, LLB, FCA, FCPA, FAICD, 74

Chairman and Independent Non-Executive Director

Member, Risk and Audit Committee; Member, Nomination and Governance 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
- Director, Evans Dixon Limited (ASX listed) since May 2018
- Chairman, Australia Pacific Airports Corporation Limited
- Advisory Board Member, Bank of America Merrill Lynch Australia

Graham Kerr

BBUS, FCPA, 47

Chief Executive Officer and Managing Director

Location: Australia

Director since 21 January 2015

Skills and experience:

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

Responsible for running all facets of the business, he 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 BHP, including as Chief Financial Officer from 2011 to 2014 and President of Diamonds and Specialty Products.

As President of Diamonds and Specialty Products, he 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, Graham 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.

Frank Cooper

AO, BCOM, FCA, FAICD, 62

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 sectors 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

Xiaoling Liu

PhD (Extractive Metallurgy), BEng (Extractive Metallurgy), GAICD, FAusIMM, FTSE, 61

Independent Non-Executive Director

Member, Risk and Audit Committee; Member, Sustainability Committee; Member, Nomination and Governance Committee

Location: Australia

Director since 1 November 2017

Skills and experience:

Dr Liu has extensive executive experience in leading global mining and processing businesses. Dr Liu had a 26 year career with the Rio Tinto Group where she held many senior positions. Her last executive role was as President and Chief Executive Officer of Rio Tinto Minerals based in Denver where she ran integrated mining, processing and supply chain operations in the United States, Europe and Asia.

Other directorships and offices (current and recent):

- Director, Iluka Resources Limited (ASX Listed) since February 2016
- Director, Newcrest Mining Limited (ASX Listed) since September 2015
- Director, Melbourne Business School
- Fellow, Australian Academy of Technology, Science and Engineering
- Member, China Matters Advisory Council

Xolani Mkhwanazi

BSC, MSC and PHD (APPLIED PHYSICS), 63

Non-Independent Non-Executive Director

Member, Sustainability Committee

Location: South Africa

Director since 2 July 2015

Skills and experience:

Dr Mkhwanazi was Chairman of BHP Billiton in South Africa from 2009 to 2015. Dr Mkhwanazi was previously President and Chief Operations Officer (COO) South Africa Aluminium with BHP Billiton (from February 2005). He has served as Chief Executive Officer 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 time 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 (SOC) Limited
- Chairman, Odgers Berndtson SA (Pty) Ltd
- Chairman, Private Label Promotion (Pty) Ltd
- Director, South32 SA Coal Holdings (Pty) Ltd

Ntombifuthi (Futhi) Mtoba

DCOM (HONORIS CAUSA) CB.COMPT, BA, 63

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

Wayne Osborn

DIP ELECT ENG, MBA, FAICD, 66

Independent Non-Executive Director

Chairman, Nomination and Governance Committee; Chairman, Remuneration Committee; Member, Sustainability 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 until 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)

Keith Rumble

BSC, MSc (GEOLOGY), 64

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

Karen Wood

B Ed, LLB (Hons), 62

Independent Non-Executive Director

Member, Remuneration Committee; Member, Sustainability Committee; Member, Nomination and Governance Committee

Location: Australia

Director since 1 November 2017

Skills and experience:

Ms Wood has had extensive experience as a senior executive in the resources sector. During her career, she held various senior global roles with BHP, including President People and President Public Affairs. Ms Wood has a strong legal and governance background, having joined BHP in 2001 as Group Company Secretary, and before that as General Counsel and Company Secretary with Bonlac Foods Limited. She retired from BHP in 2014.

Ms Wood has also served as a member of the Takeovers Panel (Australia), Australian Federal Government's Business Regulatory Advisory Group and the Australian Securities & Investments Commission Business Consultative Panel.

Other directorships and offices (current and recent):

- Director, Djerriwarrh Investments Limited (ASX listed) since July 2016
- Chair, BHP Billiton Foundation
- Director, Robert Salzer Foundation
- Vice President, Melbourne Cricket Club

LEAD TEAM

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

Graham Kerr

BBUS, FCPA, 47

Chief Executive Officer and Managing Director

See page 13 for Graham Kerr's qualifications and experience.

Brendan Harris

BSc, CPA, 46

Chief Financial Officer

Brendan Harris commenced as Chief Financial Officer in November 2014 and had an integral role in the establishment, Demerger and listing of South32. He is accountable for Financial Reporting, Management Reporting, Treasury, Business Evaluation, Tax, Corporate Affairs, Investor Relations, Risk and Assurance, and Brazil Alumina.

Prior to South32, Brendan was Head of Investor Relations at BHP between 2011 and 2014 based in the United Kingdom and then Australia, having been Vice President Investor Relations Australasia from July 2010. During his career, Brendan held various roles in investment banking, including Executive Director Metals and Mining Research at Macquarie Equities.

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

Mike Fraser

BCom, MBL, 53

Chief Operating Officer

On 30 April 2018, Mike Fraser, in his role of Chief Operating Officer, assumed responsibility for the Group's alumina operations in Australia, and Cerro Matoso in Colombia. He retains the Group's aluminium operations in South Africa in his portfolio and he is responsible for South Africa Energy Coal.

Prior to this, Mike held the role of President and Chief Operating Officer for the Africa region from January 2015.

Before joining South32, Mike was President, Human Resources with BHP. Prior to this he 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, Mike 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.

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

Paul Harvey

BEng, 54

Chief Operating Officer

On 30 April 2018, Paul Harvey, in his role of Chief Operating Officer, assumed responsibility for the Group's manganese operations in South Africa. He retains the Australia Manganese, Cannington and Illawarra Metallurgical Coal operations in his portfolio.

Prior to this, Paul held the roles of President and Chief Operating Officer for the Australia region and Chief Transformation Officer.

Before joining South32, Paul was the Asset President of Nickel West in Australia. Prior to this he was Asset President at BHP's Ekati diamond mine in Canada. During his career, Paul 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.

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

Nicole Duncan

BA (Hons), LLB, MAICD, FGIA, FCIS, 46

Chief People and Legal Officer, Company Secretary

Nicole Duncan commenced in the role of Chief People Officer in July 2017 having been Chief Legal Officer since December 2014 and Company Secretary since January 2015. She is accountable for the Human Resources functions across South32, as well as the Company Secretariat, Legal and Compliance teams.

Prior to South32, Nicole was Vice President, Company Secretariat for BHP. She 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.

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

Peter Finnimore

BCom, LLB, 53

Chief Marketing Officer

Peter Finnimore was appointed Chief Marketing Officer in August 2017, having been Head of Marketing for South32 since May 2015.

Prior to joining South32, Peter held various roles in BHP, 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 South32 Vice President Marketing Aluminium, Manganese & Nickel based out of Singapore. During his career, Peter has worked in various marketing roles in Japan, Australia, Russia, Cyprus and Switzerland, including for Rio Tinto and Rusal.

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

Rowena Smith

BCom, 51

Chief Sustainability Officer

Rowena Smith was appointed Chief Sustainability Officer in August 2017 and has overall responsibility for Health, Safety, Environment, Sustainability, Risk and Compliance. She was previously Vice President Supply, Australia region, for South32, a position she held from March 2015.

Prior to joining South32, Rowena worked with BHP Nickel West as Head of Resource Planning and Development. In her 14 years with BHP, she 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.

Rowena holds a Bachelor of Commerce degree from the University of Western Australia.

Vanessa Torres

BSc (Chemical), M.Eng, D.Eng, 48

Chief Technology Officer

Vanessa Torres commenced as Chief Technology Officer in August 2018. Prior to this she was Vice President Operational Infrastructure for BHP's Western Australian Iron Ore operation. She has over 26 years of global mining experience across both operational and commercial roles, and has held various senior roles at BHP and Vale in strategy, projects, business development, and operations.

Vanessa holds a Doctorate and Master degrees in Minerals Engineering from the University of Sao Paulo, and a Bachelor of Science from the Federal University of Minas Gerais, Brazil. She was also a Visiting Scholar at the University of British Columbia, Canada, with her research focused on the application of Artificial Intelligence to the mining industry.

RISK MANAGEMENT

RISK MANAGEMENT

We continuously develop and enhance our risk and control procedures to improve risk identification, assessment and monitoring, and to embed risk management into our decision-making processes. Our effective management of risk ensures the achievement of our strategic objectives, the realisation of opportunities and enhances our resilience to change. We have a dedicated global risk function that assists in identifying and recording strategic risks facing the Group, and monitors mitigating actions.

The Board is informed about the strategic risks facing the Company at each scheduled Board meeting. The identification and assessment of these risks is informed, amongst other things, by an understanding of our business model, significant trends in our operating environment and the relevant interests, expectations and concerns of key stakeholders that are most likely to influence our ability to create sustainable shareholder value. Each risk will be revisited in FY19 to consider emerging trends and new impacts from internal and external factors.

We have identified 15 strategic risks that have the potential to significantly impact the performance and sustainability of our business, as listed below. Elements of those risks may be relevant across the entire Group, whilst others may be specific to a commodity group or operation.

	Our risk context	Our mitigating action
BREAKTHROUGH 3 BREAKTHROUGH 7	**Fluctuations in commodity prices, exchange rates, interest rates and global economy** Industry earnings, balance sheet and cash flows are affected by the volatility of commodity prices, currencies and interest rates. Financing costs, currency impacts, input costs and commodity prices are managed based on floating indices. Prices are determined by the balance of supply and derived demand for commodities. Costs are impacted by the local currencies of operations. 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.	■ Commitment to a strong balance sheet ■ We maintain a diverse commodity portfolio and geographical spread to provide resilience against volatility relative to single commodity, single mine and single geography competitors ■ We actively monitor the markets in which we operate ■ We have a centralised marketing team ■ We continually review our operating and capital expenditure plans
BREAKTHROUGH 7	**Actions by governments, political events or tax authorities** The value of our investments depends on long-term fiscal stability and may be affected by political, economic, tax and legal changes beyond our control. The resources sector can often be subject to unpredictable, higher direct and indirect taxes and royalties in our countries of operation that can negatively impact on cash flow. The decisions of regulators relating, for example, to nationalisation of mineral resources, renegotiation or nullification of contracts, leases, permits or agreements, may impact our business model.	■ We have specialist external relations teams ■ We have a comprehensive stakeholder relations strategy in place in all our countries of operation ■ We monitor policy, legislative and regulatory changes whilst actively engaging with relevant authorities, for example, through written submissions and International Council on Mining and Metals (ICMM) membership ■ We have specialist tax management capability and seek expert tax advice as needed ■ Our annual *Tax Transparency and Payments to Governments Report* demonstrates how we meet our regulatory obligations
BREAKTHROUGH 4	**Cost inflation and labour dispute impact on operating margins and expansion** Inflation of input and capital costs could adversely impact financial returns. Labour is a significant operating cost that may vary depending on industrial action and scheduling delays. Our need to reduce operating costs may impact negatively on previously communicated labour commitments.	■ Our strategy seeks to optimise our operations and sustainably lower operating costs and capital expenditure ■ Our investment decisions are governed by a robust capital management framework ■ All discretionary investments compete for capital, based on assessed risk and value ■ We engage proactively with all trade unions and our people in line with local labour laws ■ Enterprise bargaining agreements are in place and the internal and external environment is continually monitored to identify any possible industrial action

	Our risk context	Our mitigating action
BREAKTHROUGH 6	**Access to water and energy** Water and energy are critical to our operations, however scarcity of supply, counterparties, change in government policy and increasing cost of natural resources can impact our operations and supply chain.	■ We work closely with suppliers of water and power, on a long-term, mutually beneficial basis ■ We actively work to secure water and energy resources within our control to strengthen our operations' resilience to water and power security risks ■ We explore opportunities to secure alternate, reliable water and energy sources
BREAKTHROUGH 7	**Failure to maintain, realise or enhance value due to inadequate knowledge of our resources and reserves** We aim to maximise shareholder value by continually optimising our operations. Failure to maintain technical and economic understanding of our Mineral/Coal Resources undermines our ability to identify the right opportunities to optimise and enhance our operations. This will detrimentally impact on shareholder returns and, ultimately, the sustainability of the Company.	■ Our resources and reserves are estimated by mineral industry professionals who have relevant experience to act as Competent Persons in accordance with the JORC Code. We strengthen this process by applying our governance framework using internal and external subject matter experts ■ We seek to identify the opportunities that derive maximum value for each operation in our long-term planning process ■ We have a capital prioritisation process that assesses our entire portfolio allowing us to invest in those opportunities that enable us to maintain balance sheet strength as well as maximise returns to shareholders ■ Our short-term planning processes aim to translate these value opportunities into granular executable plans
BREAKTHROUGH 7	**Deterioration in liquidity and cash flow** External factors may adversely impact cash flows. If we compromise our balance sheet, liquidity and cash reserves, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.	■ We are committed to a strong balance sheet, maintaining an investment grade credit rating and strong liquidity throughout economic cycles ■ We manage our balance sheet and cash flow within strict financial criteria
BREAKTHROUGH 6	**Climate change impacts** Climate change may result in physical impacts and transition risks on our operational infrastructure, decreasing natural resource availability and increased occurrence of extreme weather events that can cause disruption to our operations, as well as increased operating and capital costs. Climate change driven by worsened greenhouse gas emissions may force a change in government policy about carbon taxes and/or trading which will impact on our operating costs.	■ We have established greenhouse gas emissions reduction targets ■ We utilise the latest climate modelling data to inform us of the level of risk to our life of mine assets and disruption of operations ■ We identify and implement greenhouse gas reduction and energy efficiency projects ■ We prioritise our land management efforts to minimise land disturbance and maximise rehabilitation efforts ■ We engage with stakeholders and decision-makers in the design of national carbon regulations ■ We are transparent with our disclosure of climate change-related risks in our annual Climate-related Financial Disclosures

	Our risk context	Our mitigating action
Breakthrough 1	**Health and safety risks in respect of our operational activities** There are inherent health and safety risks across the mining operations value chain. Apart from physical harm to our people and contractors, failure to maintain a high standard of safety may impact negatively on employee morale, the achievement of production targets and our licence to operate.	■ The well-being of our people is at the forefront of all our considerations and is fundamental to everything we do ■ We have established comprehensive health and safety policies and associated performance requirements that are designed to prevent and mitigate exposure to health and safety risks ■ We focus on significant events and critical controls ■ We engage, develop and align our people to ensure we have disciplined execution of well-designed work ■ We continuously improve our work environment to make it safer and more productive for our people
Breakthrough 6	**Water, waste and environmental risks** We recognise that our operations have the potential to significantly impact biodiversity, air, land and water resources. Advances in scientific understanding of these impacts, regulatory requirements and stakeholder expectations may prevent or delay project approvals and result in increased mitigation costs, offset or compensatory actions, weakening the overall sustainability of operations.	■ We have established policies and standards which are designed to prevent, monitor and limit the impact of our operations on the environment ■ We actively address known contamination resulting from past activities ■ We are committed to stewardship in water and waste water management ■ We use water responsibly, taking into account natural supply variations
Breakthrough 1	**Unexpected operational or natural catastrophes** Our operations and transport networks can be disrupted by events such as fire, explosion, flooding, geotechnical failures, loss of power supply, mechanical equipment failures and unexpected natural catastrophes. The frequency and severity may be exacerbated due to climate change.	■ We use robust risk management tools to analyse risks and design plans that prevent or limit business disruption impacts ■ We incorporate the latest climate impact parameters into our planning, risk and investment model ■ We have established and tested business continuity and disaster recovery plans to facilitate rapid response to significant events and ensure the safe restoration of operations ■ We maintain insurance against many, but not all, potential losses or liabilities arising from operating risks. As such, our insurance coverage may not be sufficient to fully cover us against potential loses arising from such risks ■ We provide transparent reporting in our Climate-related Financial Disclosures to provide stakeholder assurance
Breakthrough 4	**Commercial counterparties that we transact with may not meet their obligations** 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 costs and production at operations.	■ We proactively engage with our counterparties to manage instances of non-supply or quality control prior to occurrence ■ We use counterparty credit ratings and level of exposure to set counterparty limits ■ Our insurance program mitigates the financial consequences of supply disruption, subject to availability and cost

	Our risk context	Our mitigating action
BREAKTHROUGH 2	**Fraud and corruption** We are exposed to the risks of fraud and corruption, both within and external to our company. Fraud and corruption may lead to regulatory fines, financial loss, litigation, loss of operating licences or reputational damage.	■ We have a Code of Business Conduct which confirms our commitment to upholding a unified approach to ethical standards of behaviour ■ We have “zero tolerance” for fraud and corruption, with clear tone set by the Board and Lead Team ■ Our ethics and compliance framework incorporates policies, procedures, training, and guidelines that help ensure that activities are conducted ethically ■ We perform risk assessments as a critical part of our anti-corruption compliance program ■ We maintain a system of internal controls to mitigate the risk of fraud and corruption ■ We provide our people and third parties with mechanisms to safely report suspected fraud or corruption
BREAKTHROUGH 5	**Breaches of information technology security** Information technology systems may be subject to security breaches resulting in theft, disclosure or corruption of information. Security breaches might also result in misappropriation of funds or disruption to operations.	■ We maintain network and physical control frameworks and deploy up-to-date anti-virus software to provide a level of protection ■ We monitor our networks and undertake ethical hacking and data analysis to identify suspicious activity and potential exposures ■ We have established business continuity plans, inclusive of IT disaster recovery plans
BREAKTHROUGH 2	**Failure to retain and attract key people** The loss of key personnel or the failure to attract, develop and retain talent could affect our operations, financial position and growth.	■ We have designed an inclusive workplace and specific initiatives to engage and empower our workforce ■ We focus on having the right people in the right roles, developing future leaders and maintaining a workforce with deep functional expertise ■ We engage with our people at all levels to improve connectivity, support decisions and continuously improve ■ We have policies and guidelines in place for talent and recruitment management, remuneration, skills development and succession planning
BREAKTHROUGH 6	**Support of our local communities** Our social licence to operate is dependent upon the engagement and support of the communities within which we operate or seek to operate. Community dissatisfaction can result in failure to attract people and business partners, operational delays and disruption and litigation, which can affect cost, production and, in extreme cases, the viability of our operations.	■ We have established policies and procedures designed to identify and understand our stakeholders, informing our stakeholder engagement plans and community investment approach ■ We maintain regular and open dialogue with our stakeholders ■ We work closely with communities and government to identify and manage impacts, build shared value and align stakeholder expectations to current economic reality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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, development potential and future prospects.

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

- Our breakthroughs on pages 2 to 3 of the Annual Report
- Risk management on pages 19 to 24 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 106 in note 4 to the financial statements. 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 before net finance cost, tax and 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 and return on invested capital. 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 non-trading derivative instruments
- Major corporate restructures
- Earnings adjustments included in profit/(loss) of equity accounted investments

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 109 in note 4(b)(ii) to the financial statements.

FINANCIAL KEY PERFORMANCE INDICATORS FOR FY18

Financial highlights

US$M	FY18	FY17	Change
Revenue[1]	**7,549**	6,950	9%
Profit/(loss)	**1,719**	1,795	(4%)
Profit/(loss) after tax	**1,332**	1,231	8%
Basic earnings per share (US cents)[2]	**25.8**	23.2	11%
Ordinary dividends per share (US cents)[3]	**10.5**	10.0	5%
Special dividends per share (US cents)[4]	**3.0**	–	N/A
Other financial measures			
Underlying EBITDA	**2,516**	2,411	4%
Underlying EBITDA margin	**37.3%**	38.9%	(1.6%)
Underlying EBIT	**1,774**	1,648	8%
Underlying EBIT margin	**26.2%**	26.6%	(0.4%)
Underlying earnings	**1,327**	1,146	16%
Basic Underlying earnings per share (US cents)[2]	**25.7**	21.6	19%
ROIC	**13.5%**	11.4%	2.1%

(1) Revenue includes revenue from third party products.

(2) FY18 basic earnings per share is calculated as Profit/(loss) after tax divided by the weighted average number of shares for FY18 (5,159 million). FY18 basic Underlying earnings per share is calculated as Underlying earnings divided by the weighted average number of shares for FY18. 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.

(3) FY18 ordinary dividend per share is calculated as H1 FY18 ordinary dividend announced (US$223 million) divided by the number of shares on issue at 31 December 2017 (5,181 million) plus H2 FY18 ordinary dividend announced (US$317 million) divided by the number of shares on issue at 30 June 2018 (5,120 million). FY17 ordinary dividend per share is calculated as H1 FY17 ordinary dividend announced (US$192 million) divided by the number of shares on issue at 31 December 2016 (5,324 million) plus the H2 FY17 ordinary dividend announced (US$334 million) divided by the number of shares on issue at 30 June 2017 (5,218 million).

(4) H1 FY18 special dividend per share is calculated as H1 FY18 special dividend announced (US$155 million) divided by the number of shares on issue at 31 December 2017 (5,181 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 24 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 FY18 as most physical markets improved on the back of stronger demand, tighter supply and inflationary pressures. The prices that 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% change in commodity price

US$M	FY18
Alumina	**196**
Aluminium[1]	**191**
Manganese ore[2]	**136**
Energy coal	**106**
Metallurgical coal	**60**
Nickel	**49**
Manganese alloy[2]	**29**
Lead	**24**
Silver	**20**
Zinc	**13**

(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 FY18 and FY17. 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 price			Closing price		
Year ended 30 June	FY18	FY17	Change	FY18	FY17	Change
Alumina(1) (US$/t)	**421**	294	43%	**445**	307	45%
Aluminium (LME Cash)(2) (US$/t)	**2,132**	1,771	20%	**2,183**	1,909	14%
Energy coal(3) (US$/t)	**93.6**	76.9	22%	**103.8**	77.2	34%
Metallurgical coal(4) (US$/t)	**203.0**	190.0	7%	**199.0**	148.5	34%
Manganese ore(5) (US$/dmtu)	**6.88**	5.77	19%	**6.83**	5.87	16%
Manganese alloy(6) (US$/t)	**1,342**	1,160	16%	**1,143**	1,407	(19%)
Nickel (LME Cash)(2) (US$/t)	**12,450**	10,152	23%	**14,910**	9,280	61%
Silver(7) (US$/toz)	**16.7**	17.9	(7%)	**16.0**	16.5	(3%)
Lead (LME Cash)(2) (US$/t)	**2,434**	2,113	15%	**2,432**	2,274	7%
Zinc (LME Cash)(2) (US$/t)	**3,182**	2,535	26%	**2,948**	2,754	7%

(1) Platts Alumina Index (PAX) Free on Board (FOB) Australia – market price assessment of calcined metallurgical/smelter grade alumina.
(2) LME Cash represents the Official Seller price for nickel, zinc and lead and the A.M. Official price for aluminium.
(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 Mn CIF Tianjin 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 FY18. The price change reflects the average of FY18 over FY17.

Alumina: The average FOB Australia price was 43 per cent higher than FY17, which was largely driven by supply disruptions, tight raw material supply and higher conversion costs.

Aluminium: The average LME cash settlement price was 20 per cent higher than FY17, which was largely driven by policy-induced supply curtailments and higher raw materials costs.

Energy coal: The FY18 average API4 FOB Richards Bay price was 22 per cent higher than FY17. The price was supported by higher Chinese and Indian imports and supply constraints in major seaborne exporting regions.

Metallurgical coal: The FY18 average Platts Low Vol Hard Coking Coal price was seven per cent higher than FY17. Stronger global steel production, domestic coal supply tightness in China due to environmental and safety inspections at mines, and constrained Australian seaborne hard coking coal exports largely drove the price uplift.

Manganese: The average Manganese Ore Metal Bulletin 44 per cent CIF Tianjin China price was 19 per cent higher than FY17. The price increase was supported by positive demand growth and lower domestic ore production in China, amidst tightening environmental restrictions. The Western Europe spot high carbon ferromanganese price weakened 19 per cent during FY18 due to increased ferro alloy supply in the seaborne market.

Nickel: The average LME nickel cash settlement price was 23 per cent higher than FY17 largely driven by rising Chinese and Indonesian stainless steel demand, widening market deficits and declining exchange stocks.

Silver: The FY18 average LBMA silver price was seven per cent lower than FY17. Throughout the year, the price decline was driven by tightening monetary policy in the US on the back of healthy growth expectations.

Lead: The FY18 average LME cash settlement price was 15 per cent higher than FY17. Tight primary supply in China led to rising prices in the first half of the financial year. Prices increased further during the second half on a clampdown of secondary output, amidst low inventories.

Zinc: The FY18 average LME cash settlement price was 26 per cent higher than FY17. Prices increased in the first half of the financial year, driven by persistent concentrate tightness. The market balance did, however, weaken slightly towards the end of the second half on intensifying trade tensions, amidst growing inventories.

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, Euro 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 127 to 133.

The following table indicates the estimated impact on FY18 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 rates 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% change in producer currencies relative to the US dollar

US$M	FY18
Australian dollar	**153**
South African rand	**124**
Colombian peso	**23**
Brazilian real	**13**

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	FY18	FY17	Change	FY18	FY17	Change
Australian dollar(2)	**0.78**	0.75	4%	**0.74**	0.77	(4%)
Brazilian real(3)	**3.31**	3.22	(3%)	**3.85**	3.30	(17%)
Colombian peso(3)	**2,917**	2,953	1%	**2,945**	3,038	3%
Euro(4)	**1.19**	1.09	9%	**1.16**	1.14	2%
South African rand(3)	**12.86**	13.61	6%	**13.73**	13.00	(6%)

(1) Positive per cent change in FX indicates strengthening currency relative to US$.

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

(3) Displayed as local currency to US$.

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

Local economic conditions, commodity prices and US policies remain key drivers of our producer currencies. In FY18, the Australian dollar, Colombian peso and South African rand strengthened against the US dollar on the back of higher commodity prices and improved global growth. In addition, there were extended periods of broad dollar weakness in the first half of FY18, reflecting developments in US policies. The Euro strengthened against the US dollar in FY18. The Brazilian real weakened due to a combination of domestic growth challenges (labour unrest) and investor risk aversion which intensified in the second half of FY18.

OPERATING COSTS

FY18 and FY17 comparative underlying operating costs are set out below, excluding earnings adjustment items impacting operating costs. Earnings adjustment items are detailed on page 109 in note 4(b)(i) to the financial statements.

Operating costs

US$M	FY18	FY17
Operating cash costs	**4,877**	4,356
Third party commodity purchases	**842**	778
Depreciation and amortisation expense	**742**	763
Total expenses included in Underlying EBIT	**6,461**	5,897

CAPITAL EXPENDITURE

Capital expenditure continues to be scrutinised in every location as we seek to optimise the performance of our operations and sustainably grow ROIC.

Capital expenditure

US$M	FY18	FY17
Major projects	**62**	16
Stay in business, Minor discretionary and Deferred stripping (including underground development)	**368**	300
Group share of equity accounted investments	**65**	37
Total capital expenditure	**495**	353

2018 FINANCIAL YEAR RESULTS

US$M	FY18	FY17
Profit from continuing operations	**1,719**	1,795
Net finance cost	**(100)**	(171)
Income tax expense	**(287)**	(393)
Profit/(loss) after tax	**1,332**	1,231
Basic earnings per share (US cents)	**25.8**	23.2
Other financial information		
Profit from continuing operations	**1,719**	1,795
Earnings adjustments to derive Underlying EBIT	**55**	(147)
Underlying EBIT	**1,774**	1,648
Depreciation and amortisation	**742**	763
Underlying EBITDA	**2,516**	2,411
Profit/(loss) after tax	**1,332**	1,231
Earnings adjustments after tax	**(5)**	(85)
Underlying earnings	**1,327**	1,146
Basic Underlying earnings per share (US cents)	**25.7**	21.6

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	FY18	FY17
Adjustments to Underlying EBIT		
Significant items	**(31)**	–
Exchange rate (gains)/losses on restatement of monetary items	**(15)**	37
Fair value (gains)/losses on non-trading derivative instruments	**73**	(194)
Major corporate restructures	**58**	2
Earnings adjustments included in profit/(loss) of equity accounted investments	**(30)**	8
Total adjustments to Underlying EBIT	**55**	(147)
Adjustments to net finance cost		
Exchange rate variations on net debt	**(23)**	35
Total adjustments to net finance cost	**(23)**	35
Adjustments to income tax expense		
Tax effect of significant items	**1**	–
Tax effect of other earnings adjustments to Underlying EBIT	**(34)**	42
Tax effect of earnings adjustments to net finance cost	**7**	(9)
Exchange rate variations on tax balances	**(11)**	(6)
Total adjustments to income tax expense	**(37)**	27
Total earning adjustments	**(5)**	(85)

Significant items

The Group's investment in Dreamvision Investments 15 (RF) (Pty) Ltd (Dreamvision) originated in 2006 through the formation of a Broad-Based Black Economic Empowerment (B-BBEE) transaction. The transaction contained a lock-in period which expired in November 2016 and the process to unwind the investment was triggered. Consequently, the Group elected to receive shares in Exxaro Resources Limited in exchange for its shareholding in Dreamvision.

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.

Fair value (gains)/losses on non-trading derivative instruments

Hillside aluminium smelter 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 rate gains and losses are calculated differently for accounting and tax purposes.

FY18 SEGMENT INFORMATION

30 June 2018 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	724	1,583	629	551	1,366	686	1,111	489	559	584	–	(1,600)	6,682
Third party products[(2)]	–	–	–	–	–	–	–	–	–	–	870	(3)	867
Inter-segment revenue	749	–	–	–	–	–	–	14	–	–	(749)	(14)	–
Total revenue	**1,473**	**1,583**	**629**	**551**	**1,366**	**686**	**1,111**	**503**	**559**	**584**	**121**	**(1,617)**	**7,549**
Underlying EBITDA	**588**	**285**	**133**	**192**	**353**	**103**	**710**	**215**	**209**	**230**	**(64)**	**(438)**	**2,516**
Depreciation and amortisation	(166)	(72)	(34)	(56)	(77)	(165)	(59)	(29)	(89)	(47)	(36)	88	(742)
Underlying EBIT	**422**	**213**	**99**	**136**	**276**	**(62)**	**651**	**186**	**120**	**183**	**(100)**	**(350)**	**1,774**
Comprising:													
Group production excluding exploration expensed	423	213	99	136	273	(56)	652	186	128	185	(105)	(838)	1,296
Exploration expensed	(1)	–	–	–	–	(7)	(1)	–	(8)	(2)	(20)	1	(38)
Third party products[(2)]	–	–	–	–	–	–	–	–	–	–	25	–	25
Share of profit/(loss) of equity accounted investments[(3)]	–	–	–	–	3	1	–	–	–	–	–	487	491
Underlying EBIT	**422**	**213**	**99**	**136**	**276**	**(62)**	**651**	**186**	**120**	**183**	**(100)**	**(350)**	**1,774**
Net finance cost													(123)
Income tax (expense)/benefit													(324)
Underlying earnings													**1,327**
Earnings adjustments[(4)]													5
Profit/(loss) after tax													**1,332**
Exploration expenditure	**1**	**–**	**–**	**–**	**–**	**7**	**1**	**–**	**9**	**3**	**20**	**(1)**	**40**
Capital expenditure[(5)]	**52**	**28**	**10**	**12**	**164**	**89**	**48**	**17**	**22**	**51**	**2**	**(65)**	**430**
Equity accounted investments	**–**	**–**	**–**	**–**	**12**	**1**	**–**	**–**	**–**	**–**	**–**	**684**	**697**
Total assets[(6)]	**3,516**	**1,507**	**685**	**756**	**1,036**	**1,655**	**596**	**496**	**764**	**450**	**4,239**	**(567)**	**15,133**
Total liabilities[(6)]	**488**	**305**	**132**	**112**	**1,059**	**247**	**307**	**199**	**213**	**240**	**1,669**	**(547)**	**4,424**

(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$206 million for aluminium, US$49 million for alumina, US$290 million for coal, US$198 million for freight services and US$124 million for aluminium raw materials. Underlying EBIT on third party products comprise US$11 million for aluminium, US$2 million for alumina, US$12 million for coal, (US$1) million for freight services and US$1 million for aluminium raw materials.

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

(4) Refer to Earnings adjustments on page 31.

(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.

FY17 SEGMENT INFORMATION

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 excluding exploration expensed	160	219	76	66	216	363	467	110	(12)	310	(56)	(578)	1,341
Exploration expensed	(1)	–	–	–	–	(5)	–	–	(4)	(2)	(14)	1	(25)
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**
Exploration expenditure	**1**	**–**	**–**	**–**	**–**	**5**	**1**	**–**	**5**	**2**	**14**	**(1)**	**27**
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 impact of earnings adjustments to Underlying EBIT.

(4) Refer to Earnings adjustments on page 31.

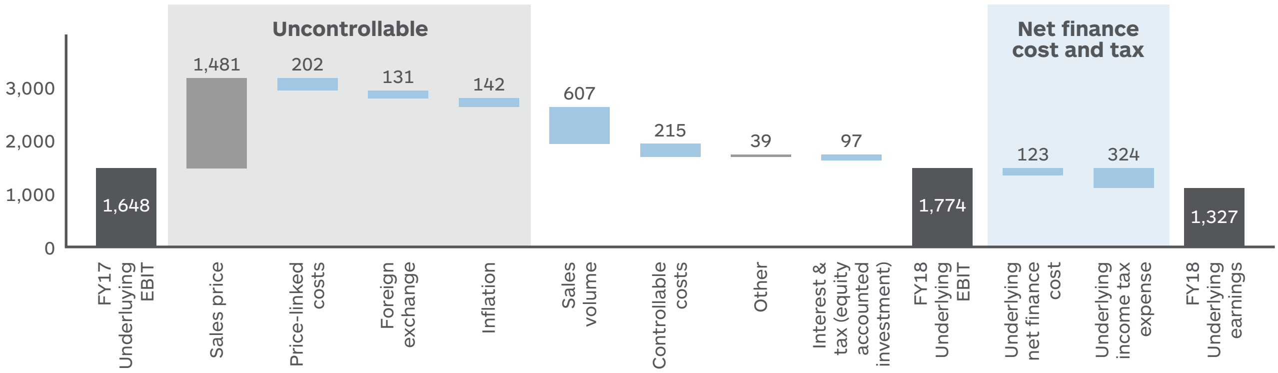
(5) Capital expenditure excludes the purchase of intangibles and capitalised exploration expenditure.

(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 FY18, relative to FY17.

Reconciliation of movements in Underlying EBIT (US$M)[(1)(2)(3)]



(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 FY18 results, not year-on-year variances.

(3) South32's ownership share of operations are presented as follows: Worsley Alumina (86 per cent share), 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 (100 per cent until B-BBEE vendor loans are repaid), 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).

Earnings analysis	US$M	Commentary
FY17 Underlying EBIT	**1,648**	
Change in sales price	1,481	Higher average realised prices for our commodities, including: Aluminium and alumina (+US$715 million). Manganese ore and alloy (+US$309 million). Energy coal (+US$237 million). Nickel (+US$114 million).
Net impact of price-linked costs	(202)	Higher smelter raw material costs (-US$86 million), including pitch and coke. Higher caustic soda prices (-US$84 million). Higher LME-linked electricity costs at South Africa Aluminium (-US$31 million). Higher freight rates (-US$26 million). Higher bauxite costs at Brazil Alumina (-US$22 million). Higher price-linked royalties more than offset by the impact of lower volumes (+US$23 million). Lower negotiated treatment and refining charges for Cannington concentrates (+US$38 million).
Change in exchange rates	(131)	Stronger South African rand (-US$82 million) and Australian dollar (-US$47 million).
Change in inflation	(142)	Broader inflationary pressure in Southern Africa (-US$85 million), Australia (-US$36 million) and other jurisdictions (-US$21 million).
Change in sales volume	(607)	Illawarra Metallurgical Coal (-US$525 million). Cannington (-US$221 million). Australia Manganese (+US$58 million). Cerro Matoso (+US$68 million).
Controllable costs	(215)	Higher contractor, labour, freight, maintenance and greenfield exploration costs across our operations, including: South Africa Energy Coal (-US$106 million). Australia Manganese (-US$25 million). Brazil Alumina (-US$25 million).
Other	39	Lower depreciation and amortisation (+US$17 million). Opportunistic sale of logistics capacity to third parties (+US$15 million). EBIT on third party product (+US$13 million). Recognition of provision for transmission charges at Brazil Alumina (-US$16 million).
Interest & tax (equity accounted investments)	(97)	Stronger profitability in our jointly controlled manganese operations.
FY18 Underlying EBIT	**1,774**	

Further analysis of operations performance is outlined on pages 40 to 49.

NET FINANCE COST

The Group's Underlying net finance cost, excluding equity accounted investments, was US$123 million in FY18 and largely reflects the unwinding of the discount applied to our closure and rehabilitation provisions (US$105 million) and finance lease interest (US$52 million), primarily at Worsley Alumina.

Underlying net finance cost reconciliation

US$M	FY18	FY17
Unwind of discount applied to closure and rehabilitation provisions	**(105)**	(98)
Finance lease interest	**(52)**	(52)
Other	**34**	14
Underlying net finance cost	**(123)**	(136)
Add back earnings adjustment for exchange rate variations on net debt	**23**	(35)
Net finance cost	**(100)**	(171)

TAX EXPENSE

The Group's Underlying income tax expense, which excludes tax associated with equity accounted investments, was US$324 million for an Underlying ETR of 27.9 per cent. The Group's Underlying ETR 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 37 per cent (40 per cent to 31 December 2017), Mozambique zero per cent (the Mozambique operations are subject to a royalty on revenues instead of income tax) and Brazil 34 per cent.

The Underlying income tax expense for manganese equity accounted investments was US$318 million, including royalty related taxation of US$87 million at GEMCO (Australia Manganese), for an Underlying ETR of 38.6 per cent.

Underlying income tax expense reconciliation and Underlying effective tax rate

US$M	FY18	FY17
Underlying EBIT	**1,774**	1,648
Include: Underlying net finance cost	**(123)**	(136)
Remove: Share of profit/(loss) of equity accounted investments	**(491)**	(320)
Underlying Profit/(loss) before tax	**1,160**	1,192
Income tax expense	**287**	393
Tax effect of earnings adjustments to Underlying EBIT	**34**	(42)
Tax effect of earnings adjustments to net finance cost	**(7)**	9
Exchange rate variations on tax balances	**11**	6
Tax effect of significant items	**(1)**	–
Underlying income tax expense	**324**	366
Underlying effective tax rate	**27.9%**	30.7%

2018 FINANCIAL YEAR SUMMARY

PERFORMANCE SUMMARY

The Group's statutory profit after tax increased by eight per cent to US$1.3 billion in FY18, while Underlying earnings increased by 16 per cent (or US$181 million) to US$1.3 billion. This significant increase in profitability was driven by stronger commodity prices, which were only partially offset by a seven per cent decrease in sales volumes and broader inflationary pressure, most notably in our aluminium supply chain. Free cash flow from operations, including net distributions from equity accounted investments, of US$1.4 billion and an increase in our net cash balance to US$2.0 billion allowed us to acquire Arizona Mining and announce the acquisition of a 50 per cent interest in the Eagle Downs metallurgical coal project with fully-funded cash offers amounting to US$1.4 billion.

The key factors that impacted financial performance included:

- A US$349 million increase in the contribution of our alumina refineries to Underlying EBITDA and a 10 per cent increase in their combined operating margin to 40 per cent as we benefited from our long alumina position and our exposure to market prices for the vast majority of production
- A 10 per cent increase in total manganese ore production, including record production at Australia Manganese, as we continued to respond to strong demand and pricing
- Record production at Mozal Aluminium, as the smelter continued to test its technical capacity
- A 20 per cent increase in payable nickel production at Cerro Matoso as ore grades improved temporarily following the ramp up of La Esmeralda
- A 40 per cent decrease in Illawarra Metallurgical Coal production as the Appin mine was suspended for much of H1 FY18 as we sought to re-establish minimum performance criteria
- Strong cost control as the majority of our upstream operations achieved operating unit cost guidance, despite broader inflationary pressure

Our strong financial position allowed us to return US$946 million to shareholders in respect of the period. This included payment of a US$221 million fully franked interim dividend and declaration of a US$317 million fully franked final dividend in accordance with our dividend policy, which seeks to return a minimum 40 per cent of Underlying earnings in each six month period. A further US$408 million was returned to shareholders as part of our ongoing capital management program, with US$254 million allocated to our on-market share buy-back program and US$154 million returned in the form of a special dividend. Our capital management program was increased by US$250 million to US$1 billion during FY18 with the remaining US$380 million balance expected to be returned to shareholders in FY19.

RESHAPING OUR PORTFOLIO

In November 2017 we announced our intention to manage South Africa Energy Coal as a stand-alone business in order to improve the operation's competitiveness and ensure its ongoing sustainability. We are well advanced in our implementation of this important strategic initiative having appointed a separate leadership team with its own governance framework. We also approved a 4.3 billion South African rand investment (refer to page 54 footnote 3) to extend the life of the Klipspruit colliery by at least 20 years and commenced a process to broaden South Africa Energy Coal's ownership in the September 2018 quarter, consistent with our commitment to further transform our South African operations.

The decision to establish South Africa Energy Coal as a stand-alone business has also allowed us to simplify the Group by collapsing our regional operating model, consolidating our support structures and changing the way we work. This fundamental redesign of South Africa Energy Coal and the Group's functions is expected to deliver an annual saving of US$50 million from FY20, further mitigating industry wide inflationary pressure.

This new way of working is not only lean but also scalable, allowing us to expand our global footprint and invest in opportunities where we can create value. In FY18 we:

- Entered into a conditional agreement to acquire a 50 per cent interest in the Eagle Downs metallurgical coal project in Queensland
- Exercised the second year of our Trilogy Metals (TSX:TMQ) option to fully test the high grade copper extension at the Bornite deposit in Alaska
- Increased our commitment to exploration with 18 partnerships for greenfield base metal projects now established in Australia, the Americas and Sweden

Subsequent to year end, we also completed the acquisition of Arizona Mining, adding the Hermosa project's high grade zinc, lead and silver resource (refer to page 54 footnote 4) and a prospective land package to our portfolio.

EARNINGS

The Group's statutory profit after tax increased by US$101 million (or eight per cent) to US$1.3 billion in FY18. Consistent with our accounting policies, various items are excluded from the Group's statutory profit to derive Underlying earnings including: redundancy and restructuring charges associated with the simplification of the Group's functional structures and the voluntary redundancy program undertaken at Illawarra Metallurgical Coal (US$58 million pre-tax); exchange rate gains associated with the restatement of monetary items (US$15 million pre-tax); losses on fair value movements of non-trading derivative instruments (US$73 million pre-tax); exchange rate gains associated with the Group's non US dollar denominated net debt

(US$23 million pre-tax); the tax expense for all pre-tax earnings adjustments and exchange rate variations on tax balances (-US$37 million); earnings adjustments included in the profit of our equity accounted investments (-US$30 million) and significant items (-US$31 million pre-tax). Further information on these earnings adjustments is included on page 31.

On this basis, the Group generated Underlying EBITDA of US$2.5 billion for an operating margin of 37 per cent as higher realised prices for the majority of our commodities gave rise to a US$599 million increase in sales revenue. The Group's cost base was primarily impacted by external inflationary pressure, including stronger producer currencies and raw material input costs, that more than offset broader equipment productivity and energy procurement initiatives that were embedded across our portfolio. Inflationary pressure was most evident in our aluminium supply chain as caustic soda, energy, coke, pitch and alumina prices moved sharply higher with commodity markets. Underlying EBIT increased by eight per cent to US$1.8 billion as depreciation and amortisation decreased with the reduction in production volumes, while Underlying earnings increased by 16 per cent to US$1.3 billion.

CASH FLOW

The Group's free cash flow from operations, excluding equity accounted investments, was US$873 million in FY18. Stronger prices for our commodities and higher raw material input costs contributed to a US$392 million build in working capital. Increasing profitability during FY17 and FY18 also gave rise to a significant increase in income tax payments during the period (+US$179 million to US$306 million, excluding tax paid within equity accounted investments).

Within working capital, Trade and other receivables increased by US$153 million as average days debtor reverted to 21 days during H2 FY18 (H1 FY18: 25 days, FY17: 18 days). With no change in customer payment terms, we expect average days debtors to remain around this level, depending on timing differences at period end. The US$99 million increase in the value of inventory primarily reflects higher raw material input costs in our aluminium supply chain, while provisions and other liabilities decreased by US$118 million as we continued to invest in progressive rehabilitation at South Africa Energy Coal.

Working capital movement reconciliation

US$M	FY18	FY17
Trade and other receivables	**(153)**	(119)
Inventories	**(99)**	(60)
Trade and other payables	**(22)**	137
Provisions and other liabilities	**(118)**	(63)
Working capital movement	**(392)**	(105)

The ramp up of activity at the Klipspruit Life Extension (KPSX) project and prior weather related deferral of activity at South Africa Energy Coal contributed to a US$117 million increase in total capital expenditure, excluding equity accounted investments, to US$436 million. This included:

- Sustaining capital expenditure, comprising Stay-in-business, Minor discretionary and Deferred stripping (including underground development) of US$368 million
- Major project capital expenditure of US$62 million relating to the KPSX project

The purchase of intangibles and the capitalisation of exploration expenditure accounted for a further US$6 million.

Total capital expenditure associated with equity accounted investments increased by US$28 million to US$65 million during FY18 as we invested in additional tailings storage capacity at Australia Manganese.

Total capital expenditure, including equity accounted investments, was US$501 million in FY18.

Free cash flow from operations, excluding equity accounted investments

US$M	FY18	FY17
Profit/(loss)	**1,719**	1,795
Non-cash items	**815**	585
(Profit)/loss from equity accounted investments	**(521)**	(312)
Change in working capital	**(392)**	(105)
Cash generated	**1,621**	1,963
Total capital expenditure, excluding equity accounted investments, including intangibles and capitalised exploration	**(436)**	(319)
Operating cash flows before financing activities and tax, and after capital expenditure	**1,185**	1,644
Interest (paid)/received	**(6)**	(32)
Income tax (paid)/received	**(306)**	(127)
Free cash flow from operations	**873**	1,485

We also received (net) distributions totalling US$561 million from our manganese equity accounted investments in FY18, primarily comprising US$394 million in dividends and US$168 million from the repayment of a shareholder loan. A further US$14 million in dividends was received from other investments, including Mineração Rio do Norte S.A (MRN).

BALANCE SHEET AND CAPITAL MANAGEMENT

The Group's net cash balance increased by US$401 million to finish the period at US$2.0 billion, after US$1.0 billion was returned to shareholders by way of ordinary dividends (US$554 million) and our broader capital management program. As at 30 June 2018 we had completed US$620 million of our approved US$1 billion capital management program having paid a US$154 million special dividend in April 2018 and bought back a further 98 million shares across FY18 for a cash consideration of US$254 million.

Our strong net cash position ensures we are well placed to invest in our existing portfolio, fund the initial US$106 million payment for a 50 per cent interest in the Eagle Downs metallurgical coal project (excluding a deferred payment of US$27 million due three years after completion and a coal price-linked production royalty which is capped at $80 million) and complete the remaining US$380 million of our approved capital management program during FY19. The US$1.3 billion acquisition of Arizona Mining was completed in August 2018.

Our capital management framework remains unchanged and we continue to believe that a combination of high operating leverage and undue financial leverage delivers a sub-optimal outcome for shareholders.

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 2018:

US$M	FY18	FY17
Cash and cash equivalents	**2,970**	2,675
Current external debt	**(333)**	(391)
Non-current external debt	**(596)**	(644)
Net cash	**2,041**	1,640
Net assets	**10,709**	10,235

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

FUNDING SOURCES

In addition to cashflow 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 2018, the Group's cash and cash equivalents on hand were US$3 billion. Details of major standby and support arrangements are as follows:

US$M	Available FY18	Used FY18
Commercial paper program(1)	**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.

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 127 to 133.

CREDIT RATING

Standard and Poor's and Moody's reaffirmed their respective BBB+ and Baa1 credit ratings for the Group following the announcement of the Arizona Mining transaction in June 2018.

OPERATIONS ANALYSIS

A summary of the underlying performance of the Group's operations is presented below and more detailed analysis is presented on pages 40 to 49.

Operations table (South32 share)[(1)]

	Revenue		Underlying EBIT	
US$M	FY18	FY17	FY18	FY17
Worsley Alumina	**1,473**	1,106	**422**	159
South Africa Aluminium	**1,583**	1,324	**213**	219
Mozal Aluminium	**629**	521	**99**	76
Brazil Alumina	**551**	385	**136**	66
South Africa Energy Coal	**1,366**	1,103	**276**	212
Illawarra Metallurgical Coal	**686**	1,133	**(62)**	358
Australia Manganese	**1,111**	851	**651**	467
South Africa Manganese	**503**	391	**186**	110
Cerro Matoso	**559**	377	**120**	(16)
Cannington	**584**	768	**183**	308
Third party products[(2)]	**870**	792	**25**	12
Inter-segment/Group and unallocated	**(749)**	(557)	**(125)**	(70)
Total	**9,166**	8,194	**2,124**	1,901
Equity accounting adjustment[(3)]	**(1,617)**	(1,244)	**(350)**	(253)
Total Group	**7,549**	6,950	**1,774**	1,648

(1) South32's ownership share of operations are presented as follows: Worsley Alumina (86 per cent share), 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 (100 per cent until B-BBEE vendor loans are repaid), 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) Third party products and services sold comprise US$206 million for aluminium, US$49 million for alumina, US$290 million for coal, US$198 million for freight services and US$124 million for aluminium raw materials. Underlying EBIT on third party products comprise US$11 million for aluminium, US$2 million for alumina, US$12 million for coal, (US$1) million for freight services and US$1 million for aluminium raw materials.

(3) 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 ALUMINIA 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 Associates (Australia) Pty Ltd owns 10 per cent and Sojitz Alumina Pty Ltd owns four per cent. Worsley Alumina has been mining and refining bauxite, and exporting alumina since 1984.

Bauxite mining takes place near the town of Boddington, 130km 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 three per cent (or 128kt) in FY18 to 3.8Mt as additional calciner maintenance was undertaken during the year. Production is expected to approach 4.0Mt (4.6Mtpa 100 per cent basis) in FY19 and FY20 as we drawdown excess hydrate stock and achieve an increase in calciner availability.

Operating costs
Operating unit costs increased by 16 per cent in FY18 to US$235/t. A significant rise in the price of caustic soda (FY18: US$582/t, FY17: US$413/t) accounted for more than 50 per cent of this increase, while additional costs were incurred as contractors were utilised to integrate the West Marradong mining area and its lower reactive silica bauxite feed (refer to footnote 3) during H2 FY18.

We expect the refinery's operating unit costs to decrease by a modest two per cent in FY19 to US$230/t with both the caustic soda price and consumption rate (-10 per cent to 93kg/t) forecast to decline, with the latter benefit linked to the ramp-up of West Marradong. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance
Underlying EBIT increased by 165 per cent (or US$263 million) in FY18 to US$422 million. A 36 per cent rise in the average realised price of alumina (+US$388 million) was partially offset by an increase in the caustic soda price (-US$66 million), lower sales volumes (-US$21 million), a stronger Australian dollar (-US$13 million) and higher contractor costs (-US$12 million).

Worsley Alumina's realised alumina price in FY18 was 95 per cent of the Platts alumina index on a volume weighted M-1 basis. While the vast majority of sales are linked to the index or observable market rates, the discount primarily relates to the structure of certain legacy Mozal Aluminium supply contracts that are linked to the LME aluminium price.

Capital expenditure
Sustaining capital expenditure increased by US$9 million in FY18 to US$52 million as we invested in additional bauxite residue disposal capacity and boiler maintenance. The level of expenditure is expected to remain elevated in FY19 (US$56 million) and FY20 as we continue to invest in additional bauxite residue disposal and water catchment capacity.

South32 share	FY18	FY17
Alumina production (kt)	**3,764**	3,892
Alumina sales (kt)	**3,763**	3,847
Realised alumina sales price (US$/t)(1)	**391**	287
Operating unit cost (US$/t)(2)(3)	**235**	203

(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) The information that relates to the Mineral Resources and Ore Reserves of Worsley Alumina was declared in the market announcement "Worsley Alumina Ore Reserves Update" dated 23 August 2018. South32 confirms that it is not aware of any new information or data that materially affects the information included in the original announcement. All material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. South32 confirms that the form and context in which the Competent Persons' findings are presented have not been materially modified from the original market announcement.

South32 share (US$M)	FY18	FY17
Revenue	**1,473**	1,106
Underlying EBITDA	**588**	326
Underlying EBIT	**422**	159
Net operating assets	**3,028**	3,043
Capital expenditure	**52**	43
All other capital expenditure	**52**	43
Exploration expenditure	**1**	1
Exploration expensed	**1**	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 aluminium smelter is fully owned and operated by South32.

Hillside aluminium smelter processes approximately 1.4mtpa of alumina that is imported mainly from Worsley Alumina. It 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 and domestic markets. In support of the development of the downstream industry in South Africa, a small portion of liquid metal is supplied 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 aluminium smelter sources power from Eskom, the South African Government-owned power utility, under long-term contracts.

Volumes

South Africa Aluminium saleable production decreased by 2kt in FY18 to 712kt as the smelter progressively returned all pots to service following an electric arc incident in the December 2017 quarter. Production is expected to increase to 720kt in both FY19 and FY20 as the smelter continues to test its technical capacity.

Operating costs

Operating unit costs increased by 26 per cent in FY18 to US$1,826/t as a significant rise in raw material input costs created inflationary pressure across the aluminium value chain. Alumina, coke, pitch and aluminium price-linked electricity accounted for 70 per cent of the smelter's cost base in FY18 (FY17: 65 per cent). 122 pots were also relined across FY18 at a cost of US$220 thousand per pot (FY17: 75 pots at US$234 thousand per pot). 182 pots are scheduled to be relined in FY19, reflecting a peak in the relining cycle.

While operating unit cost guidance is not provided, the cost profile of South Africa Aluminium will continue to be heavily influenced by the price of power and raw material inputs, given its highly variable cost base. The smelter sources alumina from our Worsley Alumina refinery with prices linked to the Platts alumina index on an M-1 basis, while its power is sourced from Eskom under long-term contracts. The price of electricity supplied to potlines 1 and 2 is linked to the LME aluminium price and the South African rand/US dollar exchange rate. The price of electricity supplied to potline 3 is South African rand based.

Financial performance

Underlying EBIT decreased by three per cent (or US$6 million) in FY18 to US$213 million as a 20 per cent increase in the average realised price of aluminium (+US$262 million) was offset by higher alumina, pitch and coke input costs (-US$199 million), a rise in aluminium price-linked electricity costs (-US$31 million) and a stronger South African rand (-US$19 million).

Capital expenditure

Sustaining capital expenditure increased by US$13 million in FY18 to US$28 million. A modest decrease in Sustaining capital expenditure to US$24 million is expected in FY19.

South32 share	FY18	FY17
Aluminium production (kt)	**712**	714
Aluminium sales (kt)[1]	**711**	713
Realised sales price (US$/t)[1]	**2,226**	1,857
Operating unit cost (US$/t)[2]	**1,826**	1,454

(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)	FY18	FY17
Revenue	**1,583**	1,324
Underlying EBITDA	**285**	287
Underlying EBIT	**213**	219
Net operating assets	**1,202**	1,205
Capital expenditure	**28**	15
All other capital expenditure	**28**	15

MOZAL ALUMINIUM
(47.1% SHARE)

MOZAL ALUMINIUM IS AN ALUMINIUM SMELTER LOCATED IN MOZAMBIQUE AND HAS A SOLID METAL PRODUCTION CAPACITY OF 572KTPA (100 PER CENT BASIS)

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 Aluminium is the only aluminium smelter in Mozambique and the second largest aluminium smelter in Africa. It is one of the world's most advanced and efficient smelters and uses the Aluminium Pechiney AP35 technology to produce standard aluminium ingots.

Volumes
Mozal Aluminium saleable production increased to a record 271kt in FY18 as the smelter continued to test its maximum technical capacity. Production is expected to decline marginally to 269kt in FY19 as the smelter reaches a peak in its pot relining cycle, before increasing to 273kt in FY20 as incremental production is progressively delivered from the AP3XLE energy efficiency project.

Operating costs
Operating unit costs increased by 21 per cent in FY18 to US$1,810/t as a significant rise in raw material input costs created inflationary pressure across the aluminium value chain. Alumina, coke and pitch accounted for 49 per cent of the smelters cost base in FY18 (FY17: 45 per cent). 60 (100 per cent basis) pots were also relined across FY18 at a cost of US$211 thousand per pot (FY17: 94 (100 per cent basis) pots at US$204 thousand per pot). 126 (100 per cent basis) pots are scheduled to be relined in FY19, reflecting a peak in the relining cycle.

While operating unit cost guidance is not provided, the cost profile of Mozal Aluminium will continue to be heavily influenced by the price of power and raw material inputs, given its highly variable cost base. The smelter sources alumina from our Worsley Alumina refinery with approximately 50 per cent priced as a percentage of the LME aluminium index and the remainder linked to the Platts alumina index on an M-1 basis, with caps and floors embedded within specific contracts. Its electricity requirements are largely met by hydroelectric power that is generated by Hidroeléctrica de Cahora Bassa (HCB). HCB delivers power into Eskom's South African grid and Mozal Aluminium sources electricity via the Mozambique Transmission Company (Motraco) under a long term contract. The price of electricity is South African rand based with the rate of escalation linked to a South Africa domestic production price index plus margin.

Financial performance
Underlying EBIT increased 30 per cent (or US$23 million) in FY18 to US$99 million as a 20 per cent increase in the average realised price of aluminium (+US$106 million) was partially offset by higher alumina, pitch and coke input costs (-US$47 million), and a rise in South African rand-linked electricity costs (-US$8 million).

Capital expenditure
Sustaining capital expenditure increased by US$4 million in FY18 to US$10 million and is expected to rise further to US$18 million in FY19. The US$18 million AP3XLE energy efficiency project remains on schedule with first incremental production anticipated in FY20 and the full benefit to be realised by FY24. The project is expected to deliver a circa five per cent (or 10kt per annum) increase in annual production with no associated increase in power consumption.

South32 share	FY18	FY17
Aluminium production (kt)	**271**	271
Aluminium sales (kt)[1]	**274**	273
Realised sales price (US$/t)[1]	**2,296**	1,908
Operating unit cost (US$/t)[2]	**1,810**	1,495

(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)	FY18	FY17
Revenue	**629**	521
Underlying EBITDA	**133**	113
Underlying EBIT	**99**	76
Net operating assets	**553**	534
Capital expenditure	**10**	6
All other capital expenditure	**10**	6

BRAZIL ALUMINA

(ALUMINA 36% SHARE, ALUMINIUM 40% SHARE)

BRAZIL ALUMINA OPERATIONS INCLUDE THE MRN MINE IN THE TROMBETAS REGION, PARA, AND REFINERY AND SMELTER LOCATED AT SAO LUIS, MARANHAO

South32's interests consist of the Mineração Rio do Norte (MRN) mine (14.8 per cent) and the Brazil Alumina refinery (36 per cent) and 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 Brazil Alumina refinery.

At the 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 decreased by two per cent (or 25kt) in FY18 to 1.30Mt as unplanned maintenance and power outages impacted performance. Production is expected to increase to 1.36Mt in FY19 and 1.37Mt in FY20 following completion of the De-bottlenecking Phase One project.

Operating costs

Operating unit costs increased by 28 per cent in FY18 to US$252/t as the price of caustic soda increased by 41 per cent and the cost of bauxite from MRN was reset in accordance with its linkage to aluminium and alumina. The caustic consumption rate also rose temporarily as lower quality bauxite feed was required following the impact of adverse weather in the Amazon Basin during the September 2017 quarter.

Financial performance

Alumina Underlying EBIT increased by 128 per cent (or US$88 million) in FY18 to US$157 million as a 40 per cent increase in the average realised price of alumina (+US$159 million) was partially offset by higher caustic soda (-US$18 million) and bauxite (-US$22 million) costs.

Aluminium Underlying EBIT decreased by US$18 million in FY18 to a loss of US$21 million as our obligation to purchase electricity from Eletronorte was fulfilled during the period, following termination of the contract in December 2015. The sale of surplus electricity generated other income of US$36 million in H1 FY18, although this was more than offset by the utilisation of the associated onerous contract provision and the recognition of a US$16 million provision to reflect transmission charges that will no longer be offset by ongoing electricity purchases.

Capital expenditure

Sustaining capital expenditure decreased by US$8 million in FY18 to US$12 million as the De-bottlenecking Phase One project was completed in March 2018. Sustaining capital expenditure is expected to increase by US$28 million in FY19 to US$40 million as we invest in additional bauxite residue disposal capacity, boiler maintenance and commence the De-bottlenecking Phase Two project. This project is expected to increase our share of alumina production to 1.43Mt from FY21.

South32 share	FY18	FY17
Alumina production (kt)	**1,304**	1,329
Alumina sales (kt)	**1,341**	1,316
Realised alumina sales price (US$/t)(1)	**411**	293
Alumina operating unit cost (US$/t)(2)(3)	**252**	197

(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) Alumina operating unit cost includes cost of acquiring bauxite mainly from MRN.

South32 share (US$M)	FY18	FY17
Revenue	**551**	385
Alumina	**551**	385
Aluminium	**–**	–
Other income	**46**	143
Underlying EBITDA	**192**	123
Alumina	**213**	126
Aluminium	**(21)**	(3)
Underlying EBIT	**136**	66
Alumina	**157**	69
Aluminium	**(21)**	(3)
Net operating assets/(liabilities)	**644**	691
Alumina	**656**	718
Aluminium	**(12)**	(27)
Capital expenditure	**12**	20
All other capital expenditure	**12**	20

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, Ifalethu colliery and Wolvekrans colliery), 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 the Ifalethu colliery and Wolvekrans colliery, which are open-cut mines with a number of active pits, and are mined using draglines combined with truck and shovel operations.

Volumes
South Africa Energy Coal saleable production decreased by six per cent (or 1.6Mt) in FY18 to 27.3Mt as domestic demand remained subdued and our product mix was reweighted towards the export market. We have lowered our FY19 saleable coal production guidance to 29Mt with export volumes expected to decline to 11.5Mt due to an extended outage of the dragline at the Klipspruit colliery as structural damage was incurred in the process of swinging the boom on 17 August 2018. This guidance is preliminary in nature and assumes that mobile fleet mitigates the impact across the remainder of the year. Conversely, domestic volumes are expected to rise as we sell additional lower quality stockpiled product under the terms of a new contract. Production is expected to increase in FY20 to approximately 30Mt.

Operating costs
Operating unit costs increased by 24 per cent in FY18 to US$36/t as general inflation and an unfavourable movement in exchange rates impacted the largely South African rand cost base. Costs were further impacted by additional washing and logistics charges as we intentionally increased the proportion of higher margin export sales to maximise margins and returns.

We expect operating unit costs to increase to approximately US$41/t in FY19 largely as a result of the extended dragline outage at the Klipspruit colliery and an increase in material movement at the WMC. The management of South Africa Energy Coal as a stand-alone business from 30 April 2018 is expected to deliver a reduction in the Group's functional costs and additional procurement savings amounting to US$50 million from FY20. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance
Underlying EBIT increased by 30 per cent (or US$64 million) in FY18 to US$276 million as higher average realised prices (+US$228 million) were partially offset by general inflation (-US$43 million), an increase in activity and labour costs (-US$37 million), a stronger South African rand (-US$35 million) and a drawdown of inventory (-US$54 million).

Capital expenditure
Sustaining capital expenditure increased by US$46 million in FY18 to US$102 million as we continued to invest in new mining areas at the WMC. Sustaining capital expenditure is expected to decrease by US$36 million in FY19 to US$66 million as activity at the WMC returns to typical levels.

We also invested US$62 million in FY18 to progress the 4.3 billion South African rand KPSX project (refer to page 54 footnote 3), which was approved by the Board in November 2017. The 8Mt per annum brownfield project extends the life of the colliery by more than 20 years. The project is approximately 20 per cent complete and remains on schedule and budget, with the level of expenditure expected to rise to US$165 million in FY19. Guidance for capital expenditure does not include any assessment of the cost of repairing the dragline at the Klipspruit colliery.

100 per cent terms(1)	FY18	FY17
Energy coal production (kt)	**27,271**	28,913
Domestic sales (kt)(2)	**15,396**	16,922
Export sales (kt)(2)	**12,518**	11,797
Realised domestic sales price (US$/t)(2)	**25**	21
Realised export sales price (US$/t)(2)	**79**	64
Operating unit cost (US$/t)(3)	**36**	29

(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)	FY18	FY17
Revenue(2)	**1,366**	1,103
Underlying EBITDA	**353**	273
Underlying EBIT	**276**	212
Net operating liabilities	**(23)**	(84)
Capital expenditure	**164**	64
Major projects (>US$100M)	**62**	8
All other capital expenditure	**102**	56

(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 mine and Dendrobium mine, and West Cliff and Dendrobium coal preparation plants. 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 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 saleable production decreased by 40 per cent (or 2.8Mt) in FY18 to 4.2Mt as the Appin mine recovered from an extended outage and achieved an annualised mining rate of more than 6Mt throughout the month of June. Saleable coal production is expected to increase by 44 per cent in FY19 to 6.1Mt, with a further 15 per cent increase to 7.0Mt anticipated in FY20 as the Appin mine reverts to a two longwall operation.

Operating costs

Operating unit costs increased by 78 per cent in FY18 to US$142/t. We expect operating unit costs to decrease by 26 per cent in FY19 to US$105/t as production ramps-up and a general improvement in productivity is achieved across our supply chain. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance

Underlying EBIT decreased by US$420 million in FY18 to a loss of US$62 million as lower sales volumes (-US$525 million) and one-off costs associated with the Appin mine restart plan (-US$23 million) more than offset higher average realised coal prices (+US$78 million), lower selling and distribution costs (+US$30 million), and lower price-linked royalties (+US$30 million).

Capital expenditure

Sustaining capital expenditure decreased by US$15 million in FY18 to US$89 million as underground development was impacted by the extended outage. Sustaining capital expenditure is expected to increase by US$81 million in FY19 to US$170 million as we raise the level of underground development to US$97 million (FY18: US$37 million) to facilitate the progressive ramp-up in production to historic rates of more than 8Mt per annum.

South32 share	FY18	FY17
Metallurgical coal production (kt)	**3,165**	5,697
Energy coal production (kt)	**1,079**	1,376
Metallurgical coal sales (kt)	**2,937**	5,952
Energy coal sales (kt)	**1,179**	1,344
Realised metallurgical coal sales price (US$/t)(1)	**203**	175
Realised energy coal sales price (US$/t)(1)	**76**	69
Operating unit cost (US$/t)(2)	**142**	80

(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)	FY18	FY17
Revenue(1)	**686**	1,133
Underlying EBITDA	**103**	548
Underlying EBIT	**(62)**	358
Net operating assets	**1,408**	1,406
Capital expenditure	**89**	112
Major projects (>US$100M)	**–**	8
All other capital expenditure	**89**	104
Exploration expenditure	**7**	5
Exploration expensed	**7**	5

(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 increased by 13 per cent (or 402kwmt) to a record 3.4Mwmt in FY18 as the Premium Concentrate Ore (PC02) circuit operated at approximately 107 per cent of its design capacity and contributed nine per cent of total production (six per cent FY17). Saleable Manganese alloy production increased by 12 per cent (or 18kt) to 165kt in FY18 as all four furnaces continued to operate.

Ore production guidance of 3.4Mwmt in FY19 currently assumes we continue to operate the low cost PC02 circuit above nameplate capacity. As this PC02 product attracts a discount to our primary higher grade GEMCO ore, we will continue to adjust its performance in response to market demand.

Operating costs
FOB manganese ore operating unit costs increased by seven per cent in FY18 to US$1.63/dmtu as a stronger Australian dollar, a rise in planned maintenance and higher price-linked royalties more than offset underlying productivity gains. We expect operating unit costs to remain unchanged at US$1.63/dmtu in FY19 as broader productivity gains mitigate a further increase in strip ratio (FY19: 4.2, FY18: 4.0) and a temporary decline in product yield. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance
Underlying EBIT increased by 39 per cent (or US$184 million) in FY18 to US$651 million. Higher realised ore and alloys prices (+US$202 million) and an increase in sales volumes (+US$58 million) were only partially offset by a rise in raw material input prices (coke, energy, diesel) (-US$16 million) and additional freight and marketing costs (-US$13 million).

Our low cost PC02 fines product has a manganese content of approximately 40 per cent, which leads to both grade and product-type discounts when referenced to the high grade 44 per cent manganese lump ore index (CIF Tianjin, China). Notwithstanding the contribution of the PC02 circuit to our sales profile, our average realised price for external sales of Australian ore in FY18 reflects a modest premium to the high grade 44 per cent manganese lump ore index on a volume weighted M-1 (one month lag to published pricing) basis in FY18.

Capital expenditure
Sustaining capital expenditure increased by US$20 million in FY18 to US$48 million and is expected to rise to US$75 million in FY19 as we continue to invest in additional tailings storage capacity. Our FY19 plan also includes investment within our alloys business of US$8 million.

South32 share	FY18	FY17
Manganese ore production (kwmt)	**3,396**	2,994
Manganese alloy production (kt)	**165**	147
Manganese ore sales (kwmt)(1)	**3,290**	3,087
External customers	**2,917**	2,777
TEMCO	**373**	310
Manganese alloy sales (kt)(1)	**170**	155
Realised external manganese ore sales price (US$/dmtu, FOB)(1)(2)	**6.38**	5.22
Realised manganese alloy sales price (US$/t)(1)	**1,518**	1,174
Ore operating unit cost (US$/dmtu)(2)(3)	**1.63**	1.52
Alloy operating unit cost (US$/t)(3)	**906**	755

(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.

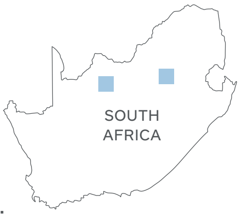
(2) FY18 average manganese content of ore sales was 45.7 per cent on a dry basis (FY17: 46.2 per cent). 94 per cent of FY18 external manganese ore sales (FY17: 95 per cent) were completed on a CIF basis. FY18 realised FOB ore prices and operating unit costs have been adjusted for freight and marketing costs of US$43 million (FY17: US$30 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 cost is revenue less Underlying EBITDA divided by alloy sales volumes and includes costs associated with sinter sold externally.

South32 share (US$M)	FY18	FY17
Revenue(1)	**1,111**	851
Manganese Ore	**884**	694
Manganese Alloy	**258**	182
Intra-segment elimination	**(31)**	(25)
Underlying EBITDA	**710**	521
Manganese Ore	**606**	456
Manganese Alloy	**104**	65
Underlying EBIT	**651**	467
Manganese Ore	**552**	406
Manganese Alloy	**99**	61
Net operating assets	**289**	319
Manganese Ore	**284**	313
Manganese Alloy	**5**	6
Capital expenditure	**48**	28
All other capital expenditure	**48**	28
Exploration expenditure	**1**	1
Exploration expensed	**1**	–

(1) Revenues associated with 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 MANGANESE 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 (Pty) Ltd (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 Samancor Manganese (Pty) Ltd (Metalloys manganese smelter).

HMM has two operations, the Wessels high-grade underground mine and the Mamatwan medium grade open-pit mine. The Metalloys manganese smelter produces high-carbon ferromanganese and medium-carbon ferromanganese alloy and is integrated with HMM.

Volumes
South Africa Manganese saleable ore production increased by five per cent (or 107kwmt) in FY18 to 2.1Mwmt as we continued to take advantage of favourable market conditions by selling lower quality fines product and utilising higher cost trucking as an additional route to market. Manganese alloy saleable production increased by eight per cent (or 6kt) in FY18 to 79kt as we continued to operate one of Metalloys' four furnaces.

Ore production is currently expected to remain largely unchanged at 2.1Mwmt in FY19. This is premised upon an underlying increase in production for our premium products and a reduction in lower quality, fine grained material that has historically attracted grade and product-type discounts. Production will, however, continue to be adjusted in response to market demand.

Operating costs
FOB manganese ore operating unit costs increased by 21 per cent to US$2.53/dmtu in FY18 as a result of a stronger South African rand, higher price-linked royalties and additional costs associated with opportunistic trucking activity. We expect operating unit costs to remain largely unchanged at US$2.56/dmtu in FY19, with a weaker South African rand and an improvement in equipment utilisation expected to offset the impact of marginally lower production. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance
Underlying EBIT increased by 69 per cent (or US$76 million) in FY18 to US$186 million as a significant improvement in ore and alloy prices (+US$107 million) was only partially offset by a stronger South African rand (-US$14 million), an increase in costs associated with opportunistic trucking (-US$14 million) and higher price-linked royalties (-US$5 million).

Our lower quality fine grained material, which accounted for 13 per cent of sales across FY18 (nine per cent FY17), receives a product discount when referenced to index prices. As a result, our average realised price for external sales of South African ore reflected a five 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).

Capital expenditure
Sustaining capital expenditure increased by US$8 million in FY18 to US$17 million and is expected to rise to US$35 million in FY19 as we invest in mobile fleet and extract a boundary pillar at our Mamatwan mine. Our FY19 plan also includes investment within our alloys business of US$7 million.

South32 share	FY18	FY17
Manganese ore production (kwmt)	**2,145**	2,038
Manganese alloy production (kt)	**79**	73
Manganese ore sales (kwmt)(1)	**2,082**	2,024
External customers	**1,919**	1,866
Metalloys	**163**	158
Manganese alloy sales (kt)(1)	**67**	74
Realised external manganese ore sales price (US$/dmtu, FOB)(1)(2)	**5.21**	4.01
Realised manganese alloy sales price (US$/t)(1)	**1,269**	1,027
Ore operating unit cost (US$/dmtu)(2)(3)	**2.53**	2.09
Alloy operating unit cost (US$/t)(3)	**970**	1,000

(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) FY18 average manganese content of ore sales was 39.9 per cent on a dry basis (FY17: 40.1 per cent). 70 per cent of FY18 external manganese ore sales (FY17: 63 per cent) were completed on a CIF basis. FY18 realised FOB ore prices and operating costs have been adjusted for freight and marketing costs of US$33 million (FY17: 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 cost is revenue less Underlying EBITDA divided by alloy sales volumes.

South32 share (US$M)	FY18	FY17
Revenue(1)	**503**	391
Manganese Ore(2)	**436**	328
Manganese Alloy	**85**	76
Intra-segment elimination	**(18)**	(13)
Underlying EBITDA	**215**	140
Manganese Ore(2)	**195**	138
Manganese Alloy	**20**	2
Underlying EBIT	**186**	110
Manganese Ore(2)	**175**	120
Manganese Alloy	**11**	(10)
Net operating assets	**297**	307
Manganese Ore(2)	**234**	245
Manganese Alloy	**63**	62
Capital expenditure	**17**	9
All other capital expenditure	**17**	9

(1) Revenues associated with sales from HMM 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. South32 has a 44.4 per cent ownership interest in HMM. 26 per cent of HMM is owned by a B-BBEE consortium comprising Ntsimbintle Mining (nine per cent), NCAB Resources (seven per cent), Iziko Mining (five per cent) and HMM Education Trust (five per cent). The interests owned by NCAB Resources, Iziko Mining and HMM Education Trust were acquired using vendor finance with the loans repayable via distributions attributable to these parties, pro rata to their share in HMM. Until these loans are repaid, South32's interest in HMM is accounted at 54.6 per cent.

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 increased by 20 per cent (or 7.3kt) in FY18 to 43.8kt as ore grades temporarily improved with the ramp-up of La Esmeralda and the operation continued to benefit from an improvement in plant utilisation and throughput rates. We have increased payable nickel production guidance by four per cent to 40.5kt in FY19 as a further improvement in plant utilisation and throughput rates is expected to partially offset the impact of lower grades. Production is expected to decrease again in FY20 to 35.6kt as ore grades continue to decline and a major refurbishment of the furnace is undertaken to broaden its operating window.

Operating costs
Operating unit costs decreased by three per cent in FY18 to US$3.67/lb as the increase in production more than offset a substantial increase in price-linked royalties. We expect operating unit costs to increase by 15 per cent in FY19 to US$4.21/lb as lower production and higher price-linked royalties are expected to more than offset additional productivity gains. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance
Underlying EBIT increased by US$136 million in FY18 to US$120 million as the higher average realised nickel price (+US$114 million) and rise in sale volumes (+US$68 million) were partially offset by an increase in price-linked royalties (-US$20 million) and energy costs (-US$9 million), which were mitigated by our energy optimisation strategy (+US$6 million).

Capital expenditure
Sustaining capital expenditure increased by US$8 million in FY18 to US$22 million as the higher grade La Esmeralda ore body was connected to the broader operation with the completion of a permanent access bridge. Sustaining capital expenditure is expected to rise to US$41 million in FY19 as we prepare for the major furnace refurbishment in FY20.

South32 share	FY18	FY17
Ore mined (kwmt)	**3,741**	4,447
Ore processed (kdmt)	**2,722**	2,561
Ore grade processed (%, Ni)	**1.79**	1.59
Payable nickel production (kt)	**43.8**	36.5
Payable nickel sales (kt)	**43.3**	36.6
Realised nickel sales price (US$/lb)(1)	**5.86**	4.67
Operating unit cost (US$/lb)(2)	**3.67**	3.77

(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)	FY18	FY17
Revenue	**559**	377
Underlying EBITDA	**209**	74
Underlying EBIT	**120**	(16)
Net operating assets	**551**	611
Capital expenditure	**22**	14
All other capital expenditure	**22**	14
Exploration expenditure	**9**	5
Exploration expensed	**8**	4

CANNINGTON
(100%)

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 620m via two methods; either by a vertical shaft hoisting system or 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 20 per cent, 21 per cent and 41 per cent, respectively, in FY18 as mining and processing rates were reset in order to deliver greater predictability and stability in the underground mine. Although grade variability is expected to persist over the remaining life of the operation as the stope sequence is optimised to maximise long-term value, zinc equivalent payable metal production (refer to Production guidance page 51, footnote 4) is expected to remain unchanged in FY19 (11.8Moz for silver, 98.0kt for lead and 51.0kt for zinc), and FY20 (10.9Moz for silver, 94.7kt for lead and 57.3kt for zinc).

Operating costs
Operating unit costs increased by 13 per cent to US$150/t in FY18 as geological complexity and lower throughput rates more than offset a reduction in treatment and refining charges and the benefit we achieved by further optimising energy supply and logistics. We expect operating unit costs to decrease marginally to US$147/t in FY19 as mill throughput increases and we benefit from lower power costs following the renegotiation of a supply contract. Exchange rate and price assumptions for FY19 operating unit cost guidance are detailed on page 52, footnote 3.

Financial performance
Underlying EBIT decreased by 41 per cent (or US$125 million) in FY18 to US$183 million as the decline in sales volumes (-US$221 million) was partially offset by higher average realised prices (+US$37 million), a reduction in negotiated treatment and refining charges (+US$38 million), lower royalty (+US$10 million) and logistics costs (+US$10 million). Finalisation adjustments and the provisional pricing of Cannington concentrates increased Underlying EBIT by US$0.1 million in FY18 (FY17: US$4.1 million, H1 FY18: US$5.5 million). Outstanding concentrate sales (containing 2.2Moz of silver, 18.8kt of lead and 4.9kt of zinc) were revalued at 30 June 2018. The final price of these sales will be determined in the December 2018 half year.

Capital expenditure
Sustaining capital expenditure increased by US$15 million to US$51 million in FY18 as we commissioned a new underground crusher in the March 2018 quarter and invested in additional underground development that will create greater operating flexibility in the mine. Sustaining capital expenditure is expected to remain largely unchanged at US$50 million in FY19 as underground development rates remain elevated and we invest in additional tailings storage capacity.

South32 share	FY18	FY17
Ore mined (kwmt)	**2,463**	2,909
Ore processed (kdmt)	**2,355**	3,036
Ore grade processed (g/t, Ag)	**194**	194
Ore grade processed (%, Pb)	**5.3**	5.4
Ore grade processed (%, Zn)	**2.6**	3.4
Payable silver production (koz)	**12,491**	15,603
Payable lead production (kt)	**104.4**	132.1
Payable zinc production (kt)	**41.3**	70.4
Payable silver sales (koz)	**11,985**	16,270
Payable lead sales (kt)	**97.9**	138.1
Payable zinc sales (kt)	**45.0**	67.4
Realised silver sales price (US$/oz)(1)	**16.6**	17.6
Realised lead sales price (US$/t)(1)	**2,463**	2,223
Realised zinc sales price (US$/t)(1)	**3,185**	2,601
Operating unit cost (US$/t ore processed)(2)	**150**	133

(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)	FY18	FY17
Revenue	**584**	768
Underlying EBITDA	**230**	364
Underlying EBIT	**183**	308
Net operating assets	**210**	215
Capital expenditure	**51**	36
All other capital expenditure	**51**	36
Exploration expenditure	**3**	2
Exploration expensed	**2**	2

THIRD PARTY PRODUCT SALES

The Group differentiates the sale of its production from the sale of third party products due to a 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	FY18	FY17
Group production		
Revenue	**6,682**	6,160
Related operating costs (net of other income)	**(5,424)**	(4,844)
Group production Underlying EBIT	**1,258**	1,316
Margin on Group production	**18.8%**	21.4%
Third party products		
Revenue	**867**	790
Related operating costs (net of other income)	**(842)**	(778)
Third party Underlying EBIT	**25**	12
Margin on third party products	**2.9%**	1.5%

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 materials 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 24. 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 27 to 29.

PRODUCTION

The Group's production volumes are expected to rise by five per cent (based on revenue equivalent production assuming constant FY18 prices) in FY19. Illawarra Metallurgical Coal continues to recover from the extended outage at the Appin mine in H1 FY18, with improved longwall and development performance expected to underpin 6.1Mt of production in FY19 and an anticipated return to historical rates of more than 8Mt per annum from H2 FY20. Within our aluminium supply chain, we expect another incremental improvement in production as we continue to test the maximum technical capacity of our smelters, benefit from the completion of the De-bottlenecking Phase One project at Brazil Alumina and achieve a modest increase in calciner availability at Worsley Alumina. At Cannington, zinc equivalent production is expected to remain unchanged across FY18 to FY20 as an increase in payable zinc production offsets lower silver and lead ore grades. Our manganese operations will continue to manage production according to market demand. Payable nickel production guidance has been increased by 1.7kt to 40.5kt at Cerro Matoso given an expectation for higher throughput and utilisation rates, while production guidance has been lowered at South Africa Energy Coal as a result of an extended outage of the dragline at the Klipspruit colliery.

Production guidance (South32's share)[1]

	FY18	FY19e[2]	FY20e[2]	Key guidance assumptions
Worsley Alumina				**FY19 guidance unchanged**
Alumina production (kt)	**3,764**	3,965	3,965	An improvement in calciner availability and a drawdown of excess hydrate.
South Africa Aluminium				**FY19 guidance unchanged**
Aluminium production (kt)	**712**	720	720	Smelter to test its technical capacity having returned all pots to service following an electric arc incident in the December 2017 quarter.
Mozal Aluminium				**FY19 guidance unchanged**
Aluminium production (kt)	**271**	269	273	AP3XLE energy efficiency project to add incremental production from FY20.
Brazil Alumina				**FY19 guidance unchanged**
Alumina production (kt)	**1,304**	1,355	1,370	Production creep from De-bottlenecking Phase One project.
South Africa Energy Coal				**FY19 guidance decreased by one per cent**
Total coal production (kt)	**27,271**	29,000	30,300	Domestic volumes to benefit from a new long-term contract to sell lower quality stockpiles to a local customer.
Domestic coal production (kt)	**15,154**	17,500	16,900	
Export coal production (kt)	**12,117**	11,500	13,400	Export production guidance is subject to review and is based upon the revised guidance for Klipspruit colliery.
Illawarra Metallurgical Coal				**FY19 guidance provided for the first time**
Total coal production (kt)	**4,244**	6,100	7,000	Appin mine to operate with a single longwall configuration for FY19 before returning to a two longwall configuration in H2 FY20.
Metallurgical coal production (kt)	**3,165**	4,900	5,800	
Energy coal production (kt)	**1,079**	1,200	1,200	
Australia Manganese				**FY19 guidance provided for first time (subject to market demand)**
Manganese ore production (kwmt)	**3,396**	3,350	Subject to demand	PC02 circuit to operate above nameplate capacity.
South Africa Manganese				**FY19 guidance provided for first time (subject to market demand)**
Manganese ore production (kwmt)	**2,145**	2,050	Subject to demand	Opportunistic fines sales expected to decline in FY19.
Cerro Matoso				**FY19 guidance increased by four per cent**
Ore to kiln (kt)	**2,722**	2,750	2,500	An improvement in plant utilisation and throughput rates more than offset by lower ore grades and an extended outage of the furnace in FY20.
Payable nickel production (kt)	**43.8**	40.5	35.6	
Cannington				**FY19 guidance unchanged**
Ore processed (kdmt)	**2,355**	2,400	2,500	Zinc equivalent production to remain unchanged, reflecting an increase in mill throughput and grade variability according to the mine plan.
Payable zinc equivalent production (kt)[3]	**187.2**	188.1	187.1	
Payable silver production (koz)	**12,491**	11,750	10,850	
Payable lead production (kt)	**104.4**	98.0	94.7	
Payable zinc production (kt)	**41.3**	51.0	57.3	

(1) South32's ownership share of operations are as follows: Worsley Alumina (86 per cent share), 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 (100 per cent until B-BBEE vendor loans are repaid), 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) Payable Zinc Equivalent (kt) production was calculated by aggregating revenues from payable sliver, lead and zinc, and dividing the total revenue by the price of zinc. FY18 realised prices for zinc (US$3,185/t), lead (US$2,463/t) and silver (US$16.6/oz) were used for FY18, FY19e and FY20e. Zinc equivalent production is used to compare Cannington with the recently acquired Hermosa project which is currently reported in zinc equivalent terms.

COSTS AND CAPITAL EXPENDITURE

An improvement in energy and equipment productivity enabled us to achieve FY18 operating unit cost guidance at the majority of our operations, despite broader inflationary pressure, most notably in our aluminium supply chain. Stronger production and additional productivity gains are expected to further mitigate continued inflationary pressure, while a stronger US dollar and lower caustic soda prices are forecast to provide some relief.

Following the simplification of the Group's functional structures in the June 2018 quarter, Group and unallocated costs of US$80 million are expected in FY19, excluding greenfield exploration.

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

	FY17	FY18	FY19e(3)(4)	Key guidance assumptions
Worsley Alumina (US$/t)	203	**235**	230	Lower caustic soda consumption rates (from 103kg/t to 93kg/t) and prices.
South Africa Energy Coal (US$/t)	29	**36**	41	An extended outage of the dragline at Klipspruit colliery and an increase in material movement at the WMC.
Illawarra Metallurgical Coal (US$/t)	80	**142**	105	Stronger volumes at the Appin mine and an associated increase in productivity.
Australia Manganese Ore (FOB) (US$/dmtu)	1.52	**1.63**	1.63	Equipment productivity gains and low cost PC02 circuit to offset a further increase in strip ratio.
South Africa Manganese Ore (FOB) (US$/dmtu)	2.09	**2.53**	2.56	An increase in premium product volumes to largely offset a reduction in low cost, low grade fine grained material.
Cerro Matoso (US$/lb)	3.77	**3.67**	4.21	Lower ore grades and payable nickel production and an increase in price-linked royalties.
Cannington (US$/t)(5)	133	**150**	147	An increase in mill throughput and the successful renegotiation of our power supply contract to more than offset increasing geological complexity.

(1) South32's ownership share of operations are as follows: Worsley Alumina (86 per cent share), 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 (100 per cent until B-BBEE vendor loans are repaid), 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) Operating unit cost is Revenue less Underlying EBITDA, excluding third party sales, divided by sales volumes. Operating cost is Revenue less Underlying EBITDA excluding third party sales.

(3) FY19e operating unit cost guidance includes royalties (where appropriate) and the influence of exchange rates, and includes various assumptions for FY19, including: an alumina price of US$411/t; an average blended coal price of US$149/t for Illawarra Metallurgical Coal; a manganese ore price of US$6.20/dmtu for 44 per cent manganese product; a nickel price of US$6.92/lb; a thermal coal price of US$93/t (API4) for South Africa Energy Coal; a silver price of US$17.58/troy oz; a lead price of US$2,406/t; a zinc price of US$3,066/t; an AUD:USD exchange rate of 0.76; a USD:ZAR exchange rate of 13.43 and a USD:COP exchange rate of 2,927; all of which reflected forward markets as at 15 June 2018 or our internal expectations.

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

(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 GUIDANCE

Sustaining capital expenditure, excluding equity accounted investments, is expected to increase by US$97 million to US$465 million in FY19 as we increase underground development at Illawarra Metallurgical Coal by US$60 million to facilitate the progressive ramp-up in production to historic rates of more than 8Mt per annum. In addition, we are developing additional bauxite residue disposal areas at Worsley Alumina and Brazil Alumina, water catchment capacity at Worsley Alumina, tailings storage capacity at Cannington, purchasing materials in advance of the major furnace refurbishment project at Cerro Matoso in FY20 and advancing the AP3XLE energy efficiency project at Mozal Aluminium. Capital expenditure associated with equity accounted investments is expected to increase by US$45 million to US$110 million and includes the construction of additional tailings storage capacity at Australia Manganese.

Sustaining capital expenditure (South32's share)[1]

US$M	FY17	FY18	FY19e[2]
Worsley Alumina	43	**52**	56
South Africa Aluminium	15	**28**	24
Mozal Aluminium	6	**10**	18
Brazil Alumina	20	**12**	40
South Africa Energy Coal	56	**102**	66
Illawarra Metallurgical Coal	104	**89**	170
Australia Manganese	28	**48**	75
South Africa Manganese	9	**17**	35
Cerro Matoso	14	**22**	41
Cannington	36	**51**	50
Group and unallocated	6	**2**	N/A
Sustaining capital expenditure (including equity accounted investments)	337	**433**	575
Equity accounting adjustment[3]	(37)	**(65)**	(110)
Sustaining capital expenditure (excluding equity accounted investments)	300	**368**	465

(1) South32's ownership share of operations are as follows: Worsley Alumina (86 per cent share), 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 (100 per cent until B-BBEE vendor loans are repaid), 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) 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.

Major project capital expenditure is expected to increase to US$265 million in FY19 as activity ramps up at the South Africa Energy Coal KPSX project and early stage works at the Hermosa project are undertaken. The 4.3 billion South African rand KPSX project (refer to page 54 footnote 3) is approximately 20 per cent complete and remains on schedule and budget. At Hermosa, we expect to invest approximately US$100 million in FY19 which will include the development of the twin exploration decline that will allow us to increase our geological understanding of this high grade resource (refer to page 54 footnote 4) and test for extensions. Capital expenditure guidance is not provided for Eagle Downs as the transaction has not been completed.

Major capital expenditure (South32's share)[1]

US$M	FY17	FY18	FY19e[2]
South Africa Energy Coal[3]	8	62	165
Illawarra Metallurgical Coal	8	–	–
Hermosa project[4]	–	–	100
Major capital expenditure (including equity accounted investments)	**16**	**62**	**265**
Equity accounted adjustment[5]	–	–	–
Major capital expenditure (excluding equity accounted investments)	**16**	**62**	**265**

(1) South32's ownership share of operations are as follows: Worsley Alumina (86 per cent share), 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 (100 per cent until B-BBEE vendor loans are repaid), 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) Refer to the market announcement "South32 approves Klipspruit Life Extension Project" dated 27 November 2017.

(4) The information that relates to estimates of Mineral Resources for the Hermosa project are qualifying foreign estimates under ASX Listing Rules and reference should be had to the clarifying statement on Mineral Resources in the market announcement 'South32 to acquire Arizona Mining in agreed all cash offer' dated 18 June 2018, in accordance with ASX Listing Rule 5.12. South32 is not in possession of any new information or data relating to the foreign estimate that materially impacts on the reliability of the estimates. South32 confirms that the information contained in the clarifying statement in the 18 June 2018 market announcement continues to apply and has not materially changed. The estimates of Mineral Resources are not reported in accordance with the JORC Code. Competent persons have not done sufficient work to classify the foreign estimates as Mineral Resources in accordance with JORC Code. It is uncertain that following evaluation and further exploration that the foreign estimates will be able to be reported as Mineral Resources or Ore Reserves in accordance with the JORC Code.

(5) 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.

Guidance for capital expenditure does not include any assessment of the cost of repairing the dragline at Klipspruit colliery.

EXPLORATION EXPENDITURE

During FY18 we invested US$41.3 million in exploration programs (US$2.3 million capitalised). This included US$1.2 million for our equity accounted investments (US$0.6 million capitalised) and US$21.3 million to expand our exploration footprint and progress 18 early stage greenfield projects. Greenfield exploration expenditure is expected to rise by US$20 million to US$41 million in FY19.

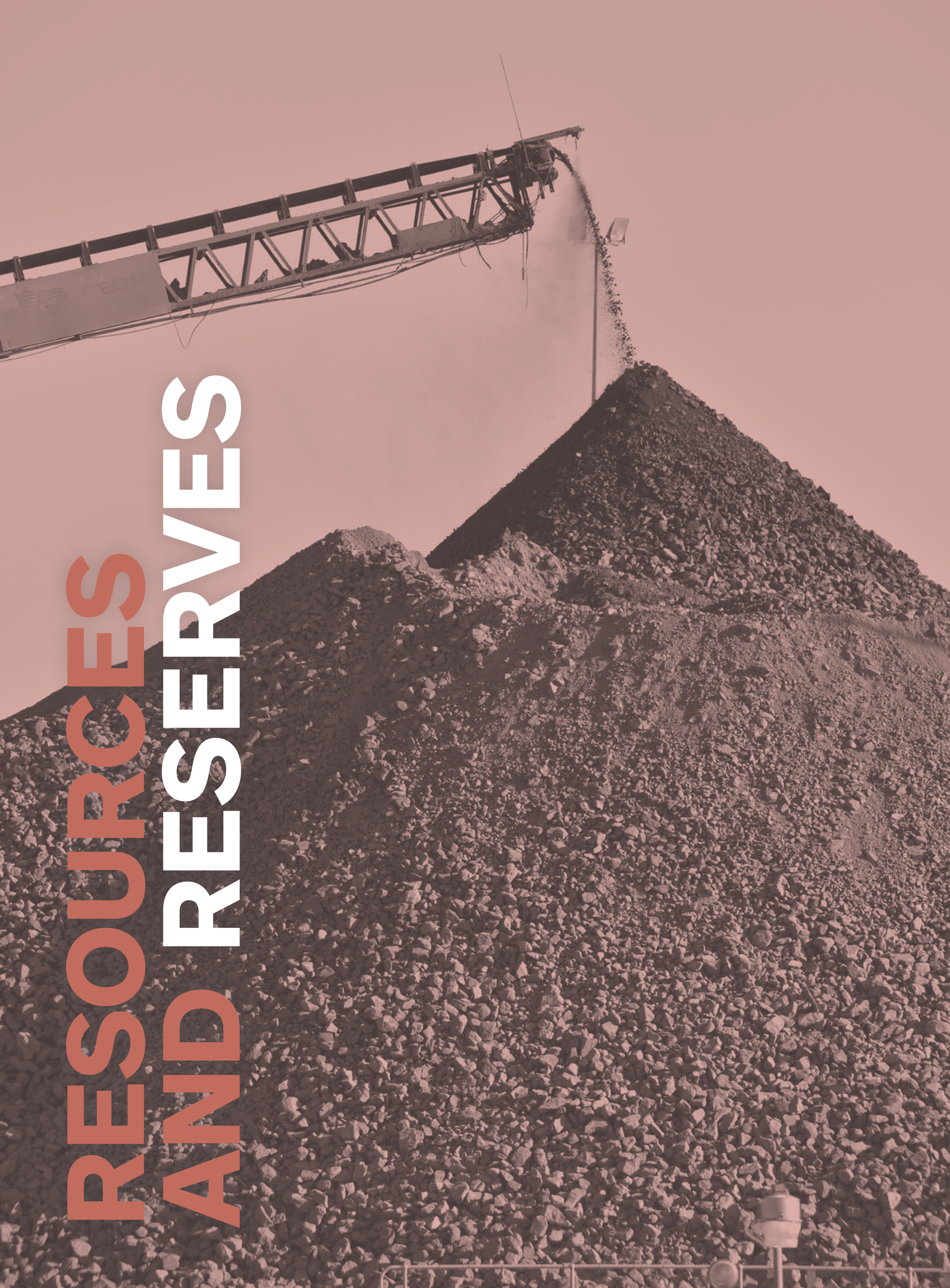
DEPRECIATION AND AMORTISATION

Depreciation and amortisation (excluding equity accounted investments) is expected to remain largely unchanged at approximately US$750 million. Depreciation and amortisation of US$85 million is expected for our equity accounted investments.

TAX EXPENSE

The Group's Underlying ETR, which excludes tax associated with equity accounted investments, 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 37 per cent (40 per cent to 31 December 2017), Mozambique zero per cent (Mozambique operations are subject to a royalty on revenues instead of income tax) and Brazil 34 per cent. It should also be recognised that permanent differences have a disproportionate effect on the Group's Underlying ETR when commodity prices and profit margins are compressed.

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 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 58. 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 2018. The Measured and Indicated 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, 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. To ensure correct and accurate public reporting, our Governance processes 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 for 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 FY18, we undertook two independent audits of Ore Reserves 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.

South32's Mineral Resources and Ore Reserves holdings are presented in the accompanying tables.

At a glance – Resources and Reserves (as at 30 June 2018)

Operation	Total Ore/Coal Reserve (Mt)	Reserve Life Years(1)	Total Mineral/Coal Resource (Mt)
Worsley Alumina	298	17	1170
Brazil Alumina	43	2.7	503
South Africa Energy Coal(2)(3)	509	30	4990
Illawarra Metallurgical Coal(2)(3)	132	20	1270
Australia Manganese	72	7.4	173
South Africa Manganese(3)	130	58	226
Cerro Matoso	37	11	314
Cannington	23	13	86

(1) Scheduled extraction period in years for the Total Ore Reserves in the approved Life of Operation Plan

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

(3) Reserve Life for Illawarra Coal, South Africa Manganese and South Africa Energy Coal is reported as the life of scheduled Ore Reserves for Bulli seam, Wessels and Klipspruit respectively. The Reserve Life for the remaining operations are reported in the following detailed disclosures

FOREIGN ESTIMATE

In the market announcement 'South32 to acquire Arizona Mining in agreed all cash offer' dated 18 June 2018, South32 reported on the estimates of Mineral Resources for the Hermosa project (Arizona Mining Inc.). These estimates of Mineral Resources are foreign estimates under the ASX Listing Rules and are not reported in accordance with the JORC Code. In accordance with ASX Listing Rule 5.14.1, South32 intends to conduct a work program to verify the resource and report in accordance with the JORC Code.

EXPLORATION RESEARCH AND DEVELOPMENT

Our operations carry out exploration as well as research and development necessary to support their activities. Our brownfield exploration activities are focused on the delineation and categorisation of mineral deposits connected or adjacent to our existing operations. Our greenfield exploration activities are focused on the discovery and delineation of opportunities outside of our existing operational footprint with a bias to base metals. During FY18, our global exploration footprint expanded; we funded greenfield exploration in Australia, Peru, Colombia, Sweden, Mexico, United States and Canada. Exploration expenditure for FY18 was US$41.3 million (FY17: US$28.8 million) of which US$20.0 million related to brownfield and US$21.3 million related to greenfield (FY17: US$15.4 million and US$13.4 million respectively).

COMPETENT PERSONS

MINERAL RESOURCES

WORSLEY: J Binoir, MAusIMM; **R Brown**, MAusIMM, employed by SRK Consulting (Australasia) Pty Ltd.

MINERAÇÃO RIO DO NORTE: M A H Monteiro, MAusIMM, employed by Mineração Rio do Norte

GEMCO: J Harvey, MAusIMM; **D Hope**, MAusIMM

WESSELS & MAMATWAN: E P Ferreira, Pri. Sci. Nat., SACNASP; **A Nengovhela**, Pri. Sci. Nat., SACNASP; **F T Rambuda**, Pri. Sci. Nat., SACNASP

CERRO MATOSO: I Espitia, MAusIMM

CANNINGTON: M Readford, MAusIMM(CP)

ORE RESERVES

WORSLEY: G Burnham, MAusIMM

MINERAÇÃO RIO DO NORTE: C J da Silva, MAusIMM, employed by Mineração Rio do Norte

GEMCO: U Sandilands, MAusIMM

WESSELS & MAMATWAN: J Lamprecht, Pri. Sci. Nat., SACNASP, employed by Deswik Mining Consultants (Pty) Ltd.

CERRO MATOSO: N Monterroza, MAusIMM

CANNINGTON: T Curypko, MAusIMM(CP)

COAL RESOURCES

LEANDRA, KHUTALA & NAUDESBANK: S Nzama, Pri. Sci. Nat., SACNASP

WOLVEKRANS MIDDELBURG COMPLEX: S Kara, Pri. Sci. Nat., SACNASP; **L Visser**, Pri. Sci. Nat., SACNASP; **S Nzama**, Pri. Sci. Nat., SACNASP

KLIPSPRUIT: H Strauss, MGSSA

PEGASUS & DAVEL: P Maseko, Pri. Sci. Nat., SACNASP

WELTEVREDEN: P Maseko, Pri. Sci. Nat., SACNASP; **H Strauss**, MGSSA

BULLI & WONGAWILLI: J Gale, MAusIMM

COAL RESERVES

WOLVEKRANS MIDDELBURG COMPLEX, KHUTALA & KLIPSPRUIT: P Mulder, MSAIMM

BULLI & WONGAWILLI: M Rose, MAusIMM

ALUMINIUM

MINERAL RESOURCES

As at 30 June 2018		Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources			Total Mineral Resources			South32 Interest	As at 30 June 2017 Total Mineral Resources		
Deposit[1]	Material 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[2]	Laterite	356	28.3	1.5	408	29.2	2.0	405	28.7	2.1	1,170	28.7	1.9	86	1,120	28.6	2.0
MRN[3]	MRN Washed	319	49.7	4.3	50	49.3	4.7	134	49.9	3.6	503	49.7	4.2	14.8	514	49.7	4.2

ORE RESERVES

As at 30 June 2018		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2017 Total Ore Reserves			Reserve Life
Deposit[1][5][6]	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[4]	Laterite	268	27.6	1.8	30	29.5	1.4	298	27.8	1.7	17	86	291	27.3	1.8	16
MRN[3]	MRN Washed	34	48.4	5.4	9.2	50.2	4.7	43	48.8	5.3	2.7	14.8	54	49.6	4.9	3.4

(1) Cut-off grade

	Mineral Resources	Ore Reserves
Worsley	Variable ranging from 22-25% A.Al_2O_3, ≤ 3.5% R.SiO_2 and ≥ 1m thickness.	Variable ranging from 22.5-25% A.Al_2O_3, ≤ 3.5% R.SiO_2 and ≥ 1m thickness (except Marradong West ≥2m thickness).
MRN	≥ 46% A.Al_2O_3, ≤ 7% R.SiO_2, ≥ 1m thickness and ≥ 30% recovery on weight per cent basis.	≥ 46% A.Al_2O_3, ≤ 7% R.SiO_2, ≥ 1m thickness and ≥ 30% recovery on weight per cent basis.

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

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

(4) Increase in Ore Reserves due to first time reporting of Marradong West.

(5) Ore delivered to process plant.

(6) Metallurgical recovery for the operations

Worsley 94.1%
MRN 96%

ENERGY COAL

South Africa Energy Coal

COAL RESOURCES

As at 30 June 2018			Measured Coal Resources					Indicated Coal Resources					Inferred Coal Resources					Total Coal Resources					South32 Interest	As at 30 June 2017 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
Operating mines																												
Khutala	OC	Th	1,099	30.4	22.6	1.20	4,890	–	–	–	–	–	–	–	–	–	–	1,099	30.4	22.6	1.20	4,890	92	1,105	30.4	22.6	1.21	4,890
	UG	Th	130	34.7	20.3	0.77	4,390	–	–	–	–	–	–	–	–	–	–	130	34.7	20.3	0.77	4,390		142	35.1	20.2	0.73	4,390
Klipspruit[4]	OC	Th	319	28.3	22.6	1.27	5,210	151	30.8	22.0	1.22	5,000	171	31.2	21.7	1.15	4,950	641	29.7	22.2	1.22	5,090	92	102	28.5	22.4	1.23	5,140
Wolvekrans Middelburg Complex	OC	Th	647	26.9	22.6	1.15	5,470	18	29.9	22.8	0.99	5,100	178	24.5	23.6	1.24	5,700	843	26.4	22.8	1.16	5,510	92	843	26.6	22.7	1.10	5,480
	SP	Th	–	–	–	–	–	6.8	31.1	20.6	0.84	4,900	–	–	–	–	–	6.8	31.1	20.6	0.84	4,900		4.9	27.4	20.4	0.68	5,370
Projects																												
Davel	UG	Th	–	–	–	–	–	–	–	–	–	–	222	22.8	27.2	1.49	5,790	222	22.8	27.2	1.49	5,790	92	222	22.8	27.2	1.49	5,790
Leandra[3]	UG	Th	613	29.4	22.9	1.12	5,470	409	29.0	21.5	0.90	5,130	770	28.8	21.8	0.98	5,200	1,792	29.0	22.1	1.01	5,280	92	1,722	28.1	22.4	1.06	4,880
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	243	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	13	26.9	21.3	1.35	5,380
Weltevreden[4]	OC	Th	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	92	547	29.9	22.2	1.22	5,080

ENERGY COAL (CONTINUED)

South Africa Energy Coal (continued)

COAL RESERVES

As at 30 June 2018						Proved Marketable Coal Reserves					Probable Marketable Coal Reserves					Total Marketable Coal Reserves							As at 30 June 2017 Total Marketable Coal Reserves					
Deposit[(1)(5)(7)(8)]	Mining Method	Coal Type	Proved Coal Reserves Mt	Probable Coal Reserves Mt	Total Coal Reserves Mt	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Mt	% Ash	% VM	% S	KCal/kg CV	Reserve Life Years	South32 Interest %	Mt	% Ash	% VM	% S	KCal/kg CV	Reserve Life Years
Operating mines																												
Khutala	UG	Th	36	–	36	36	36.0	20.3	0.75	4,300	–	–	–	–	–	36	36.0	20.3	0.75	4,300	8.0	92	42	37.1	20.0	0.73	4,220	9.0
	OC	Th	1.3	–	1.3	1.3	37.4	18.1	1.10	4,240	–	–	–	–	–	1.3	37.4	18.1	1.10	4,240			2.7	37.0	21.8	1.17	4,300	
Klipspruit[(6)]	OC	Th Export	14	–	14	49	14.1	22.5	0.66	5,950	16	15.3	21.8	0.63	5,730	65	14.4	22.4	0.66	5,900	30	92	6.7	14.2	25.8	0.57	6,230	3.0
	OC	Th	178	65	243	67	27.6	21.4	0.85	4,630	22	30.0	20.7	0.82	4,440	89	28.2	21.2	0.85	4,590			12	30.6	21.5	0.87	5,260	
	OC	Th Eskom	–	–	–	35	35.0	21.5	1.11	4,140	13	38.0	20.9	1.04	3,980	48	35.8	21.3	1.09	4,100			–	–	–	–	–	
Wolvekrans Middelburg Complex	OC	Th	409	32	441	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	22	92	–	–	–	–	–	25
	SP	Th	–	6.8	6.8	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–			–	–	–	–	–	
	OC	Th Export	–	–	–	199	19.1	24.8	0.62	6,190	9.9	21.3	24.2	0.34	5,900	209	19.2	24.8	0.61	6,180			165	18.4	24.8	0.49	6,270	
	OC	Th Domestic	–	–	–	46	25.0	21.9	0.82	5,380	15	26.5	22.9	1.19	5,130	61	25.4	22.1	0.91	5,320			118	23.8	21.9	0.93	5,520	

(1) Cut-off grade

	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, ≥ 3.6m seam thickness for UG.
Klipspruit	≥ 1.0m seam thickness (Except Weltevreden: ≥ 0.8m), ≤ 45% ash, ≥ 24% dry ash-free volatile matter.	≥ 0.8m seam thickness for Klipspruit life extension project, ≥ 1.0m seam thickness for Klipspruit, 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.	
Naudesbank	≥ 0.5m to 0.8m seam thickness, ≤ 45% ash, ≥ 22% dry ash-free volatile matter.	
Pegasus	≥ 1.0m seam thickness, ≤ 45% ash, ≥ 24% 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 as raw on an air-dried basis.

(3) Increase in Coal Resource tonnes due to reporting refinements adopted in FY18.

(4) Weltevreden Coal Resources are included in the Klipspruit Coal Resources.

(5) Coal Reserve tonnes and quality are reported on an air-dried basis.

(6) Increase in Coal Reserves following approval of the Klipspruit Life Extension project.

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

(8) Process recoveries for the operations:

Khutala	100%
Klipspruit	79%
Wolvekrans Middelburg Complex	60%

COAL

Illawarra Metallurgical Coal

COAL RESOURCES

As at 30 June 2018			Measured Coal Resources				Indicated Coal Resources				Inferred Coal Resources				Total Coal Resources				South32 Interest	As at 30 June 2017 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[3]	UG	Met/Th	145	11.2	23.9	0.37	336	12.5	23.7	0.36	346	13.6	23.1	0.36	828	12.7	23.5	0.36	100	762	12.8	23.5	0.36
Wongawilli[4]	UG	Met/Th	54	29.0	23.6	0.59	241	29.5	22.2	0.57	151	29.6	22.4	0.57	446	29.5	22.4	0.57	100	465	29.5	22.4	0.57

COAL RESERVES

As at 30 June 2018			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 2017 Total Marketable Coal Reserves				Reserve Life
Deposit[1][5][6][7]	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	21	118	139	18	8.9	24.3	0.37	99	8.9	24.9	0.36	117	8.9	24.8	0.36	20	100	118	8.9	24.8	0.36	20
Wongawilli	UG	Met/Th	6.2	14	20	–	–	–	–	–	–	–	–	–	–	–	–	4.1	100	–	–	–	–	4.9
	UG	Met	–	–	–	3.0	10.7	23.8	0.58	7.1	10.7	24.0	0.59	10	10.7	23.9	0.59			12	10.2	24.2	0.60	
	UG	Th	–	–	–	1.7	27.0	–	–	3.4	27.0	–	–	5.1	27.0	–	–			6.1	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) Increase in Coal Resources following additional drilling and updated resource model for Area 5.

(4) 2L ply removed from Coal Resources due to reduction in mining height.

(5) 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.

(6) Coal delivered to wash plant.

(7) Process recoveries for the operations

Bulli	84%
Wongawilli	76%

NICKEL

Cerro Matoso

MINERAL RESOURCES As at 30 June 2018		Measured Mineral Resources		Indicated Mineral Resources		Inferred Mineral Resources		Total Mineral Resources		South32 Interest	As at 30 June 2017 Total Mineral Resources	
Deposit[1]	Material Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Mt	% Ni	%	Mt	% Ni
Cerro Matoso	Laterite[2]	39	1.2	146	0.9	66	0.9	250	0.9	99.99	247	0.9
	SP	10	1.1	37	0.9	–	–	47	0.9		45	0.9
	MNR – Ore	17	0.2	–	–	–	–	17	0.2		17	0.2

ORE RESERVES As at 30 June 2018		Proved Ore Reserves		Probable Ore Reserves		Total Ore Reserves		Reserve Life	South32 Interest	As at 30 June 2017 Total Ore Reserves		Reserve Life
Deposit[1][3][4]	Ore Type	Mt	% Ni	Mt	% Ni	Mt	% Ni	Years	%	Mt	% Ni	Years
Cerro Matoso	Laterite	14	1.3	3.9	1.2	18	1.2	11	99.99	19	1.3	12
	SP	8.3	1.2	11	1.2	19	1.2			19	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 addition of resources from Planeta Rica.

(3) Ore delivered to process plant.

(4) Metallurgical Recovery: 80% (reserves to metal).

MANGANESE

MINERAL RESOURCES

As at 30 June 2018		Measured Mineral Resources			Indicated Mineral Resources			Inferred Mineral Resources			Total Mineral Resources			South32 Interest	As at 30 June 2017 Total Mineral Resources		
Deposit[1]	Material Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	%	Mt	% Mn	% Yield
Australia Manganese																	
GEMCO	ROM[2]	76	46.1	48	58	42.3	48	27	40.5	48	161	43.8	48	60	157	44.1	48
	Sands[3]	–	–	–	9.9	20.8	–	2.3	20.0	–	12	20.6	–		14	20.8	–
		Mt	% Mn	% Fe	Mt	% Mn	% Fe	Mt	% Mn	% Fe	Mt	% Mn	% Fe		Mt	% Mn	% Fe
South Africa Manganese																	
Wessels[4][5]	Lower Body	–	–	–	41	46.0	11.4	7.1	46.7	12.5	48	46.1	11.6	44.4	54	44.8	13.3
	Upper Body	–	–	–	94	41.4	18.3	–	–	–	94	41.4	18.3		94	41.4	18.3
Mamatwan	M, C, N Zones	21	37.4	4.4	34	37.0	4.5	0.5	37.4	5.3	56	37.1	4.5	44.4	61	37.2	4.6
	X Zone	2.7	37.5	4.7	0.7	35.9	4.9	–	–	–	3.4	37.2	4.7		4.8	36.4	4.9
	Top Cut (balance I&O)	11	30.0	6.1	15	29.1	6.4	–	–	–	25	29.5	6.2		26	29.2	6.4

MANGANESE (CONTINUED)

ORE RESERVES

As at 30 June 2018		Proved Ore Reserves			Probable Ore Reserves			Total Ore Reserves			Reserve Life	South32 Interest	As at 30 June 2017 Total Ore Reserves			Reserve Life
Deposit[1][10]	Ore Type	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Mt	% Mn	% Yield	Years	%	Mt	% Mn	% Yield	Years
Australia Manganese																
GEMCO[6][7]	ROM	45	44.5	59	19	43.5	58	65	44.2	59	7.4	60	66	45.0	57	7.4
	Sands	–	–	–	7.3	40.0	23	7.3	40.0	23			6.6	40.0	31	
		Mt	% Mn	% Fe	Mt	% Mn	% Fe	Mt	% Mn	% Fe			Mt	% Mn	% Fe	
South Africa Manganese [9]																
Wessels[8]	Lower Body	–	–	–	14	45.4	11.5	14	45.4	11.5	58	44.4	19	44.5	13.2	61
	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	4.5	33	36.8	4.5	49	36.9	4.5	16	44.4	53	36.9	4.6	16
	X Zone	–	–	–	3.0	36.9	4.9	3.0	36.9	4.9			4.1	36.5	4.9	

(1) Cut-off grade

		Mineral Resources	Ore Reserves
GEMCO	ROM	>35% Mn washed product	>40% Mn washed product.
	Sands	No cut-off grade applied	No cut-off grade applied
Wessels	Lower Body	≥ 37.5% Mn	≥ 37.5% Mn
	Upper Body	≥ 37.5% Mn	≥ 37.5% Mn
Mamatwan	M, C, N Zones	≥ 35% Mn	≥ 35% Mn
	X Zone	≥ 35% Mn	≥ 35% Mn
	Top Cut (balance I&O)	≥ 28% Mn	

(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 mass yields.

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

(4) Mineral Resources reclassified due to exclusion of channel sample data.

(5) Decrease in Mineral Resources following Lower Body resource model update.

(6) Ore Reserve tonnes are stated as delivered to process plant, manganese grades are reported as expected product and should be read together with their respective mass yields.

(7) Sands beneficiation plant yield and throughput revised based on plant performance.

(8) Ore Reserves reclassified due to changes in Mineral Resource classification.

(9) Ore delivered to process plant.

(10)Metallurgical/Plant recovery for the operations

GEMCO	See yield in the Ore Reserves table.
Wessels	88%
Mamatwan	96%

SILVER, LEAD, ZINC

Cannington

MINERAL RESOURCES

As at 30 June 2018		Measured Mineral Resources				Indicated Mineral Resources				Inferred Mineral Resources				Total Mineral Resources				South32 Interest	As at 30 June 2017 Total Mineral Resources			
Deposit[1]	Material 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	UG Sulphide	51	194	5.43	3.39	3.4	116	3.80	2.56	0.7	85	4.12	2.42	55	188	5.31	3.33	100	61	187	5.25	3.21
	OC Sulphide	27	105	3.30	2.42	3.1	68	2.69	1.76	1.5	65	2.35	1.31	31	100	3.20	2.30		29	91	2.89	2.27

ORE RESERVES

As at 30 June 2018		Proved Ore Reserves				Probable Ore Reserves				Total Ore Reserves				Reserve Life[2]	South32 Interest	As at 30 June 2017 Total Ore Reserves				Reserve Life
Deposit[1][3][4]	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	UG Sulphide	22	184	5.47	3.41	0.3	174	4.93	2.28	23	183	5.46	3.40	13	100	23	190	5.56	3.49	10

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

	Mineral Resources	Ore Reserves
UG Sulphide	130	130
OC Sulphide	58	

(2) Changes to reserve life reflects updated mine plan.

(3) Ore delivered to process plant.

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

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 2018, for which we seek your support at our Annual General Meeting in October.

We have made no material changes to our Executive Remuneration Strategy in FY18. Consistent with previous years, the intention of our approach is to ensure that Executives are focused on what they can influence and that remuneration outcomes are aligned to the experience of shareholders. This is achieved through a significant portion of the reward offering being at risk, most of which is delivered in equity, by setting challenging Short-Term Incentive (STI) targets and by ensuring Long-Term Incentive (LTI) performance measures encourage the delivery of value to our shareholders.

STI outcomes

In determining the STI outcomes for FY18, the Board considers a holistic range of factors which reflect the challenges and opportunities of sustainably leading South32 for today and into the future.

It is with deep regret that we report a fatal incident at our Metalloys manganese smelter in South Africa during the year. This loss has had an immense impact on all involved and the Board continues to work closely with the Lead Team to ensure we build leadership capability and improve our safety performance.

Our financial outcomes have been strong, delivering a 16 per cent increase in Underlying earnings to US$1.3 billion and a closing net cash balance of US$2.0 billion. We have achieved excellent production at a number of operations, including Mozal Aluminium, South Africa Manganese, Australia Manganese and Cerro Matoso. However, there have also been operations that have delivered production volumes lower than budget, such as Illawarra Metallurgical Coal and Cannington, which caused a drag on the Adjusted Return on Invested Capital measure in our STI scorecard.

During the year we increased our global footprint by, amongst others, progressing Eagle Downs and Arizona Mining and increased our commitment to additional greenfield projects.

The way we work ensures we create an inclusive workplace where we hold ourselves and each other to account to demonstrate our values of care, trust, togetherness and excellence. This has had a positive impact on the lives of our people, contributing to continued improvements in safety, total recordable injury frequency, occupational exposure limits and greenhouse gas emissions.

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 FY18 STI outcomes. These outcomes ranged from 56 per cent to 64 per cent of maximum, including 64 per cent of maximum for our Chief Executive Officer (CEO), Graham Kerr. This outcome includes the application of a negative 15 per cent Modifier on the overall STI outcome for the CEO and negative five per cent to 15 per cent for other Executive KMP, in consideration of the tragic fatality and the impact on business returns as a result of lower production at Illawarra Metallurgical Coal and Cannington.

LTI outcomes

The first equity issued under the South32 LTI has recently been tested for performance to June 2018. Due to strong share price and dividend performance for our shareholders against the LTI comparator indices, all equity from this first grant vested in August 2018. Over this three-year performance period our share price has doubled.

As part of Demerger in FY15, existing BHP LTIP Awards granted to Executive KMP were forfeited and replaced with rights to South32 shares. This year, the Replacement BHP FY14 LTIP for Graham Kerr and Mike Fraser, Chief Operating Officer partially vested, based on the outperformance of South32's TSR relative to the Sector Index since Demerger. The last of Mr Fraser's FY15 Transitional Awards also vested.

The strong share price performance enjoyed by our shareholders, coupled with a significant portion of Executive Pay delivered in equity, has resulted in an increase in actual pay for the Executive KMP in FY18, notwithstanding that Fixed Remuneration is unchanged and STI outcomes are less than target.

Looking forward

The Board has resolved to make no fundamental change to the remuneration framework for FY19 and again resolved to keep the CEO's Fixed Remuneration unchanged for FY19. The Fixed Remuneration of other Executive KMP will increase by between 1.9 per cent and 2.4 per cent from September 2018, consistent with the average salary increase provided to our employee population in Australia of 2.8 per cent.

As South32 is a global organisation with Board meetings and site visits to our global operations each year, and to ensure that South32 continues to be able to attract directors from a global director pool, the Board resolved to increase Non-Executive Director base fees and committee fees by between 2.2 per cent and 2.8 per cent from September 2018. There will be no increase to the travel allowance.

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 Guiding Principles that underpin our Reward Framework.

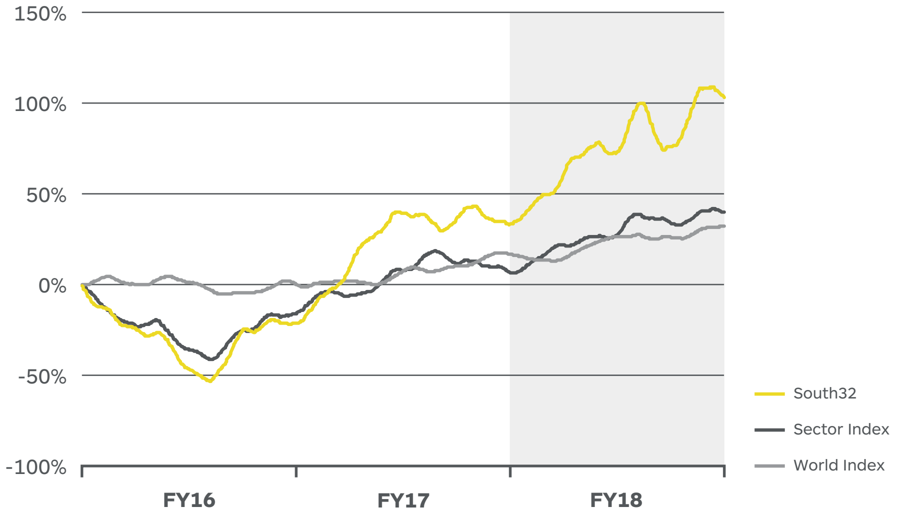
Thank you for your ongoing support of South32.

Wayne Osborn
Chairman, Remuneration Committee

FY18 AT A GLANCE

HOW DID WE PERFORM IN FY18?

Diagram 6.1 South32 Total Shareholder Return since 1 July 2015



Total Shareholder Return (TSR)^

53%

Underlying EBIT

US$1,774M

Total Recordable Injury Frequency

15% improvement

^ one-month average TSR June 2017 to June 2018

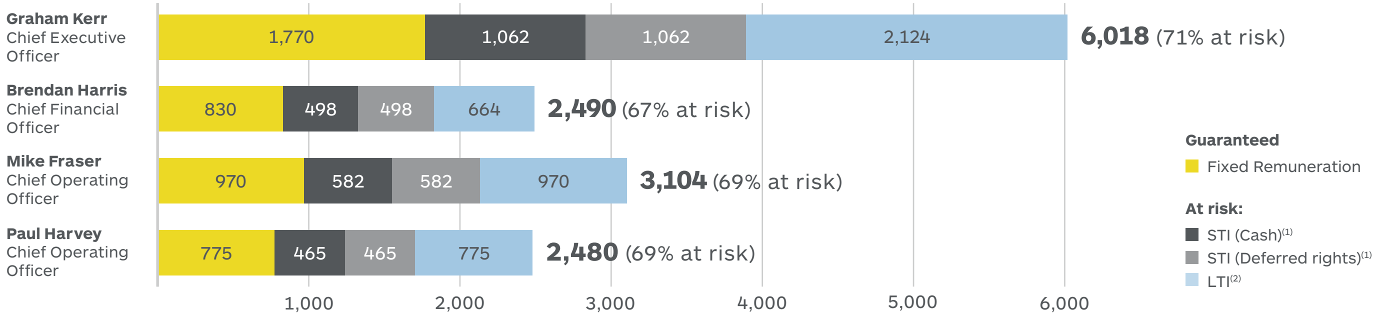
HOW DO REMUNERATION OUTCOMES ALIGN TO FY18 PERFORMANCE?

STI	Reflects the performance of management during the performance year. Measures outcomes within management's control.	The focus of the South32 STI is to reflect the performance of management during the performance period. 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 FY18 have been assessed as being below target, primarily due to the tragic fatality in South Africa and lower than expected production volumes (particularly at Illawarra Metallurgical Coal and Cannington), which affected Adjusted Return on Invested Capital (ROIC). For FY18, Executive KMP STI outcomes varied from 56 per cent to 64 per cent of maximum. SEE PAGE 76 FOR FULL STI OUTCOMES
SOUTH32 LTI	Reflects overall business performance and delivery of value to shareholders over the performance period (usually four years).	The first awards granted under the South32 Executive LTI Plan, being the FY16 Transitional Awards for Mr Harris and Mr Harvey, reached the end of the performance period in June 2018. It is anticipated that these awards will vest at 100 per cent due to strong South32 TSR over the performance period. SOUTH32 LTI OUTCOMES ARE DETAILED ON PAGE 78
Replacement BHP and Transitional Awards	Awards granted at Demerger to replace BHP awards that were forfeited and to ensure Executives were not negatively impacted by accepting roles at South32.	The Replacement BHP and Transitional Awards vesting in FY18 are performance tested to 30 June 2018: ■ The Replacement BHP FY14 LTIP Award for Mr Kerr and Mr Fraser will partially vest, based on BHP TSR performance to the date of Demerger and the strong performance of the South32 TSR since Demerger. ■ The final Transitional Award for Mr Fraser will partially vest, based on performance relative to a number of metrics. SEE PAGE 80 FOR DETAILS ON THE REPLACEMENT AND TRANSITIONAL AWARD OUTCOMES
Fixed Remuneration	Fixed Remuneration set with reference to market median.	**There were no increases to Fixed Remuneration** for any Executive KMP in FY18. The CEO's Fixed Remuneration has remained unchanged since Demerger.

WHAT WAS TARGET REMUNERATION IN FY18?

Target Remuneration for each Executive KMP is determined by the South32 Reward Framework. The total Target Remuneration for the Executive KMP for a full year is summarised below.

Diagram 6.2 Components of Target Remuneration (A$'000)



(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 takes into account the difficulty of achieving performance hurdles and anticipated share price volatility. Target value for LTI is therefore 40 per cent of the Face value.

WHAT WAS ACTUAL PAY FOR EXECUTIVE KMP IN FY18?

Actual pay received by Executive KMP in any year is likely to vary substantially, either up or down, from Target Remuneration, due to the significant portion of pay that is "at risk". Disclosing actual pay provides shareholders with additional information to assist in understanding cash and other benefits received by Executive KMP in the performance year.

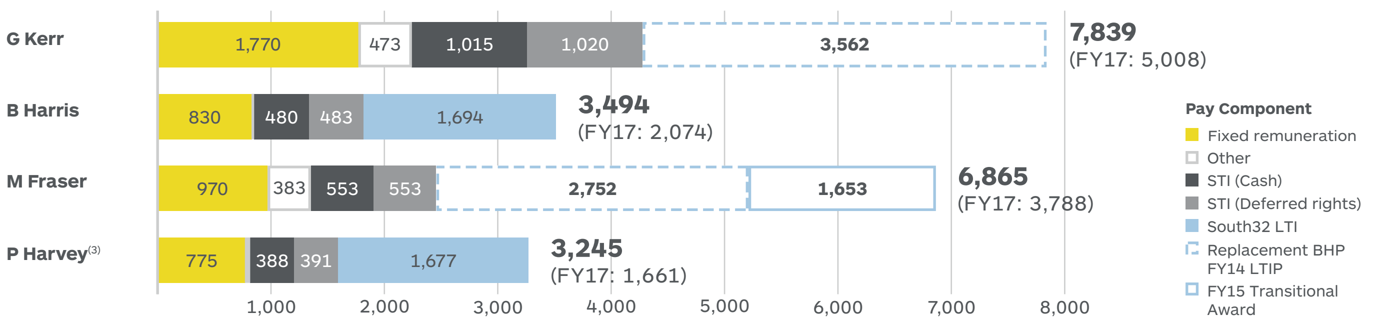
For FY18, Fixed Remuneration is unchanged from FY17. FY18 STI outcomes are less than target for the year. There is, however, a marked increase in the value of the FY18 equity awards compared to FY17. This is due to:

- The strong growth of the South32 share price over the performance periods, with the value of equity based on a share price of A$3.61 at 30 June 2018
- Sector-leading TSR performance
- For Mr Kerr and Mr Fraser, awards vesting in FY18 relate to the Replacement BHP FY14 LTIP and the last of Mr Fraser's FY15 Transitional Awards granted at Demerger

The actual pay for Executive KMP in FY18 included:

- Fixed Remuneration earned in FY18, including salary and pension/superannuation
- Other cash and non-monetary benefits earned, including Dividend Equivalent Payments[1] and fringe benefits paid in FY18
- Total STI[2] earned (including cash and deferred rights) based on performance during FY18 (details on page 76)
- LTI and/or Replacement and Transitional Awards anticipated to vest based on performance and/or service up to 30 June 2018 (full details on page 78)

Diagram 6.3 Actual pay earned in respect of FY18 (A$'000)



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

(1) Other cash includes a dividend equivalent payment of A$472,977 for Mr Kerr and A$365,483 for Mr Fraser that will likely be paid in September 2018 based on the anticipated vesting outcome of the Replacement BHP FY14 LTIP. It is calculated based on BHP dividends of US$2.42 multiplied by the proportion of BHP shares that would have vested (being 70,114 for Mr Kerr and 54,179 for Mr Fraser), and South32 dividends of US$0.183 multiplied by the proportion of South32 shares that will likely vest (being 986,571 for Mr Kerr and 762,351 for Mr Fraser), using a conversion rate on 30 June 2018 of USD 0.74 : AUD 1.

(2) The STI cash amount includes the Board's discretion to withhold a portion due to the restatement of FY16 occupational illness results (see page 74 for more information).

(3) As Mr Harvey is a member of the South32 Defined Benefit Plan (as set out on page 87), his Fixed Remuneration presented above includes a notional company contribution to the Plan of 9.5 per cent.

STATUTORY REMUNERATION FOR EXECUTIVE KMP IS DISCLOSED ON PAGE 87

SOUTH32 REWARD FRAMEWORK

The pages of the Remuneration report that follow have been prepared in accordance with section 300A of the Corporations Act 2001 (Cth) (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 FY18, as named on page 71 and the Non-Executive Directors of South32.

HOW DOES SOUTH32 DETERMINE REWARD PRACTICES AND OUTCOMES?

OUR GUIDING PRINCIPLES

Strategy & Purpose	The Way We Work	Shareholders	Performance	Market
Short-term and long-term performance measures are aligned to our strategy and purpose. This includes our commitment to ensure everyone goes home safe and well at the end of every shift, operational excellence, meeting key strategic priorities and achieving sector-leading total shareholder returns.	Our reward practices and outcomes support our values and the way we work. They recognise the importance of *how* we achieve our goals in addition to *what* is achieved.	Our Reward Framework ensures Executives and management are focused on delivering superior total shareholder returns through share ownership and through LTI performance measures aligned to the shareholder experience. As we value our stakeholder feedback, we regularly engage with key investors and proxy advisors.	Reward outcomes are aligned to performance with a significant portion of Executive pay "at risk" based on challenging financial and non-financial measures.	We set our reward levels with reference to similar sized companies in the ASX and our global mining peer group to ensure our reward is competitive and will attract and retain talented Executives.

COMPONENTS OF OUR REWARD

OUR INTENTION:	Attract & retain talented Executives to lead South32	The majority of pay at risk reflects our commitment to pay for performance to deliver value to shareholders: Reward business & individual performance in the financial year	The majority of pay at risk reflects our commitment to pay for performance to deliver value to shareholders: Drive long-term performance and ownership behaviours
COMPONENT	**Fixed Remuneration**	**Short-Term Incentive (STI)**	**Long-Term Incentive (LTI)**
THE WHY	Fixed Remuneration is set with reference to the market median, reflecting each Executive KMP's responsibilities, location, skills and experience.	Focus efforts on outcomes that are a priority for South32 in the financial year and to motivate Executive KMP to achieve challenging performance objectives. As our STI reflects Executive performance during the year, the STI measures outcomes within management's control.	Alignment to the shareholder experience and delivery of lasting, industry-leading total shareholder returns.
THE HOW	Base salary and superannuation.	Half paid in cash annually. / Half in rights to South32 shares, deferred for two years.	Rights to South32 shares, subject to TSR performance measured over a four-year period, relative to two comparator groups.

OUR APPROACH IN FY18

Fixed Remuneration

Fixed Remuneration is set with reference to the median of our peer groups being:

- Similar-sized companies on the ASX (excluding Real Estate Investment Trusts (REITs) and foreign domiciled companies)
- A global mining peer group of 15 companies with a similar market cap, commodity mix and geographic spread to South32[1]

The level of Fixed Remuneration for the CEO is below the median of our peer groups.

See FY18 Target Remuneration on page 71.

Short-Term Incentive (STI)

Quantum (% of Fixed Remuneration):

	Target value	Max.value
All KMP	120%	180%

STI Business Scorecard:

The Board has the discretion to apply a **Modifier** to the Business Scorecard outcome to reflect overall performance and mitigate any unintended reward outcomes. The Modifier may be applied to Executive KMP on an individual or group basis, having regard to the perspectives of stakeholders including employees, shareholders and communities. For the individual component, the Board considers an Executive KMP's specific key performance indicators and how these have been achieved (including alignment with our values).

Long-Term Incentive (LTI)

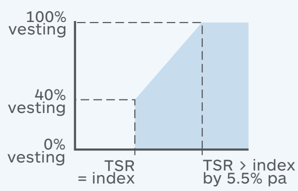
The Quantum is determined on Face value as a percentage of Fixed Remuneration:

	Face value	Target value
CEO	300%	120%
Other KMP	200% to 250%	80% to 100%

Comparator groups:

- Two-thirds relative to the IHS Markit (formerly Euromoney) Global Mining Index (with constrained weighting by company and sector)
- One-third Morgan Stanley Capital International (MSCI) World Index

Vesting:



There is no retesting if the performance condition is not met at the end of the performance period.

MINIMUM SHAREHOLDING REQUIREMENT

A Minimum Shareholding Requirement (MSR), equal to 100 per cent of Fixed Remuneration for Executive KMP, drives a long-term focus and alignment with our shareholders. The MSR applies to all Executive KMP and must be obtained within five years of appointment as a KMP.

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

TERMS AND CONDITIONS OF RIGHTS AWARDED UNDER EQUITY PLANS (DEFERRED STI & LTI)

Type of equity	Deferred STI and LTI awards are delivered in the form of share rights. These are rights to receive shares in South32 Limited[1], subject to meeting specific performance and vesting conditions (Rights). If the Rights vest, no consideration or exercise price is payable for the allocation of shares. As Rights are automatically exercised, they do not have an expiry date.
Dividend and voting rights	Rights carry no entitlement to voting, dividends or dividend equivalent payments.
Cessation of employment	Unless the Board determines otherwise: Resignation or termination for cause: all unvested Rights lapse. Death, serious injury, disability or illness that prevents continued employment or total permanent disability: all unvested Rights vest immediately. Other circumstances: a pro-rata portion of Rights to remain on foot subject to the Remuneration Committee's discretion to lapse.
Change of control	Board 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.
Malus & 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.
Rights to participate in new issues	A participant cannot participate in new issues of securities in relation to their unvested Rights. However, the relevant plan rules include specific provisions dealing with rights issues, bonus issues and corporate actions and other capital reconstructions. These provisions are intended to ensure that Rights holders are not unfairly disadvantaged by corporate actions.

(1) References in this Remuneration report to 'South32 shares' are references to shares in South32 Limited.

REMUNERATION GOVERNANCE

The detail below sets out the roles and responsibilities of the Board, Remuneration Committee, Management and external advisors in relation to Executive KMP remuneration at South32.

Board	The Board maintains overall responsibility for oversight of the remuneration policy, and the principles and processes that underpin the policy. Approves the remuneration arrangements for the CEO and Non-Executive Directors (changes to the fee pool for Non-Executive Directors are approved by shareholders).
Remuneration Committee	Ensures our remuneration arrangements are equitable and aligned to the long-term interests of shareholders, whilst operating within our risk framework and supporting our guiding principles. Approves remuneration arrangements for the Lead Team. Assists the Board to oversee remuneration policy, its specific application to the CEO, Lead Team and Non-Executive Directors and its general application to all employees.
CEO & management	The CEO makes recommendations to the Remuneration Committee regarding the Lead Team and on the remuneration policy and framework including its application to all employees. Management provide information and recommendations for the Remuneration Committee's consideration and implements the approved arrangements.
External advisors	External advisors may be engaged either directly by the Remuneration Committee or through management, providing information on remuneration related issues, including benchmarking information and market data. There were no remuneration recommendations received by the Remuneration Committee from external advisors in relation to Executive KMP in FY18.

Information and analysis is sought from a range of data sources leading to **informed decision making**. This ensures outcomes that are objective, weighted and aligned to the requirements of the Company and consistent with our guiding principles.

Service Contracts – have no fixed term with key terms consistent for all Executive KMP including:

- 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' Fixed Remuneration and Executive KMP will be subject to several 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 for three years. Approval for termination benefits for a further three years is being sought at the 2018 AGM.

RESTATEMENT OF OCCUPATIONAL ILLNESS RELATING TO FY16 STI

As outlined in the Safety and Health section of the Annual Report on page 9, Total Recordable Illness Frequency (TRILF) results have been restated for FY15 to FY17 to align to the United States Government Occupational Safety and Health Assessment reporting criteria.

Given TRILF was included as a measure in the Business Scorecard (under Occupational illness) in FY16 and FY17, the STI outcomes for Executive KMP have been reviewed for these years.

Should the revised TRILF figures have been applied, the overall FY16 STI outcomes for Executive KMP would have been up to 1.45 per cent lower. There would have been no impact on the FY17 Scorecard outcomes given that the Occupational illness component was already zero (below threshold) for South32.

Whilst this is not considered a material misstatement, for FY16 it has resulted in an overpayment for Executive KMP of between zero and A$21,200.

The Board has therefore exercised its discretion and will withhold a payment of cash (from the FY18 Cash STI) and lapse a portion of shares (from the FY16 Deferred STI, due to vest in August 2018). This replicates the structure of our STI.

The amounts to be withheld are equivalent to the amounts in cash and deferred STI that would not have been awarded in FY16 based on these revised Occupational illness outcomes.

FY18 OUTCOMES

OVERVIEW OF SOUTH32 PERFORMANCE

The following table outlines the business performance outcomes since Demerger.

Table 6.1 Business performance

Performance measures	FY18	FY17	FY16	FY15 (pro forma)(1)
Underlying EBIT (US$M)(2)	**1,774**	1,648	356	1,001
Underlying earnings (US$M)(2)	**1,327**	1,146	138	575
Closing net cash/(debt) (US$M)	**2,041**	1,640	312	(402)
Movement in adjusted return on invested capital (percentage point)(3)	**(6.8)**	(1.1)	1.8	n/a
Closing share price on 30 June (A$)(4)	**3.61**	2.68	1.54	1.79
Dividends/special dividends (US cents)	**13.7**	4.6	–	–
TRIF (recordable injuries per million hours worked)(5)	**5.12**	6.05	7.74	5.81

(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) The Underlying EBIT and Underlying earnings are not prepared in accordance with IFRS. Refer to page 31 of the Annual Report for a reconciliation to statutory earnings.

(3) The movement in adjusted return on invested capital is by reference to the previous performance period and removes the effect of changes in commodity prices, commodity price linked costs, market traded consumables, foreign exchange rates and movements in the Group's Effective Tax Rate (ETR).

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

(5) FY17 TRIF has been restated since it was previously reported due to reclassification of a recordable illness to a recordable injury.

FIXED REMUNERATION

There was no increase to Fixed Remuneration for any Executive KMP in FY18.

Other than adjustments for role changes, Fixed Remuneration for Executive KMP has remained unchanged since Demerger.

SHORT-TERM INCENTIVE

As shown in Diagram 6.4, there are three steps involved in determining the overall STI outcome.

Diagram 6.4 Determination of STI awards

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

1 FY18 BUSINESS SCORECARD

The Business Scorecard is approved by the Board prior to the start of the financial year and focuses the efforts of Executives on outcomes that are within their control and that are a priority in that year. The Business Scorecard includes a balanced range of measures that take into account both South32's financial and non-financial performance. Non-financial measures align to South32's values and long-term success including sustainability, strategy, risk management and the way we work. Performance is assessed relative to the Business Scorecard (with guidance from Board Committees, such as the Remuneration, Risk & Audit and Sustainability Committees) and Individual Scorecards.

Table 6.2 FY18 Business Scorecard outcomes

Scorecard measure	Weight	Performance	Outcome (Target = 25%)
SUSTAINABILITY	**25%**	**29.5%**	
Total Recordable Injury Frequency (TRIF): Reduction on FY17 by 11 per cent overall, to 5.37.		15 per cent improvement on FY17 TRIF, to 5.12. Africa operations continued to deliver strong performance (2.36) and Australia operations improved by 19 per cent on FY17.	**Better than target**
Occupational Exposure Limits (OEL) for carcinogens: five per cent reduction on previous year plus identification of material health risks (Target: 350).		Group OEL was 322 which is a 13 per cent improvement on FY17 outcomes. Completion of studies to identify opportunities to reduce exposures. Plans for FY19 in place.	**Outstanding**
GHG reduction + abatement: Projects on track (Target: 23,822 kt CO_2e).		Improved GHG emissions outcomes four per cent lower than target (22,866 kt). Performance outcome adjusted for reduced production at Illawarra Metallurgical Coal.	**Target met**
Note: The tragic event of a loss of life in our operations is considered in the Business Modifier.			
FINANCE: PRODUCTION, COST AND CAPITAL EXPENDITURE	**25%**	**24%**	
Production: 95 per cent – 105 per cent of budget.		Overall production was 98 per cent of budget. Volume targets were met in most operations, with significant outperformance achieved at South Africa Manganese. However, volumes fell short at Illawarra Metallurgical Coal and Cannington.	**Target met**
Cost: Costs within US$50M of FY18 budget (adjusted for FX and price-linked costs).		Strong cost control despite broader inflationary pressure. Cash operating costs were within range across the business. Controllable cost management assessed as short of target when benefit of inventory movements is taken into account.	**Target not met**
Capital expenditure: (excluding major projects): Within five per cent of FY18 Sustaining capital expenditure plan (adjusted for FX).		Capital expenditure for the Group was 84 per cent of FY18 plan, mainly due to reduced development at Illawarra Metallurgical Coal and lower sustaining capital expenditure at South Africa Energy Coal.	**Target not met**
FINANCE: ADJUSTED ROIC	**25%**	**12.5%**	
Achieve budget FY18 **Adjusted ROIC**, consistent with our cost, production and capital expenditure targets.		Adjusted ROIC was 1.2 per cent behind budget. While a number of operations delivered positive outcomes, the low production volumes at Illawarra Metallurgical Coal and Cannington were again key contributors to missing target.	**Target not met**
STRATEGIC PRIORITIES	**25%**	**29%**	
Optimise our **risk management** approach.		New risk management software system selected, but implementation behind schedule. Continuous improvement of key standards tracking to plan. Continuing to strengthen capability across the business.	**Target not met**
Optimise the **group operating model** in anticipation of the transformation of South Africa Energy Coal.		South Africa Energy Coal managed as a stand-alone business. New operating model implemented to deliver efficiencies and cost saving.	**Better than target**
Unlock the value in our portfolio.		Overall assessed as on track with regard to key projects to unlock value of the South32 portfolio.	**Target met**
Identify new opportunities.		Successfully progressed Arizona Mining and Eagle Downs. Additional projects added to the pipeline. Restraint exercised where required.	**Outstanding**
Develop **leadership capability** across the group.		Significant work in leadership development across the business, with positive impact on capability.	**Better than target**
SUB-TOTAL	**100%**	**95%**	

2 FY18 BUSINESS MODIFIER

The Modifier may be applied to the Business Scorecard at the discretion of the Board to ensure actual outcomes reflect overall business performance (both what has been delivered and how it has been achieved), to consider factors that are not specifically included in the Business Scorecard and to mitigate any unintended reward outcomes. The Modifier gives the Board absolute discretion as to the overall Business Scorecard outcome and may be applied to Executive KMP on an individual or group basis.

Fatalities and significant safety issues are considered as part of the Modifier to reflect our commitment to ensure everyone goes home safe and well at the end of every shift. Other factors would include reputational issues and the experience of the shareholder.

			Outcome
Modifier at Board Discretion	Notwithstanding a number of key successes this year, in FY18 South32 tragically lost one of our employees at Metalloys manganese smelter in South Africa. The ongoing impact of the closure of the Appin mine in FY17 has also been a drag on the performance of the business into FY18. The Board therefore exercised its discretion and applied a negative 15 per cent Modifier to the CEO and the COO Africa, and negative five per cent to all other members of the Lead Team.	G Kerr, M Fraser	**-15%**
		B Harris, P Harvey	**-5%**

3 FY18 INDIVIDUAL PERFORMANCE

The Board determines the Individual Scorecard measures for the CEO and other Executive KMP. The assessment of individual performance includes consideration of the outcomes achieved against specific key performance indicators set at the start of the performance year. The Board's assessment also includes whether each Executive KMP has achieved these outcomes in a manner that is consistent with our values and the way we work.

		Outcome
CEO's Individual outcome	The Board considered the CEO's performance over the year, including the execution of the South32 strategy. Key considerations in determining the CEO's individual outcomes were: ■ Continued focus on safety such that we can guarantee every employee goes home safe and well at the end of every shift ■ Improved safety and sustainability outcomes, including a material reduction in TRIF ■ Strong financial position that allowed South32 to return US$946 million to shareholders and enabled our acquisition strategy ■ Consistent pursuit of our strategy, including reshaping of our portfolio to manage South Africa Energy Coal as a stand-alone business and simplify the Group to deliver greater efficiency and cost saving ■ Implementation of our new way of working that is scalable, allowing us to enhance our portfolio by the introduction of new growth opportunities including Arizona Mining and Eagle Downs, thus increasing our global footprint and creating a pipeline of exploration opportunities ■ Strong leadership across every aspect of the Group's business, where we hold ourselves and each other accountable for pursuing our purpose and acting in accordance with our values ■ Maintaining a trusting and transparent relationship between the Board and senior management	**120%**

Individual outcomes for other Executive KMP ranged from 94 per cent to 114 per cent, reflecting their performance relative to their Individual Scorecards, as indicated in Table 6.3 below.

4 OVERALL FY18 STI OUTCOMES

The Board's assessment of the Business Scorecard (including the application of the Modifier), and Individual Scorecards, resulted in actual STI outcomes for FY18 as outlined in the table below. Target STI for all Executive KMP is 120 per cent of Fixed Remuneration, maximum is 180 per cent of Fixed Remuneration.

Table 6.3 STI earned by Executive KMP in respect of FY18 performance

								Percentage of maximum STI	
Executive KMP	**Business Scorecard outcome**[1] % (A)	**Business Modifier +/–** % (B)	**Individual performance outcome** % (C)	**Overall STI Outcome** % of Target (A x B x C)	**Total STI Awarded**[2] (A$'000)	**Cash**[3] (A$'000)	**Rights** (A$'000)	**Awarded** %	**Forfeited** %
G Kerr	95	85	120	**96**	**2,035**	1,015	1,020	**64**	36
B Harris	95	95	108	**97**	**963**	480	483	**64**	36
M Fraser	98	85	114	**95**	**1,106**	553	553	**63**	37
P Harvey	94	95	94	**84**	**779**	388	391	**56**	44

(1) Business Scorecard outcomes for Mr Fraser and Mr Harvey are weighted to their respective business units.

(2) Half of the STI will be paid in cash in September 2018 (see footnote 3), with the remaining half deferred into rights to South32 shares that will be granted in or around December 2018 and will be due to vest in August 2020. 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 73 for terms and conditions relating to South32's equity plans).

(3) The cash amount excludes a portion withheld at the Board's discretion, due to the restatement of FY16 Occupational illness results (see page 74 for more information).

LONG-TERM INCENTIVES

SOUTH32 LTI AWARDS ANTICIPATED TO VEST IN RESPECT OF FY18

The first South32 awards to be tested for vesting were subject to service and performance conditions to 30 June 2018. These awards were "one-off" awards intended to bridge gaps in vesting for Executives transitioning into KMP roles and have a shorter performance period than South32's regular LTI awards. The first of South32's regular, four-year LTI awards will be tested based on performance to 30 June 2019.

TRANSITIONAL PERFORMANCE AWARD AND ADVANCE AWARD

The one-off FY16 Transitional Performance Award for Mr Harris was granted to cover the gap in vesting in 2018 due to his transition from the three-year BHP Management Award Plan to the four-year South32 LTI following Demerger.

As Mr Harvey was not a member of KMP in 2015, he participated in the Management Share Plan (MSP). However, the one-off FY16 Advance Award was similarly granted to cover the gap in vesting in 2018 for the four-year MSP performance awards.

The FY16 Transitional Performance and Advance Awards are subject to the same TSR performance conditions as the South32 LTI (see Reward Framework on page 72), namely two thirds relative to the IHS Markit Global Mining Index (Sector Index) and one third relative to the MSCI World Index (World Index). These one-off awards, however, are measured over a three-year period from 1 July 2015 to 30 June 2018.

For the awards to vest in full, they would need to outperform both indices by 17.4 per cent (5.5 per cent per annum cumulative). Given that the South32 TSR outperformed both peer indices by more than 17.4 per cent, see Diagram 6.5 and Table 6.4, these awards are anticipated to vest in full in August 2018.

Diagram 6.5 Indicative TSR performance: South32 vs comparators

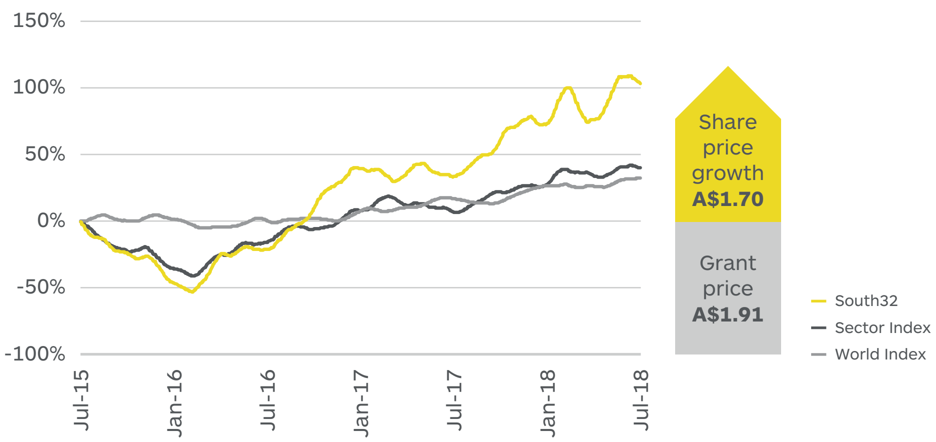


Diagram 6.6 Vesting outcome

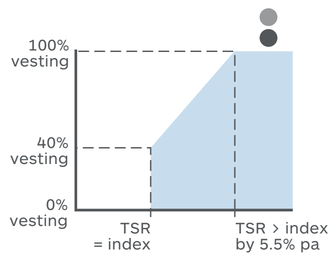


Table 6.4 Transitional Performance Award and Advance Award vesting outcome

	TSR Performance [1]		Outperformance		Vesting outcome (A)	Index weighting (B)	Weighted vesting outcome (A x B)
	Index	South32	Required	Achieved			
● Sector Index	40.2%	104%	+17.4%	+63.8%	100%	2/3	66.7%
● World Index	32.7%		+17.4%	+71.3%	100%	1/3	33.3%
							100%

(1) TSR Performance reflects the one-month average return to 30 June 2015 at the start of the performance period, to the one-month average return to 30 June 2018 at the end of the performance period.

MANAGEMENT SHARE PLAN AWARD

The FY16 Management Share Plan (Retention) Award for Mr Harvey was granted prior to his appointment as a member of KMP. Given the retention-focused objective of this award, the vesting conditions are service-based and there are no performance conditions. As the service condition was met, this award is anticipated to vest in full.

Table 6.5 South32 LTI Awards anticipated to vest

Executive KMP	Award	Number of rights granted	Number of rights to vest	Number of rights forfeited	Value at grant(1) (A$'000)	Value forfeited(2) (A$'000)	Value of share price growth(3) (A$'000)	Value at vesting(4) (A$'000)
B Harris	FY16 Transitional Performance Award	469,319	**469,319**	–	896	–	**798**	**1,694**
P Harvey	FY16 Advance Award	314,136	**314,136**	–	600	–	**534**	**1,134**
	FY16 Management Share Plan (Retention)	150,516	**150,516**	–	287	–	**256**	**543**

(1) 'Value at grant' is the number of shares granted multiplied by the grant determination price in June 2015 of A$1.91.

(2) 'Value forfeited' is the value anticipated to lapse/be forfeited based on performance relative to the performance measures, multiplied by the grant determination price in June 2015 of A$1.91.

(3) 'Value of share price growth' is the number of shares anticipated to vest, multiplied by the difference between the grant determination price of A$1.91 and the share price at 30 June 2018 of A$3.61. This reflects the value added as a result of the change in share price since the start of the performance period.

(4) 'Value at vesting' is the estimated value of shares that are anticipated to vest in August 2018, multiplied by the closing share price of South32 shares on 30 June 2018 of A$3.61.

LTI GRANTED IN FY18

Performance rights were allocated to Executive KMP in December 2017 as part of South32's FY18 LTI Plan. These rights, which have a four-year performance period, are subject to performance hurdles as outlined on page 72.

The grant of rights for the CEO was approved at the AGM on 23 November 2017.

Table 6.6 FY18 LTI grants

	Reward Determination(1) (calculated at the start of the performance period 1 July 2017)				Grant (December 2017)
Executive KMP	Face 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	**2,026,717**
B Harris	200	1,660	80	664	**633,587**
M Fraser	250	2,425	100	970	**925,572**
P Harvey	250	1,938	100	775	**739,503**

(1) The grant of awards is based on the Face value as outlined in the Reward Framework (see page 72).

(2) The Target value takes into account the difficulty of achieving performance hurdles and anticipated share price volatility.

(3) The number of rights granted to the Executive KMP in December 2017 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 2017 (Grant Price), being A$2.62. The Fair value at grant for accounting purposes, as calculated by PwC, was A$1.75 per right.

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 Demerger to replace BHP awards that were forfeited and to ensure that Executives were not negatively impacted by accepting roles at South32. This enabled the acquisition of the appropriate talent into South32. The awards are not ongoing.

REPLACEMENT LTIP AWARDS

The Replacement LTIP Awards replaced the unvested BHP awards previously granted to Mr Kerr and Mr Fraser which were cancelled at the time of Demerger. The Replacement LTIP Awards were of a similar value and on similar terms, including service and performance conditions, to the BHP awards they replaced (see Table 6.7 for key terms and conditions).

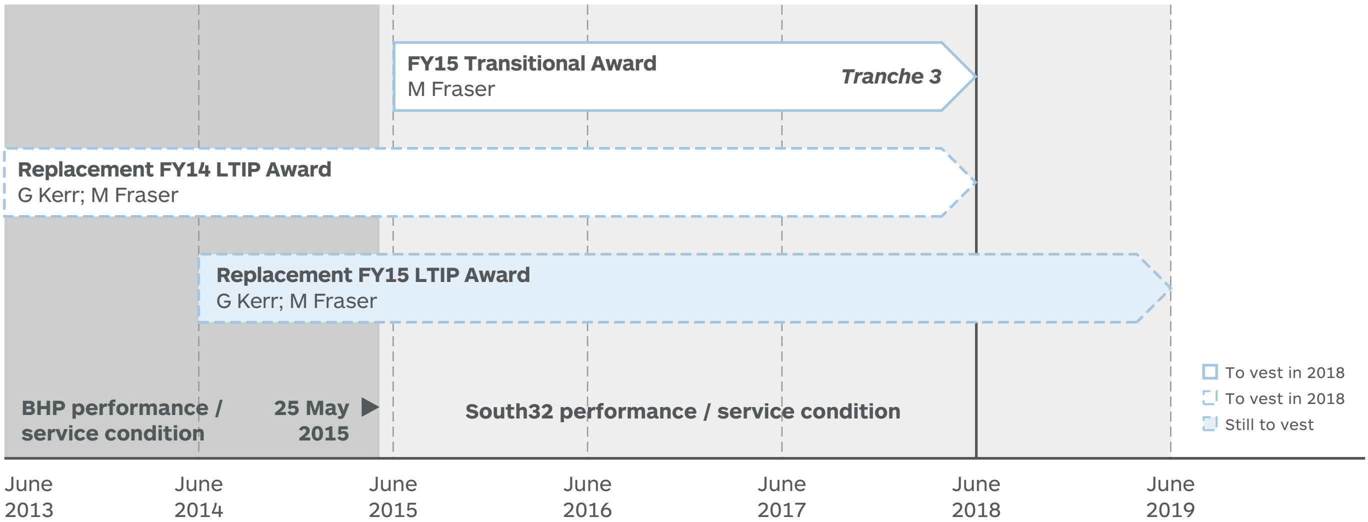
Importantly, to align remuneration arrangements for Executive KMP to South32's strategy and performance as well as service conditions, the Replacement and Transitional Awards are linked to South32 performance instead of BHP from the date of Demerger on 25 May 2015.

FY15 TRANSITIONAL AWARD

The FY15 Transitional Award was granted to Mr Fraser in 2015 to bridge the gap between his Target Remuneration as a member of BHP's Group Management Committee and his Target Remuneration at South32 which was of a lesser value. This was applied for the first three years of his employment (see page 81), making this the last year for this award.

Diagram 6.7 illustrates the vesting period for the remaining Replacement and Transitional Awards, from the start of the BHP performance period to the intended date of vesting. The Replacement FY15 LTIP Award has a performance period ending in June 2019 and is the last of these awards.

Diagram 6.7 Replacement and Transitional Awards



TERMS AND CONDITIONS OF REPLACEMENT AND TRANSITIONAL AWARDS

Table 6.7 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 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, zero 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 – 100 per cent **Dividends** Dividend equivalent payments will be made for any rights that vest at the end of the vesting period.
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 Index TSR (2) Contribution to Company performance (3) Performance in role Any rights that do not vest will immediately lapse/be forfeited. No dividend equivalent payments will be made.

REPLACEMENT AND TRANSITIONAL AWARDS ANTICIPATED TO VEST IN RESPECT OF FY18

REPLACEMENT BHP FY14 LTIP AWARD

Performance of the Replacement BHP FY14 LTIP Award was assessed based on BHP's TSR relative to BHP's comparator groups from 1 July 2013 to 24 May 2015 and South32's TSR performance relative to South32's comparator groups from 25 May 2015 to 30 June 2018.

Diagram 6.8 illustrates the BHP and South32 TSR performance for the full five-year performance period, with BHP performance up to 24 May 2015 (shaded grey) and South32 performance thereafter. The positive performance of South32's TSR from July 2016 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.

For the awards to vest in full, they would need to outperform both indices by 30.7 per cent (5.5 per cent per annum cumulative) over five years. For the performance period ended 30 June 2018, the Replacement BHP FY14 LTIP Award is therefore anticipated to partially vest in August 2018 for Mr Kerr and Mr Fraser as outlined below.

Diagram 6.8 Indicative TSR performance: BHP/South32 vs comparators

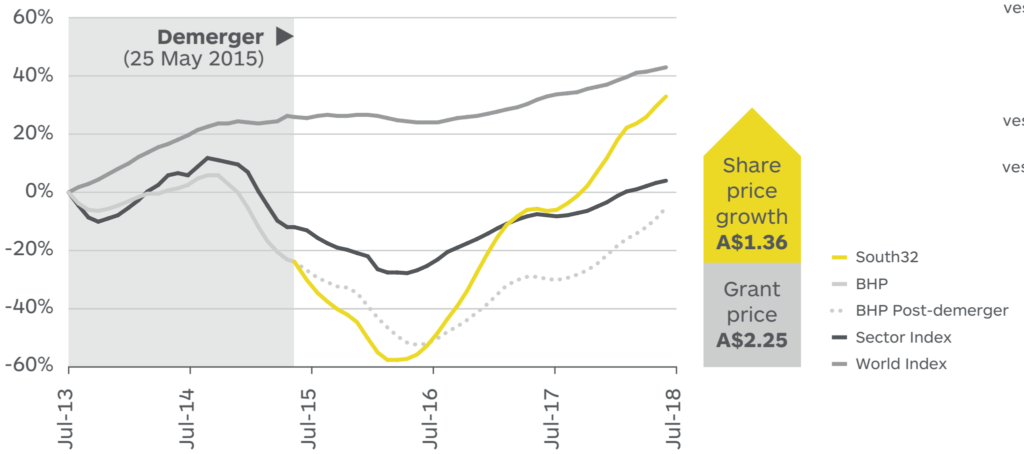


Diagram 6.9 Vesting outcome

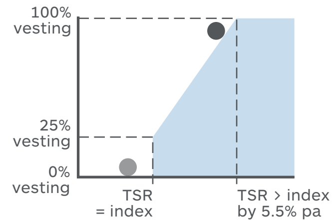


Table 6.8 Replacement BHP FY14 LTIP vesting outcome

	TSR Performance[1] vs Index			Outperformance		Vesting outcome	Index weighting	Weighted vesting outcome
	BHP (A)	South32 (B)	Combined (A + B)	Required	Achieved	(C)	(D)	(C x D)
Sector index	(11.3%)	39.4%	28.1%	+30.7%	+28.1%	93.6%	2/3	62.4%
World index	(53.0%)	42.8%	(10.2%)	+30.7%	(10.2%)	0%	1/3	0%
								62.4%

(1) TSR Performance reflects the six-month average to 30 June 2013 at the start of the performance period, to the six-month average to 30 June 2018 at the end of the performance period, based on the rules of the BHP FY14 LTIP Award.

FY15 TRANSITIONAL AWARD (TRANCHE 3 OF 3)

The award was granted in June 2015 and has three equal tranches of 538,747 rights vesting in FY16, FY17 and FY18 (this tranche). 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 2018) and determined to award 85 per cent of the FY18 tranche (i.e. at target), with vesting anticipated in August 2018. The remainder of the award will be forfeited.

Table 6.9 summarises the Replacement and Transitional Awards tested, based on performance and service conditions to 30 June 2018. The outcome (including share price growth) is detailed below.

Table 6.9 Replacement and Transitional Awards – performance period ending on 30 June 2018

Executive	Award	Number of rights granted	Number of rights to vest	Number of rights forfeited	Value at grant[1] (A$'000)	Value forfeited[2] (A$'000)	Value of share price growth[3] (A$'000)	Value at vesting[4] (A$'000)
G Kerr	Replacement BHP FY14 LTIP Award	1,581,485	**986,571**	594,914				
					3,558	(1,339)	**1,342**	**3,562**
M Fraser	FY15 Transitional Award (tranche 3 of 3)	538,747	**457,934**	80,813				
					1,212	(182)	**623**	**1,653**
	Replacement BHP FY14 LTIP Award	1,222,058	**762,351**	459,707				
					2,750	(1,034)	**1,037**	**2,752**

(1) 'Value at grant' is the number of shares granted, multiplied by the grant determination price in May 2015 of A$2.25.

(2) 'Value forfeited' is the value anticipated to lapse/be forfeited based on performance relative to the performance measures, multiplied by the grant determination price in May 2015 of A$2.25.

(3) 'Value of share price growth' is the number of shares anticipated to vest, multiplied by the difference between the grant determination price of A$2.25 and the share price at 30 June 2018 of A$3.61.

(4) 'Value at vesting' is the estimated value of shares that are anticipated to vest in August 2018, multiplied by the closing share price of South32 shares on 30 June 2018 of A$3.61.

LOOKING FORWARD TO FY19

FIXED REMUNERATION

During FY18 we undertook an annual review of reward arrangements for Executive KMP, including a review of our peer groups for benchmarking reward for Executive KMP. As South32 has grown since Demerger and now sits at the top of our ASX 15-65 peer group, the Board believes it is appropriate to modify the ASX peer group.

As from FY19, the ASX benchmark will be based on companies (excluding foreign domiciled companies and REITs) with half to double the market capitalisation of South32. Our peer group of global mining companies will remain unchanged.

With the change to the ASX peer group and given Fixed Remuneration has remained unchanged for the majority of Executive KMP since Demerger, there will be a modest increase to Fixed Remuneration for Executive KMP in FY19 as detailed in the table below. It should be noted that, for FY19, the median salary increase granted to employees in Australia was 2.8 per cent.

The CEO's Fixed Remuneration, and therefore Target Reward, will remain unchanged.

Table 6.10 Fixed Remuneration for Executive KMP in FY19

Executive KMP	FY18 Fixed Remuneration (A$)	FY18 Target Reward(1) (A$)	FY19 Fixed Remuneration(2) (A$)	FY19 Target Reward(1) (A$)	Increase %
G Kerr	1,770,000	6,018,000	**1,770,000**	**6,018,000**	**–**
B Harris	830,000	2,490,000	**850,000**	**2,550,000**	**2.4**
M Fraser	970,000	3,104,000	**988,000**	**3,161,600**	**1.9**
P Harvey	775,000	2,480,000	**790,000**	**2,528,000**	**1.9**

(1) Target Reward assumes STI paid at 100 per cent of target outcomes, i.e. at 120 per cent of Fixed Remuneration. Target value for the LTI Award takes into account the difficulty of achieving performance hurdles and anticipated share price volatility. Target value for LTI is therefore 40 per cent of the Face value.

(2) Increase in Fixed Remuneration effective from 1 September 2018.

STI

The structure and quantum of our STI will remain unchanged. However, a community measure will now be included under the Sustainability component of the Business Scorecard, with other Business Scorecard measures aligned to FY19 priorities, including:

- Sustainability – safety, health, environment and community (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 Business Plan (25 per cent)

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

LTI

The structure and quantum of the LTI will remain unchanged in FY19.

NON-EXECUTIVE DIRECTOR FEES

Director fees have remained unchanged since Demerger. In order to continue to provide the appropriate level of fees to attract and retain talented individuals, a moderate increase of between 2.2 per cent and 2.8 per cent will be applied to the Director fees from 1 September 2018.

NON-EXECUTIVE DIRECTOR REMUNERATION

REMUNERATION POLICY

As South32 is a global organisation, we are required to provide competitive Director fees to ensure that we are able to attract and retain high-quality people from the global director pool. These fees reflect the size, complexity and global nature of the Company, and 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 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 FY18 based on data provided by external consultants. As a result, the Board determined that base fees for the Chairman and Non-Executive Directors and Committee fees will increase by between 2.2 per cent and 2.8 per cent from 1 September 2018.

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 FY18.

Table 6.11 FY18 Board fees

Fee	Description	A$ per annum
Base 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

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 6.16 for details of the current shareholdings of Non-Executive Directors.

TRAVEL ALLOWANCE

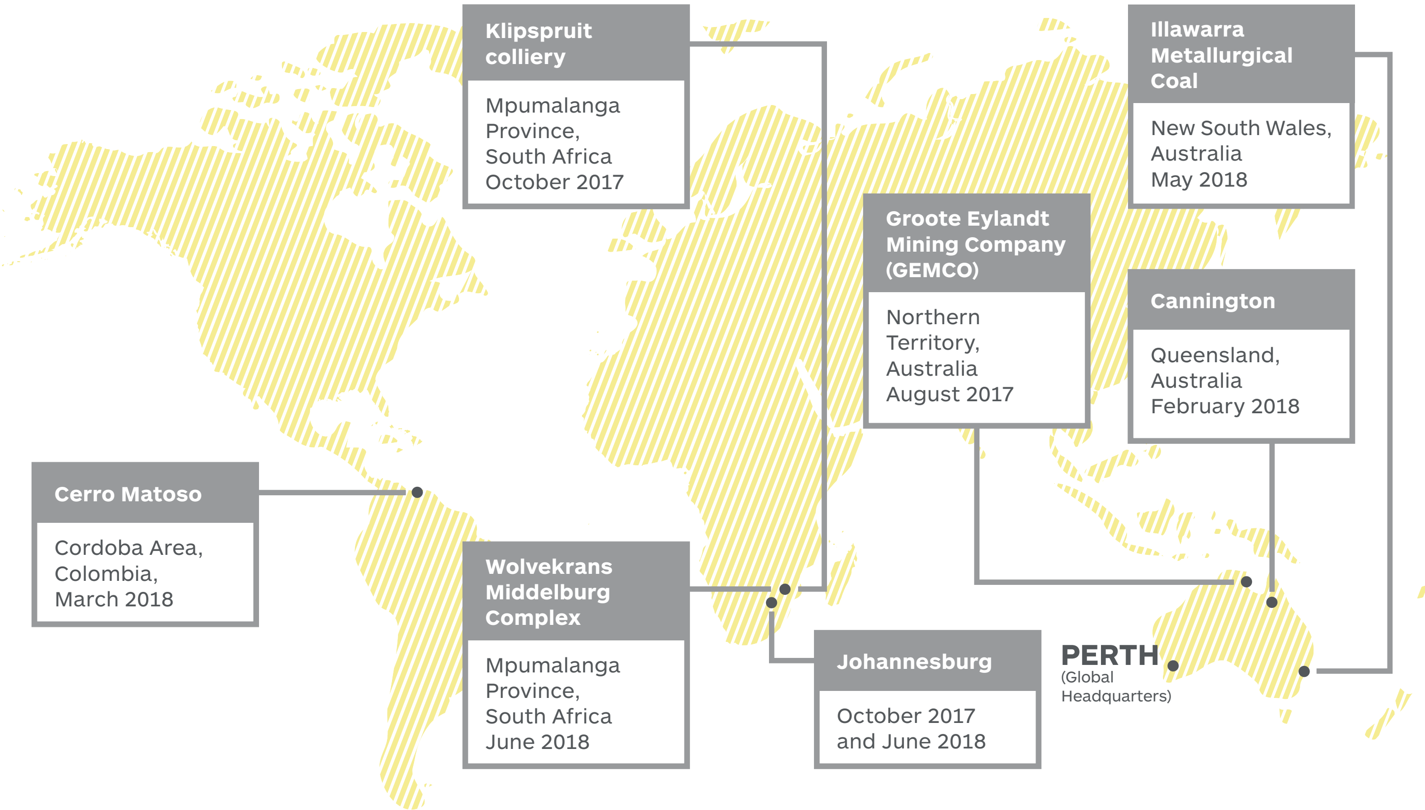
South32 is a global company with global operations and as a result, Board meetings are scheduled in Australia, South Africa and other locations (refer to page 92 for further detail on Board and Committee meetings).

Site visits are a critical part of the Board program and they serve many purposes such as allowing Directors to get a better understanding of culture through interactions with site-based employees, improve Director understanding of local risks, participate in continuous education and obtain on the ground experience. This takes considerable Director time and commitment.

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. Where air travel is greater than 10 hours to destination the allowance per trip is A$16,800.

Diagram 6.10 – Director site visits in FY18



FY18 NON-EXECUTIVE DIRECTOR REMUNERATION

Table 6.12 sets out the statutory disclosures required under the Corporations Act and in accordance with Australian Accounting Standards in respect of FY18 remuneration paid to Non-Executive Directors.

Table 6.12 Non-Executive Director remuneration (A$'000)

			Short-term benefits			Post-employment benefits	
Non-Executive Director	**FY18 term**		**Board & Committee fees**	**Non-monetary benefits[2]**	**Other cash allowances & benefits[3]**	**Superannuation benefits**	**Total**
David Crawford AO	Full year	**FY18**	**530**	**–**	**115**	**20**	**665**
		FY17	530	–	65	20	615
Frank Cooper AO	Full year	**FY18**	**228**	**–**	**66**	**20**	**314**
		FY17	228	–	41	20	289
Dr Xiaoling Liu[1]	from 1-Nov-17	**FY18**	**137**	**–**	**40**	**13**	**190**
		FY17	–	–	–	–	–
Dr Xolani Mkhwanazi	Full year	**FY18**	**198**	**2**	**84**	**5**	**289**
		FY17	199	3	67	4	273
Dr Ntombifuthi Mtoba	Full year	**FY18**	**198**	**2**	**84**	**5**	**289**
		FY17	199	2	67	4	272
Wayne Osborn	Full year	**FY18**	**227**	**–**	**74**	**20**	**321**
		FY17	228	–	57	20	305
Keith Rumble	Full year	**FY18**	**243**	**2**	**84**	**5**	**334**
		FY17	244	2	67	4	317
Karen Wood[1]	from 1-Nov-17	**FY18**	**137**	**–**	**57**	**13**	**207**
		FY17	–	–	–	–	–
TOTAL		**FY18**	**1,898**	**6**	**604**	**100**	**2,609**
		FY17	1,628	7	364	72	2,071

(1) Dr Liu and Ms Wood were appointed to the Board on 1 November 2017.

(2) Includes assistance for tax return preparation in FY18.

(3) Includes travel allowance paid in FY18.

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 FY18.

Table 6.13 Statutory remuneration of Executive KMP in FY18 (A$'000)

		Short-term benefits			Post-employment benefits	Termination benefits	Other long-term benefits[3]	Share-based payments[4]			Total Remuneration	
Executive KMP		Salary	Cash bonus[1]	Non-monetary benefits[2]	Superannuation benefits			South32	Replacement Awards	Other[5]		Percentage of Total Remuneration which is Performance Tested
G Kerr	**FY18**	**1,654**	**1,015**	**–**	**27**	**–**	**163**	**3,777**	**137**	**–**	**6,773**	**73%**
	FY17	1,581	881	7	20	–	163	2,969	1,983	–	7,604	77%
B Harris	**FY18**	**753**	**480**	**7**	**23**	**–**	**76**	**1,426**	**24**	**–**	**2,789**	**69%**
	FY17	763	423	8	20	–	76	1,131	203	–	2,624	67%
M Fraser	**FY18**	**858**	**553**	**18**	**21**	**–**	**89**	**1,817**	**656**	**217**	**4,229**	**77%**
	FY17	889	553	130	20	–	89	1,575	995	803	5,054	78%
P Harvey[6][7]	**FY18**	**672**	**388**	**14**	**112**	**–**	**66**	**1,530**	**15**	**–**	**2,797**	**69%**
	FY17	143	107	2	22	–	16	269	22	–	581	68%
TOTAL	**FY18**	**3,937**	**2,436**	**39**	**183**	**–**	**394**	**8,550**	**832**	**217**	**16,588**	
	FY17	3,376	1,964	147	82	–	344	5,944	3,203	803	15,863	

(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 amortised over the vesting period.

(2) Non-monetary benefits are non-pensionable and include such items as personal tax assistance.

(3) Other long-term benefits is the accounting expense of annual and long-service leave accrued in FY18.

(4) The amounts were not actually provided to the Executive KMP during FY18. 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 6.14 on page 88 in this report for information on awards outstanding during FY18.

(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. The details for FY17 are pro-rated for the period 4 April 2017 to 30 June 2017.

(7) See note below in relation to superannuation benefits for Mr Harvey.

SUPERANNUATION ARRANGEMENTS FOR PAUL HARVEY

Mr Harvey is a member of the South32 Superannuation Plan (Defined Benefit plan). 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$704,107. As at 30 June 2018, Mr Harvey has been a member of the plan for 26 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 2018 is 0.99.

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 6.13 is Mr Harvey's FY18 current service cost of A$112,000 as calculated under AASB 119.

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 FY18. See page 73 for terms and conditions relating to South32's Equity Incentive Plans.

Table 6.14 Detail and movement of rights over South32 shares held by Executive KMP in FY18

Award[1]	Opening balance	Grant date	Granted in FY18[2]	Vested in FY18		Forfeited or other change in FY18		Closing balance	Anticipated vesting date
Executive KMP	**Number**		**Number**	**Number[3]**	**%**	**Number**	**%**	**Number**	
G Kerr	**12,475,620**		**2,298,772**	**1,536,017**	**59**	**1,054,571**	**41**	**12,183,804**	
S32 FY17 Deferred STI (S)	–	13-Dec-17	272,055	–	–	–	–	272,055	Aug-19
S32 FY18 LTI (P)	–	13-Dec-17	2,026,717	–	–	–	–	2,026,717	Aug-21
S32 FY16 Deferred STI (S)	359,190	2-Dec-16	–	–	–	–	–	359,190	Aug-18
S32 FY17 LTI (P)	3,277,777	2-Dec-16	–	–	–	–	–	3,277,777	Aug-20
S32 FY15 Deferred STI (S)	1,057,718	10-Dec-15	–	1,057,718	100	–	–	–	–
S32 FY16 LTI (P)	3,002,513	10-Dec-15	–	–	–	–	–	3,002,513	Aug-19
Replacement BHP FY13 LTI Award (P)	1,532,870	25-May-15	–	478,299	31	1,054,571	69	–	–
Replacement BHP FY14 LTI Award (P)	1,581,485	25-May-15	–	–	–	–	–	1,581,485	Aug-18
Replacement BHP FY15 LTI Award (P)	1,664,067	25-May-15	–	–	–	–	–	1,664,067	Aug-19
B Harris	**3,038,498**		**764,235**	**392,097**	**100**	**0**	**0**	**3,410,636**	
S32 FY17 Deferred STI (S)	–	13-Dec-17	130,648	–	–	–	–	130,648	Aug-19
S32 FY18 LTI (P)	–	13-Dec-17	633,587	–	–	–	–	633,587	Aug-21
S32 FY16 Deferred STI (S)	213,753	2-Dec-16	–	–	–	–	–	213,753	Aug-18
S32 FY17 LTI (P)	1,024,691	2-Dec-16	–	–	–	–	–	1,024,691	Aug-20
S32 FY15 Deferred STI (S)	246,814	10-Dec-15	–	246,814	100	–	–	–	–
S32 FY16 LTI (P)	938,638	10-Dec-15	–	–	–	–	–	938,638	Aug-19
FY16 Transitional Performance Award (P)	469,319	10-Dec-15	–	–	–	–	–	469,319	Aug-18
Replacement BHP FY15 MAP (S)	145,283	25-May-15	–	145,283	100	–	–	–	–
M Fraser	**7,549,949**		**1,096,220**	**1,339,496**	**91**	**124,582**	**9**	**7,182,091**	
S32 FY17 Deferred STI (S)	–	13-Dec-17	170,648	–	–	–	–	170,648	Aug-19
S32 FY18 LTI (P)	–	13-Dec-17	925,572	–	–	–	–	925,572	Aug-21
S32 FY16 Deferred STI (S)	171,079	2-Dec-16	–	–	–	–	–	171,079	Aug-18
S32 FY17 LTI (P)	1,496,913	2-Dec-16	–	–	–	–	–	1,496,913	Aug-20
S32 FY15 Deferred STI (S)	706,486	10-Dec-15	–	706,486	100	–	–	–	–
S32 FY16 LTI (P)	1,371,204	10-Dec-15	–	–	–	–	–	1,371,204	Aug-19
Replacement BHP FY14 Transitional GMC Award (P)	218,845	25-May-15	–	175,076	80	43,769	20	–	–
FY15 Transitional Performance Award (P)	1,077,494	29-Jun-15	–	457,934	85	80,813	15	538,747	Aug-18
Replacement BHP FY14 LTI Award (P)	1,222,058	25-May-15	–	–	–	–	–	1,222,058	Aug-18
Replacement BHP FY15 LTI Award (P)	1,285,870	25-May-15	–	–	–	–	–	1,285,870	Aug-19

Table 6.14 Detail and movement of rights over South32 shares held by Executive KMP in FY18 (continued)

Award[1]	Opening balance	Grant date	Granted in FY18[2]	Vested in FY18		Forfeited or other change in FY18		Closing balance	Anticipated vesting date
Executive KMP	**Number**		**Number**	**Number[3]**	**%**	**Number**	**%**	**Number**	
P Harvey	**2,367,396**		**875,845**	**146,497**	**100**	**0**	**0**	**3,096,744**	
S32 FY17 Deferred STI (S)	–	13-Dec-17	136,342	–	–	–	–	136,342	Aug-19
S32 FY18 LTI (P)	–	13-Dec-17	739,503	–	–	–	–	739,503	Aug-21
S32 FY16 Deferred STI (S)	183,969	2-Dec-16	–	–	–	–	–	183,969	Aug-18
S32 FY17 LTI (P)	956,790	2-Dec-16	–	–	–	–	–	956,790	Aug-20
FY17 Transitional Performance Award (P)	239,197	2-Dec-16	–	–	–	–	–	239,197	Aug-19
Deferred Share Award (GSTIP) (S)	146,497	16-Nov-15	–	146,497	100	–	–	–	–
FY16 Advance Award (P)	314,136	16-Nov-15	–	–	–	–	–	314,136	Aug-18
FY16 Management Share Plan-Retention (S)	150,516	16-Nov-15	–	–	–	–	–	150,516	Aug-18
FY16 Management Share Plan-Performance (P)	376,291	16-Nov-15	–	–	–	–	–	376,291	Aug-19

(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 South32 ordinary 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. (S) – Service condition applies or (P) – Performance and Service conditions apply.

(2) The fair value for awards granted in FY18 is the grant date fair value for accounting purposes being A$1.75 (FY18 LTI) and A$2.99 (FY17 Deferred STI). The closing share price on the grant date of 13 December 2017 was A$3.16.

(3) Rights converted to ordinary South32 shares for nil consideration on 25 August 2017. The South32 closing share price on this date was A$2.85.

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 6.15.

Table 6.15 Key terms and performance conditions of awards

Award	Key terms and performance conditions
FY16 Management Share Plan	The FY16 Management Share Plan is South32's long-term incentive plan for eligible management employees below Lead Team 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 72) 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.
FY16 Advance Award	The FY16 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, performance and vesting conditions 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 (subject to service conditions only) was deferred for two years and vested in August 2017.

SHAREHOLDINGS OF KMP

Table 6.16 South32 shares held directly, indirectly or beneficially by each KMP, including their related parties

	Held at 30 June 2017	Received on vesting of rights	Received as remuneration	Other net change[1]	Held at 30 June 2018	% of Fees/Fixed Remuneration[2]
Non-Executive Directors						
David Crawford AO	370,627	–	–	–	**370,627**	243
Frank Cooper AO	122,866	–	–	–	**122,866**	246
Dr Xiaoling Liu[3]	50,000	–	–	–	**50,000**	100
Dr Xolani Mkhwanazi	28,887	–	–	5,450	**34,337**	69
Dr Ntombifuthi Mtoba	31,206	–	–	6,199	**37,405**	75
Wayne Osborn	125,704	–	–	–	**125,704**	252
Keith Rumble	125,680	–	–	–	**125,680**	252
Karen Wood[3]	367,825	–	–	–	**367,825**	738
Executives						
Graham Kerr	794,522	1,536,017	–	(1,051,929)	**1,278,610**	261
Brendan Harris	167,880	392,097	–	(184,287)	**375,690**	163
Mike Fraser	687,800	1,339,496	–	(624,646)	**1,402,650**	522
Paul Harvey[4]	23,194	146,497	–	(71,372)	**98,319**	46

(1) Other net change includes purchases and sales of vested shares to cover tax liabilities. Refer to 29 August 2017 announcements for the CEO.

(2) Based on the closing share price of South32 shares as at 30 June 2018, of A$3.61.

(3) Dr Liu and Ms Wood were appointed to the Board on 1 November 2017, opening balances are at this date.

(4) Mr Harvey was appointed as a member of KMP on 4 April 2017.

ADDITIONAL INFORMATION

TRANSACTIONS WITH KMP

During FY18, there were no transactions between KMP or their close family members and the South32 Group.

There are no amounts payable at 30 June 2018.

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 6 September 2018.

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 2018.

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 25 to 54
- Director biographical information on pages 12 to 15
- Remuneration Report on pages 67 to 90
- Notes 22 Auditor's remuneration and 25 Employee share ownership plans to the financial statements on pages 133 and 141 to 145, respectively
- Auditor's Independence Declaration on page 154
- Shareholder Information on pages 159 to 163
- Corporate Directory (inside back cover)

DIRECTORS AND MEETINGS

At the date of this Directors' Report, Directors of South32 Limited in office were:

David Crawford AO	Appointed 2 February 2015
Graham Kerr	Appointed 21 January 2015
Frank Cooper AO	Appointed 7 May 2015
Dr Xiaoling Liu	Appointed 1 November 2017
Dr Xolani Mkhwanazi	Appointed 2 July 2015
Dr Ntombifuthi (Futhi) Mtoba	Appointed 7 May 2015
Wayne Osborn	Appointed 7 May 2015
Keith Rumble	Appointed 27 February 2015
Karen Wood	Appointed 1 November 2017

Information about the Directors' qualifications, experience, special responsibilities and other directorships is set out on pages 12 to 15.

BOARD AND COMMITTEE MEETINGS AND DIRECTOR ATTENDANCE

There were 10 scheduled Board meetings in FY18 with additional meetings held as required. The number of Board and Committee meetings held and the Directors' attendance is provided in Table 7.1.

The Board meeting schedule provides for seven face-to-face Board and Committee meetings per year of two to three days duration each, which are frequently accompanied by site visits. During FY18, having regard to the main geographic areas in which we operate, four Board meetings were held in Australia, two in South Africa and one in Colombia. An additional three meetings were held by teleconference with an average duration of two hours. At least once per year the Directors participate in a strategy session. These 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 7.1 Board and Board Committee meeting attendance in FY18

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	5	5			9	9		
G Kerr (CEO)	10	10								
F Cooper	10	10	5	5	6	6	9	9		
X Liu(4)	6	6	3	3			4	4	4	4
X Mkhwanazi	10	10							6	6
N Mtoba	10	9	5	5			9	8		
W Osborn	10	10	5	5	6	6			6	6
K Rumble	10	10	5	5	6	6			6	6
K Wood(4)	6	6	3	3	4	4			4	4

Member Chairman

All Non-Executive Directors have a standing invitation to attend Committee meetings with the consent of the relevant Committee Chairman and in practice generally attend all Committee meetings. Their attendance is included above only if they are a member of the Committee.

(1) Risk and Audit Committee members attended two Regional Risk and Audit Committee 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) Dr Liu and Ms Wood were appointed on 1 November 2017.

PRINCIPAL ACTIVITIES, STATE OF AFFAIRS AND REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

The principal activities of the Group during FY18 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 FY18, and the results of those operations, is set out in the Operating and Financial Review on pages 25 to 54.

DIVIDENDS

The following dividends were paid during FY18:

Dividend	Total dividend	Payment date
Final dividend of US 6.4 cents per share (fully franked) for the year ended 30 June 2017[1]	US$333 million	12 October 2017
Interim dividend of US 4.3 cents per share (fully franked) for the half year ended 31 December 2017[2]	US$221 million	5 April 2018
Special dividend of US 3.0 cents per share (franked to 81%)[2]	US$154 million	5 April 2018

(1) The ESOP Trust waived its right to receive dividends from South32 Limited, therefore reducing the dividends paid by US$1 million.

(2) The ESOP Trust waived its rights to receive dividends from South32 Limited and a total of 25,587,091 shares were bought back between the declaration and ex-dividend dates therefore, reducing the dividends paid by US$2 million and US$1 million, respectively.

MATTERS SINCE THE END OF THE FINANCIAL YEAR

On 23 August 2018, the Directors resolved to pay a fully franked final dividend of US 6.2 cents per share (US$317 million) in respect of FY18. The dividend will be paid on 11 October 2018. The dividend has not been provided for in the consolidated financial statements and will be recognised in the consolidated financial statements for FY19.

On 10 August 2018, the Group completed its acquisition of the remaining 83 per cent of issued and outstanding shares of Arizona Mining Inc. that it did not already own via a plan of arrangement.

The transaction was completed for a total consideration of US$1.3 billion via a fully funded, all cash offer at CAD 6.20 per share. With the acquisition now complete, Arizona Mining's shares have ceased trading on the Toronto Stock Exchange (TSX) and were delisted from the TSX on 10 August 2018. The acquisition will be treated as an acquisition of assets as it involves the acquisition of exploration licences and some exploration surface facilities.

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 7.2 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)	12,232,087
F Cooper	128,010
X Liu(2)	60,000
X Mkhwanazi	34,337
N Mtoba	37,405
W Osborn	125,704
K Rumble	125,680
K Wood(2)	367,825

(1) At the date of this report, Mr Kerr's total interest includes 1,988,958 of South32 Limited ordinary shares and 10,243,129 of rights over South32 Limited ordinary shares held under the South32 Equity Incentive Plan.

(2) Dr Liu and Ms Wood were appointed to the Board on 1 November 2017.

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 and Managing 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 on page 67. Note 25 (Employee share ownership plans) to the financial statements on page 141 sets out the total number of rights over South32 Limited ordinary shares on issue as at 30 June 2018.

No options or rights have been granted since the end of FY18.

The total number of rights over South32 Limited ordinary shares on issue as at the date of this Directors' Report is 76,205,280. No shares have been issued on vesting of rights during or since the end of FY18.

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 Vice President Legal (Corporate) and Company Secretariat. She was appointed Company Secretary 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 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. Due to confidentiality obligations and undertakings of the insurance policy, no further details in respect of the premium or policy can be disclosed.

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. 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 FY18 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 6 September 2018 South32 complies with all ASX recommendations.

South32's Corporate Governance Statement is available at *www.south32.net/about-us/corporate-governance*.

The Corporate Governance Statement also contains the information required under the UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR).

AUDITOR

Our External Auditor has provided an independence declaration in accordance with the Corporations Act, which is set out on page 154 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 FY18 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 134.

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 FY18 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 FY18, 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 and South Africa 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 FY18, we contributed US$20.4 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 9.

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. No significant environmental events were reported in FY18.

FINES AND PROSECUTIONS

In FY18, our Metalloys manganese smelter in South Africa received an administrative fine under South African environmental legislation, for US$100,240, which will be paid in tranches by FY20. The fine is in relation to the operation of new technology used in the agglomeration (smelting related) process, which was utilised under the existing Atmospheric Emissions Licence (AEL) but, according to the regulator, required rectification for unauthorised commencement of a new activity, and should only have been utilised following receipt of a new or renewed AEL. The regulator required South Africa Manganese to pay the first administrative tranche of the fine prior to processing an application to renew the existing AEL. The AEL was renewed upon receipt of the first tranche of the fine.

Mozal Aluminium received two fines in FY18. A fine of US$3,033 was received for alleged spillage of alumina during routine cleaning operations at a port facility, which Mozal Aluminium has formally disputed. We have however, undertaken maintenance on related machinery and provided additional training on cleaning and environmental practices to the relevant contractors. A fine of US$5,055 was received for alleged building and operating of a warehouse at Mozal Aluminium's existing stockyard, and transfer of the discharge point from the Maputo area of the harbour to the Matola area without information and authorisation. Our Mozal Aluminium smelter has formally disputed the fine, as the facility was built with Portos e Caminhos de Ferro de Mocambique (Mozambique Ports and Railways Authority) authorisation and within the parameters of the existing environmental management plan. Our Mozal Aluminium smelter has engaged in further communication with Government regarding their reporting requirements.

In FY18, our Cerro Matoso operation was fined US$398,474 by the Regional Environmental Authority (CVS) for alleged air pollution and related health impacts which occurred in August 2013. While Cerro Matoso is required to pay the fine to the CVS, we will be seeking to apply to the Courts to have the fine annulled. Cerro Matoso operates in accordance with legislated air emissions requirements and our air quality monitoring systems are subject to periodic reviews to ensure that they remain fit for purpose and effective.

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 97 to 153 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: 6 September 2018

FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2018

US$M	Note	FY18	FY17
Revenue			
Group production		**6,682**	6,160
Third party products		**867**	790
		7,549	6,950
Other income	21	**226**	275
Expenses excluding net finance cost	5	**(6,577)**	(5,742)
Share of profit/(loss) of equity accounted investments	29	**521**	312
Profit/(loss)		**1,719**	1,795
Comprising:			
Group production		**1,694**	1,783
Third party products		**25**	12
Profit/(loss)		**1,719**	1,795
Finance expenses		**(168)**	(212)
Finance income		**68**	41
Net finance cost	18	**(100)**	(171)
Profit/(loss) before tax		**1,619**	1,624
Income tax (expense)/benefit	6	**(287)**	(393)
Profit/(loss) after tax		**1,332**	1,231
Attributable to:			
Equity holders of South32 Limited		**1,332**	1,231
Profit/(loss) for the year attributable to the equity holders of South32 Limited			
Basic earnings per share (cents)	8	**25.8**	23.2
Diluted earnings per share (cents)	8	**25.4**	22.9

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

US$M	Note	FY18	FY17
Profit/(loss) for the year		**1,332**	1,231
Other Comprehensive Income			
Items that may be reclassified to the Consolidated Income Statement:			
Available for sale investments:			
Net gains/(losses) recognised in equity	24	**170**	19
Net (gains)/losses transferred to the Consolidated Income Statement	21	**(33)**	–
Tax benefit/(expense) recognised within Other Comprehensive Income	6, 24	**(3)**	1
Cash Flow hedges:			
Net gains/(losses) recognised in equity	24	**5**	–
Total items that may be reclassified to the Consolidated Income Statement		**139**	20
Items not to be reclassified to the Consolidated Income Statement:			
Equity accounted investments – share of Other Comprehensive Income/(loss)		**1**	1
Gains/(losses) on pension and medical schemes	15, 23	**4**	8
Tax benefit/(expense) recognised within Other Comprehensive Income	6	**(1)**	(2)
Total items not to be reclassified to the Consolidated Income Statement		**4**	7
Total Other Comprehensive Income/(loss)		**143**	27
Total Comprehensive Income/(loss)		**1,475**	1,258
Attributable to:			
Equity holders of South32 Limited		**1,475**	1,258

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at 30 June 2018

US$M	Note	FY18	FY17
ASSETS			
Current assets			
Cash and cash equivalents	16	**2,970**	2,675
Trade and other receivables	9	**826**	718
Other financial assets	19	**80**	103
Inventories	10	**886**	781
Current tax assets		**8**	27
Other		**51**	28
Total current assets		**4,821**	4,332
Non-current assets			
Trade and other receivables	9	**248**	365
Other financial assets	19	**613**	465
Inventories	10	**76**	81
Property, plant and equipment	11	**8,196**	8,373
Intangible assets	12	**221**	252
Equity accounted investments	29	**697**	569
Deferred tax assets	6	**245**	276
Other		**16**	20
Total non-current assets		**10,312**	10,401
Total assets		**15,133**	14,733
LIABILITIES			
Current liabilities			
Trade and other payables	14	**830**	850
Interest bearing liabilities	17	**333**	391
Other financial liabilities	19	**2**	–
Current tax payables		**135**	116
Provisions	15	**360**	383
Deferred income		**4**	4
Total current liabilities		**1,664**	1,744
Non-current liabilities			
Trade and other payables	14	**5**	4
Interest bearing liabilities	17	**596**	644
Deferred tax liabilities	6	**445**	518
Provisions	15	**1,705**	1,577
Deferred income		**9**	11
Total non-current liabilities		**2,760**	2,754
Total liabilities		**4,424**	4,498
Net assets		**10,709**	10,235
EQUITY			
Share capital	20	**14,493**	14,747
Treasury shares	20	**(83)**	(26)
Reserves	24	**(3,333)**	(3,503)
Retained earnings/(accumulated losses)		**(367)**	(982)
Total equity attributable to equity holders of South32 Limited		**10,710**	10,236
Non-controlling interests		**(1)**	(1)
Total equity		**10,709**	10,235

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2018

US$M	Note	FY18	FY17
Operating activities			
Profit/(loss) before tax		**1,619**	1,624
Adjustments for:			
Non-cash significant items		**(31)**	–
Depreciation and amortisation expense		**742**	763
Employee share awards expense		**40**	37
Net finance cost		**100**	171
Share of (profit)/loss of equity accounted investments		**(521)**	(312)
Fair value (gains)/losses on derivative instruments		**76**	(194)
Other non-cash or non-operating items		**(12)**	(21)
Changes in assets and liabilities:			
Trade and other receivables		**(153)**	(119)
Inventories		**(99)**	(60)
Trade and other payables		**(22)**	137
Provisions and other liabilities		**(118)**	(63)
Cash generated from operations		**1,621**	1,963
Interest received		**64**	41
Interest paid		**(70)**	(73)
Income tax (paid)/received		**(306)**	(127)
Dividends received		**14**	15
Dividends received from equity accounted investments		**394**	313
Net cash flows from operating activities		**1,717**	2,132
Investing activities			
Purchases of property, plant and equipment		**(430)**	(316)
Exploration expenditure		**(40)**	(27)
Exploration expenditure expensed and included in operating cash flows		**38**	25
Purchase of intangibles		**(4)**	(1)
Investment in financial assets		**(273)**	(331)
Investment in equity accounted investments		**–**	(21)
Cash outflows from investing activities		**(709)**	(671)
Proceeds from sale of property, plant and equipment and intangibles		**1**	16
Proceeds from financial assets		**407**	344
Distribution from equity accounted investments		**–**	22
Net cash flows from investing activities		**(301)**	(289)
Financing activities			
Proceeds from interest bearing liabilities		**4**	109
Repayment of interest bearing liabilities		**(77)**	(20)
Purchase of shares by South32 Limited Employee Incentive Plans Trusts (ESOP Trusts)		**(84)**	(27)
Share buy-back		**(254)**	(211)
Dividends paid		**(708)**	(244)
Net cash flows from financing activities		**(1,119)**	(393)
Net increase/(decrease) in cash and cash equivalents		**297**	1,450
Cash and cash equivalents, net of overdrafts, at the beginning of the financial year		**2,675**	1,225
Foreign currency exchange rate changes on cash and cash equivalents		**(2)**	–
Cash and cash equivalents, net of overdrafts, at the end of the financial year	16	**2,970**	2,675

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Attributable to equity holders of South32 Limited						
US$M	Share capital	Treasury shares	Reserves	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
Balance as at 1 July 2017	**14,747**	**(26)**	**(3,503)**	**(982)**	**10,236**	**(1)**	**10,235**
Profit/(loss) for the year	**–**	**–**	**–**	**1,332**	**1,332**	**–**	**1,332**
Other Comprehensive Income/(loss)	**–**	**–**	**139**	**4**	**143**	**–**	**143**
Total Comprehensive Income/(loss)	**–**	**–**	**139**	**1,336**	**1,475**	**–**	**1,475**
Transactions with owners:							
Accrued employee entitlement for unexercised awards	**–**	**–**	**45**	**–**	**45**	**–**	**45**
Dividends	**–**	**–**	**–**	**(708)**	**(708)**	**–**	**(708)**
Purchase of shares by ESOP Trusts	**–**	**(84)**	**–**	**–**	**(84)**	**–**	**(84)**
Employee share awards exercised	**–**	**27**	**(14)**	**(13)**	**–**	**–**	**–**
Shares bought back and cancelled	**(254)**	**–**	**–**	**–**	**(254)**	**–**	**(254)**
Balance as at 30 June 2018	**14,493**	**(83)**	**(3,333)**	**(367)**	**10,710**	**(1)**	**10,709**
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

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 consolidated 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 104.

The consolidated financial statements of the Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 6 September 2018.

1. REPORTING ENTITY

South32 Limited is a for-profit company limited by shares incorporated in Australia with a primary listing on the Australian Securities Exchange, 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 106.

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 2017. Refer to note 3 New standards and interpretations on page 104, 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 104

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 146.

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 retranslation 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 foreign exchange rates relative to the US dollar have been applied in the consolidated financial statements:

	Average FY18	Average FY17	As at 30 June 2018	As at 30 June 2017
Australian dollar (1)	**0.78**	0.75	**0.74**	0.77
Brazilian real	**3.31**	3.22	**3.85**	3.30
Colombian peso	**2,917**	2,953	**2,945**	3,038
South African rand	**12.86**	13.61	**13.73**	13.00
Euro (2)	**1.19**	1.09	**1.16**	1.14

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

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

3. NEW STANDARDS AND INTERPRETATIONS

(a) New accounting standards and interpretations effective from 1 July 2017

The Group has changed some of its accounting policies as a result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2017. New policies and standards are:

AASB 107 Statement of cash flows, Narrow-scope amendments

The amendments introduced additional disclosure that enables users of financial statements to better understand changes in the Group's debt. The Group is 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).

(b) New standards and interpretations issued but not effective

Certain new accounting standards and interpretations have been published that are not effective for the 30 June 2018 reporting period. The Group has reviewed these standards and interpretations, and with the exception of the items listed below, none of the new or amended standards will significantly affect the Group's accounting policies, financial position or performance. The Group does not intend to early adopt any of the new standards or interpretations.

AASB 9 Financial Instruments (effective from 1 July 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 assessments 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.

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.

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 (FY18: US$136 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 FY18) would result in a reclassification of a fair value loss of US$6 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.

NOTES TO FINANCIAL STATEMENTS – BASIS OF PREPARATION

3. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

(b) New standards and interpretations issued but not effective (continued)

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 losses on all trade receivables measured at amortised cost. Given the short-term nature of trade receivables, the Group does not expect the implementation of the expected credit loss model to have a material impact.

For other receivables, including loans to equity accounted investments and interest bearing loans receivable, the Group will apply the general approach and measure a 12-month expected credit loss. Given the nature of other receivables, the Group does not expect this to have a material impact.

Hedge accounting

The changes in AASB 9 relating to hedge accounting will not have a material impact on the Group.

AASB 15 Revenue from Contracts with Customers (effective from 1 July 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 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.

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. These provisional pricing adjustments will continue to be included in Revenue in the Consolidated Income Statement and will be disclosed by way of a note to the financial statements. 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.

AASB 16 Leases (effective from 1 July 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 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$168 million. Under AASB 16 the present value of the Group's operating lease commitments as defined under the new standard, excluding low-value leases and short-term 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 completed an initial assessment of the impact of AASB 16 and determined that it will have a material impact on the Group's Consolidated Balance Sheet. The Group will apply the practical expedient to 'grandfather' previous lease assessments of existing contracts and will apply the AASB 16 lease definition only to new contracts entered into post 1 July 2019. The Group will elect to apply AASB 16 using the modified retrospective approach and will therefore not restate comparative information. Instead, the Group will recognise the cumulative effect of initial application as an adjustment to equity at the effective date. The Group is continuing its work on quantifying the impact of this standard.

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. Certain 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.

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)

30 June 2018 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	724	1,583	629	551	1,366	686	1,111	489	559	584	–	(1,600)	6,682
Third party products[(2)]	–	–	–	–	–	–	–	–	–	–	870	(3)	867
Inter-segment revenue	749	–	–	–	–	–	–	14	–	–	(749)	(14)	–
Total revenue	**1,473**	**1,583**	**629**	**551**	**1,366**	**686**	**1,111**	**503**	**559**	**584**	**121**	**(1,617)**	**7,549**
Underlying EBITDA	**588**	**285**	**133**	**192**	**353**	**103**	**710**	**215**	**209**	**230**	**(64)**	**(438)**	**2,516**
Depreciation and amortisation	(166)	(72)	(34)	(56)	(77)	(165)	(59)	(29)	(89)	(47)	(36)	88	(742)
Underlying EBIT	**422**	**213**	**99**	**136**	**276**	**(62)**	**651**	**186**	**120**	**183**	**(100)**	**(350)**	**1,774**
Comprising:													
Group production excluding exploration expensed	423	213	99	136	273	(56)	652	186	128	185	(105)	(838)	1,296
Exploration expensed	(1)	–	–	–	–	(7)	(1)	–	(8)	(2)	(20)	1	(38)
Third party products[(2)]	–	–	–	–	–	–	–	–	–	–	25	–	25
Share of profit/(loss) of equity accounted investments[(3)]	–	–	–	–	3	1	–	–	–	–	–	487	491
Underlying EBIT	**422**	**213**	**99**	**136**	**276**	**(62)**	**651**	**186**	**120**	**183**	**(100)**	**(350)**	**1,774**
Net finance cost													(123)
Income tax (expense)/benefit													(324)
Underlying earnings													**1,327**
Earnings adjustments[(4)]													5
Profit/(loss) after tax													**1,332**
Exploration expenditure	**1**	**–**	**–**	**–**	**–**	**7**	**1**	**–**	**9**	**3**	**20**	**(1)**	**40**
Capital expenditure[(5)]	**52**	**28**	**10**	**12**	**164**	**89**	**48**	**17**	**22**	**51**	**2**	**(65)**	**430**
Equity accounted investments	**–**	**–**	**–**	**–**	**12**	**1**	**–**	**–**	**–**	**–**	**–**	**684**	**697**
Total assets[(6)]	**3,516**	**1,507**	**685**	**756**	**1,036**	**1,655**	**596**	**496**	**764**	**450**	**4,239**	**(567)**	**15,133**
Total liabilities[(6)]	**488**	**305**	**132**	**112**	**1,059**	**247**	**307**	**199**	**213**	**240**	**1,669**	**(547)**	**4,424**

(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$206 million for aluminium, US$49 million for alumina, US$290 million for coal, US$198 million for freight services and US$124 million for aluminium raw materials. Underlying EBIT on third party products comprise US$11 million for aluminium, US$2 million for alumina, US$12 million for coal, (US$1) million 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 109.

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

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

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

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 excluding exploration expensed	160	219	76	66	216	363	467	110	(12)	310	(56)	(578)	1,341
Exploration expensed	(1)	–	–	–	–	(5)	–	–	(4)	(2)	(14)	1	(25)
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**
Exploration expenditure	**1**	**–**	**–**	**–**	**–**	**5**	**1**	**–**	**5**	**2**	**14**	**(1)**	**27**
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 note 4(b)(i) Earnings adjustments on page 109.

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

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

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

4. SEGMENT INFORMATION (CONTINUED)

(b) Segment results (continued)

(i) Earnings adjustments

The following table shows earnings adjustments in determining Underlying earnings:

US$M	FY18	FY17
Adjustments to Underlying EBIT		
Significant items(1)	**(31)**	–
Exchange rate (gains)/losses on restatement of monetary items(2)	**(15)**	37
Fair value (gains)/losses on non-trading derivative instruments(2)(3)	**73**	(194)
Major corporate restructures(2)(4)	**58**	2
Earnings adjustments included in profit/(loss) of equity accounted investments(5)(6)	**(30)**	8
Total adjustments to Underlying EBIT	**55**	(147)
Adjustments to net finance cost		
Exchange rate variations on net debt	**(23)**	35
Total adjustments to net finance cost	**(23)**	35
Adjustments to income tax expense		
Tax effect of significant items(1)	**1**	–
Tax effect of other earnings adjustments to Underlying EBIT	**(34)**	42
Tax effect of earnings adjustments to net finance cost	**7**	(9)
Exchange rate variations on tax balances	**(11)**	(6)
Total adjustments to income tax expense	**(37)**	27
Total earnings adjustments	**(5)**	(85)

(1) Refer to note 4(b)(ii) Significant items on page 109.

(2) Recognised in expenses excluding net finance cost in the Consolidated Income Statement. Refer to note 5 Expenses on page 111.

(3) Primarily relates to US$57 million (FY17: (US$183) million) included in the South Africa Aluminium segment and US$16 million (FY17: (US$8) million) included in Group and unallocated items.

(4) Primarily relates to US$12 million (FY17: nil) included in the Illawarra Metallurgical Coal segment and US$45 million (FY17: nil) included in Group and unallocated items.

(5) Recognised in share of profit/(loss) of equity accounted investments in the Consolidated Income Statement. Refer to note 29 Equity accounted investments on page 147.

(6) Primarily relates to (US$6) million (FY17: US$5 million) included in the Australia Manganese segment and (US$24) million (FY17: US$3 million) included in the South Africa Manganese segment.

(ii) Significant items

Significant items are those items, not separately identified in note (4)(b)(i) Earnings adjustments, where their nature and amount is considered material to the consolidated financial statements. There were no such items included within the Group's (income)/expense for the year ended 30 June 2017.

Year ended 30 June 2018 US$M	Gross	Tax	Net
Unwind of the investment in Dreamvision(1)(2)	(31)	1	(30)
Total significant items	**(31)**	**1**	**(30)**

(1) Recognised in other income in the Consolidated Income Statement. Refer to note 21 Other income on page 134.

(2) Attributable to Group and unallocated items.

Unwind of the investment in Dreamvision

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

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	FY18	FY17
Australia	**740**	789
China	**373**	212
India	**487**	439
Italy	**313**	352
Japan	**467**	523
Middle East	**243**	215
Netherlands	**405**	469
North America	**354**	314
Other Asia	**159**	124
Rest of Europe	**562**	494
Singapore	**1,076**	843
South America	**26**	–
South Korea	**160**	291
Southern Africa	**1,248**	1,047
Switzerland	**648**	497
United Arab Emirates	**288**	341
Total revenue	**7,549**	6,950

Non-current assets US$M	FY18	FY17
Australia	**5,454**	5,653
Southern Africa	**2,594**	2,487
South America	**1,300**	1,367
Rest of world	**106**	153
Unallocated assets(1)	**858**	741
Total non-current assets	**10,312**	10,401

(1) Unallocated assets primarily comprise other financial assets and deferred tax assets.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

5. EXPENSES

US$M	Note	FY18	FY17
Changes in inventories of finished goods and work in progress		**(9)**	(76)
Raw materials and consumables used		**2,341**	2,116
Employee benefits expense[1]	5(a)	**1,087**	933
External services (including transportation)		**1,120**	1,002
Third party commodity purchases		**842**	778
Depreciation and amortisation	11, 12	**742**	763
Net foreign exchange (gains)/losses		**(15)**	37
Fair value (gains)/losses on derivative instruments[2]		**76**	(194)
Government royalties paid and payable		**147**	178
Exploration and evaluation expenditure incurred and expensed		**38**	25
Operating lease rentals		**47**	42
All other operating expenses		**161**	138
Total expenses		**6,577**	5,742

(1) Includes earnings adjustment of US$58 million (FY17: US$2 million). Refer to note 4(b)(i) Earnings adjustments on page 109.

(2) Includes fair value (gains)/losses on non-trading derivative instruments of US$73 million (FY17: (US$194) million). Refer to note 4(b)(i) Earnings adjustments on page 109.

(a) Employee benefits expense

US$M	Note	FY18	FY17
Wages, salaries and redundancies		**967**	822
Employee share awards		**40**	34
Social security costs		**3**	2
Pension and other post-retirement obligations	23	**79**	75
		1,089	933
Less employee benefits expense classified as exploration and evaluation expenditure		**(2)**	–
Employee benefits expense		**1,087**	933

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	FY18	FY17
Current income tax expense/(benefit)	**333**	269
Deferred income tax expense/(benefit)	**(46)**	124
Total income tax expense/(benefit)	**287**	393
Australia	**134**	220
Southern Africa	**124**	129
Rest of world	**29**	44
Total income tax expense/(benefit) attributable to the geographical jurisdiction	**287**	393

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX (CONTINUED)

(a) Income tax expense (continued)

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

	FY18		FY17	
	%	US$M	%	US$M
(Profit)/loss before tax		**(1,619)**		(1,624)
Income tax on profit/(loss) at standard rate of 30 per cent	**(30.0)**	**486**	(30.0)	487
Tax rate differential on foreign income	**0.6**	**(10)**	2.2	(36)
Exchange variations and other translation adjustments	**0.7**	**(11)**	0.4	(6)
Tax effect of share of profit/(loss) of equity accounted investments	**9.2**	**(149)**	5.6	(91)
Withholding tax on distributed earnings	**(0.7)**	**12**	(1.0)	16
Derecognition of future tax benefits	**(0.9)**	**14**	(0.9)	15
Change in tax rate	**0.9**	**(15)**	–	–
Resolution of Pre-demerger tax disputes	**2.8**	**(45)**	–	–
Other	**(0.3)**	**5**	(0.5)	8
Total income tax expense/(benefit)	**(17.7)**	**287**	(24.2)	393

(c) Tax recognised in the Consolidated Statement of Comprehensive Income

US$M	FY18	FY17
Available for sale investments net valuation (gains)/losses recognised in equity	**3**	(1)
(Gains)/losses on pension and medical schemes	**1**	2
Total income tax expense/(benefit) recognised within the Consolidated Statement of Comprehensive Income	**4**	1

(d) Movement in deferred tax balances

The movement for the year in the Group's net deferred tax position is as follows:

US$M	FY18	FY17
Net deferred tax (liability)/asset		
At the beginning of the financial year	**(242)**	(119)
Recognised in the Consolidated Income Statement	**46**	(124)
Recognised in the Consolidated Statement of Comprehensive Income	**(4)**	(1)
Other movements	**–**	2
At the end of the financial year	**(200)**	(242)

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX (CONTINUED)

(d) Movement in deferred tax balances (continued)

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		Deferred tax charged/(credited) to the Consolidated Income Statement	
US$M	FY18	FY17	FY18	FY17	FY18	FY17
Type of temporary difference						
Depreciation	**200**	259	**(384)**	(443)	**–**	49
Employee benefits	**77**	78	**14**	13	**(2)**	(13)
Closure and rehabilitation	**107**	97	**34**	30	**(11)**	(10)
Other provisions	**8**	12	**18**	54	**41**	(24)
Deferred charges	**(179)**	(182)	**–**	–	**(1)**	1
Non tax-depreciable fair value adjustments, revaluations and mineral rights	**(125)**	(121)	**(54)**	(128)	**(77)**	46
Tax-effected losses	**1**	2	**67**	100	**34**	38
Brazil Alumina incentives	**–**	–	**(113)**	(107)	**7**	10
Finance leases	**168**	181	**2**	2	**13**	(4)
Other	**(12)**	(50)	**(29)**	(39)	**(50)**	31
Total	**245**	276	**(445)**	(518)	**(46)**	124

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 and
- 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.

NOTES TO FINANCIAL STATEMENTS – RESULTS FOR THE YEAR

6. TAX (CONTINUED)

(e) Unrecognised deferred tax assets and liabilities

The composition of the Group's unrecognised deferred tax assets and liabilities is as follows:

US$M	FY18	FY17
Unrecognised deferred tax assets		
Tax losses (i)	**37**	33
Other deductible temporary differences (ii)	**1,572**	1,526
Total unrecognised deferred tax assets	**1,609**	1,559
Unrecognised deferred tax liabilities		
Taxable temporary differences associated with investments in subsidiaries (iii)	**(50)**	(51)
Total unrecognised deferred tax liabilities	**(50)**	(51)

(i) Tax losses

At 30 June 2018, the Group had income and capital tax losses with a tax benefit of US$37 million (FY17: US$33 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	–	6	24	**30**
Total income tax losses	**–**	**6**	**24**	**30**
Capital tax losses				
No expiry	84	–	–	**84**
Total capital tax losses	**84**	**–**	**–**	**84**
Gross amount of tax losses not recognised	**84**	**6**	**24**	**114**
Tax effect of total losses not recognised	**25**	**2**	**10**	**37**

(ii) Other deductible temporary differences

At 30 June 2018, the Group had deductible temporary differences for which deferred tax assets of US$1,572 million (FY17: US$1,526 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 2018, deferred tax liabilities of US$50 million (FY17: US$51 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 agreement 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	FY18	FY17
Prior year final dividend(1)	**333**	53
Interim dividend(2)	**221**	191
Special dividend(2)	**154**	–
Total dividends declared and paid during the year	**708**	244

(1) 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 was paid on 12 October 2017. The ESOP Trust waived its right to receive dividends from South32 Limited, therefore reducing the dividends paid by US$1 million.

(2) On 15 February 2018, the Directors resolved to pay a fully franked interim dividend of US 4.3 cents per share (US$223 million) in respect of the 2018 half year and a partially franked (to 81 per cent) special dividend of US 3.0 cents per share (US$155 million). The dividends were paid on 5 April 2018. The ESOP Trust waived its right to receive dividends from South32 Limited and a total of 25,587,091 shares were bought back between the declaration and ex-dividend dates therefore, reducing the dividends paid by US$2 million and US$1 million, respectively.

Franking Account

US$M	FY18	FY17
Franking credits at the beginning of the financial year	**184**	–
Credits arising from tax paid/payable by South32 Limited(1)	**136**	111
Credits arising from the receipt of franked dividends	**100**	73
Utilisation of credits arising from the payment of franked dividends	**(271)**	–
Total franking credits available at the end of financial year(2)	**149**	184

(1) Includes the payment of the Australian FY18 income tax liability of US$65 million due in December 2018.

(2) The payment of the final franked FY18 dividend declared after 30 June 2018 will decrease the franking account balance by US$136 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	FY18	FY17
Profit/(loss) attributable to equity holders of South32 Limited (basic)	**1,332**	1,231
Profit/(loss) attributable to equity holders of South32 Limited (diluted)	**1,332**	1,231

Weighted average number of shares Million	FY18	FY17
Basic earnings per share denominator(1)	**5,159**	5,307
Shares contingently issuable under employee share ownership plans(2)	**80**	60
Diluted earnings per share denominator	**5,239**	5,367

(1) The basic EPS denominator is the aggregate of the weighted average number of shares after deduction of the weighted average number of Treasury shares outstanding and shares permanently cancelled through the on-market share buy-back during the period.

(2) Diluted EPS calculation excludes 4,512,861 (FY17: 11,120,599) rights which are considered anti-dilutive and are subject to service and performance conditions.

Earnings per share US cents	FY18	FY17
Basic earnings per share	**25.8**	23.2
Diluted earnings per share	**25.4**	22.9

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	FY18	FY17
Current		
Trade receivables	**545**	400
Loans to equity accounted investments[1]	**27**	24
Other receivables[2]	**254**	294
Total current trade and other receivables	**826**	718
Non-current		
Loans to equity accounted investments[1]	**67**	227
Interest bearing loans receivable from joint operations	**38**	42
Other receivables	**143**	96
Total non-current trade and other receivables	**248**	365

(1) Refer to note 32 Related party transactions on page 150.

(2) Includes a US$5 million provision for doubtful debts as at 30 June 2018 (FY17: US$6 million).

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		FY18	FY17
Current			
Raw materials and consumables	– at net realisable value[1]	**16**	16
	– at cost	**383**	293
		399	309
Work in progress	– at net realisable value[1]	**7**	–
	– at cost	**313**	251
		320	251
Finished goods	– at net realisable value[1]	**2**	2
	– at cost	**165**	219
		167	221
Total current inventories		**886**	781
Non-current			
Raw materials and consumables	– at cost	**46**	45
Work in progress	– at cost	**30**	36
Total non-current inventories		**76**	81

(1) Inventory write-downs of US$20 million (FY17: US$14 million) were recognised during the year. Reversal of prior year inventory write-downs of US$2 million (FY17: 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 2018 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	2,611	15,219	2,649	252	2	**20,733**
Additions(1)	–	163	118	312	2	**595**
Foreign exchange movements in closure and rehabilitation provisions(2)	–	(55)	–	–	–	**(55)**
Disposals	(11)	(46)	(83)	–	–	**(140)**
Transfers and other movements	41	187	2	(229)	(2)	**(1)**
At the end of the financial year	**2,641**	**15,468**	**2,686**	**335**	**2**	**21,132**
Accumulated depreciation and impairments						
At the beginning of the financial year	1,557	9,319	1,484	–	–	**12,360**
Depreciation charge for the year	73	539	94	–	–	**706**
Disposals	(9)	(39)	(82)	–	–	**(130)**
Transfers and other movements	(1)	1	–	–	–	**–**
At the end of the financial year	**1,620**	**9,820**	**1,496**	**–**	**–**	**12,936**
Net book value at 30 June 2018(3)	**1,021**	**5,648**	**1,190**	**335**	**2**	**8,196**

(1) Plant and equipment additions of (US$4) million (FY17: US$25 million) relate to capitalised closure and rehabilitation amounts as a result of the change in discount rate, refer to note 15 Provisions on page 123.

(2) Refer to note 15 Provisions on page 123.

(3) Plant and equipment includes assets held under finance leases with a net book value of US$629 million (FY17: US$661 million).

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	16	86	265	2	370
Foreign exchange movements in closure and rehabilitation provisions	–	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	1,054	5,900	1,165	252	2	8,373

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 in ‘Overburden removal costs’)

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 Proved and Probable Ore 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. However, where assets are dedicated to a mine or lease and are not readily transferable, the 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 Ore Reserves on a units of production basis
Capitalised exploration, evaluation and development expenditure	– based on Ore Reserves on a units of production basis

12. INTANGIBLE ASSETS

30 June 2018 US$M	Goodwill	Other intangibles	Total
Cost			
At the beginning of the financial year	193	256	**449**
Additions	–	4	**4**
Transfers and other movements	–	1	**1**
At the end of the financial year	**193**	**261**	**454**
Accumulated amortisation and impairments			
At the beginning of the financial year	54	143	**197**
Amortisation charge for the year	–	36	**36**
At the end of the financial year	**54**	**179**	**233**
Net book value at 30 June 2018	**139**	**82**	**221**

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

(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.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

12. INTANGIBLE ASSETS (CONTINUED)

(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.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as Cash generating units (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. Formal impairment tests are carried out annually for CGUs containing goodwill. In addition, formal impairment tests are performed for all other CGUs when there is an indication of impairment. The Group uses internal valuations to assess all of its CGUs for impairment or impairment reversal indicators. For any resultant formal impairment testing, and for CGUs containing goodwill, the Group uses the higher of fair value less cost of disposal (FVLCD) and the value in use (VIU) to assess the recoverable amount. If the carrying value of the CGU exceeds its recoverable amount, the CGU is impaired and an impairment loss is charged to the Consolidated Income Statement.

Previously impaired CGUs are reviewed for possible reversal of a previous impairment at each reporting date. Impairment reversals cannot exceed the carrying value that would have been determined (net of depreciation) had no impairment loss been recognised for the CGU. Goodwill is not subject to impairment reversal.

No impairment or impairment reversal has been recognised for the year ended 30 June 2018 (FY17: nil).

(a) Impairment test for CGUs containing 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	FY18	FY17
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 the FVLCD. The determination of FVLCD was most sensitive to:

- Production volumes
- Aluminium prices
- Foreign exchange rates and
- 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.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

(a) Impairment test for CGUs containing goodwill (continued)

Aluminium prices and foreign 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 foreign exchange rates used in the FVLCD determinations were within the range when compared with the following range of prices published by market commentators:

	FY18	FY17
Aluminium price (US$/tonne)	**1,740 to 2,865**	1,510 to 2,290
Foreign exchange rate (South African rand to US$)	**11.4 to 16.1**	12.2 to 16.0

Discount rate – in determining the FVLCD, a real post-tax discount rate of 8 per cent (FY17: 8 per cent), and a country risk premium of up to 2 per cent (FY17: up to 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 was required. The table below shows the amount by which these key assumptions must change in isolation in order for the estimated recoverable amount to be equal to the carrying amount, 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$/tonne)	decrease of 1%
Foreign exchange rate (South African rand to US$)	strengthening of 2%
Discount rate	increase of 104 basis points

Key estimates, assumptions and judgements

The impairment assessment 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), Ore Reserves, Mineral Resources, 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.

The basis of key estimates and assumptions used in the assessment of impairment indicators are as follows:

Future production	Life of operation plans based on Proved and Probable Ore Reserve estimates, Mineral Resource (excluding Inferred Mineral Resources) 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.
Foreign exchange rates	Observable forward market foreign 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 with life of operation plans 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 and shorter life of operation plans 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 page 106. 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$164 million, US$305 million and US$478 million, respectively. The residual amount of US$89 million relates to South African Energy Coal operating assets allocated to a corporate CGU.

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

13. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Key estimates, assumptions and judgements (continued)

Ore Reserve is the economically mineable part of the Measured and/or Indicated Mineral Resource that can be legally extracted from the Group's properties. In order to estimate Ore Reserves, consideration is required for a range of modifying factors, including mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental. When reporting Ore Reserves, the relevant studies, to at least a pre-feasibility level, must demonstrate that, at the time of reporting, extraction could be reasonably justified. Management will form a view of forecast sales prices, based on current and long-term historical average prices trends.

Estimating the quantity and/or grade of Mineral Resources requires the location, quantity, grade (or quality), continuity and other geological characteristics to be known, estimated or interpreted from specific geological evidence and knowledge, including sampling in order to satisfy the requirement that there are reasonable prospects for eventual economic extraction. This process may require complex and difficult geological assessments to interpret the data.

The Group reports Ore Reserves and Mineral Resources in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition (the JORC Code), and the Australian Securities Exchange Listing Rules Additional reporting on mining and oil and gas production and exploration activities (ASX Listing Rules Chapter 5).

Because the economic assumptions used to estimate the Ore Reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of the Ore Reserves and Mineral Resources 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 the 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	FY18	FY17
Current		
Trade creditors	**743**	697
Other creditors	**87**	153
Total current trade and other payables	**830**	850
Non-current		
Other creditors	**5**	4
Total non-current trade and other payables	**5**	4

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	FY18	FY17
Current			
Employee benefits		**205**	205
Closure and rehabilitation		**80**	91
Other		**75**	87
Total current provisions		**360**	383
Non-current			
Employee benefits		**6**	7
Closure and rehabilitation		**1,592**	1,474
Post-retirement employee benefits	23	**90**	96
Other		**17**	–
Total non-current provisions		**1,705**	1,577

NOTES TO FINANCIAL STATEMENTS – OPERATING ASSETS AND LIABILITIES

15. PROVISIONS (CONTINUED)

30 June 2018 US$M	Employee benefits	Closure and rehabilitation	Post-retirement employee benefits	Other	Total
At the beginning of the financial year	212	1,565	96	87	**1,960**
Charge/(credit) for the year:					
Underlying	208	3	2	79	**292**
Discounting	–	105	–	–	**105**
Change in discount rate	–	3	–	–	**3**
Net interest expense	–	–	10	–	**10**
Exchange rate variations	(8)	(15)	(4)	(2)	**(29)**
Released during the year	(14)	(13)	–	(1)	**(28)**
Amounts capitalised	–	160	–	–	**160**
Foreign exchange amounts capitalised	–	(55)	–	–	**(55)**
Amounts capitalised from change in discount rate	–	4	–	–	**4**
Amounts taken to retained earnings	–	–	(4)	–	**(4)**
Utilisation	(187)	(82)	(9)	(73)	**(351)**
Transfers and other movements	–	(3)	(1)	2	**(2)**
At the end of the financial year	**211**	**1,672**	**90**	**92**	**2,065**

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	–	(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	–	(25)	–	–	(25)
Amounts 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

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-accumulated 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 unwind, 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.

If the risk free rate was decreased by 0.5 per cent, the closure and rehabilitation provision would increase by US$198 million.

(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 page 134.

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	FY18	FY17
Cash	**465**	382
Short-term deposits	**2,505**	2,293
Total cash and cash equivalents(1)(2)	**2,970**	2,675

(1) Cash and cash equivalents include US$18 million (FY17: US$15 million) which is restricted by legal or contractual arrangements.

(2) Cash and cash equivalents include US$321 million (FY17: US$379 million) consisting of short-term deposits and cash managed by the Group on behalf of its equity accounted investments. The corresponding amount payable is included in note 17 Interest bearing liabilities.

17. INTEREST BEARING LIABILITIES

US$M	FY18	FY17
Current		
Finance leases	**12**	11
Unsecured loans from equity accounted investments(1)	**321**	379
Unsecured other	**–**	1
Total current interest bearing liabilities	**333**	391
Non-current		
Finance leases	**558**	602
Unsecured other	**38**	42
Total non-current interest bearing liabilities	**596**	644

(1) Refer to note 16 Cash and cash equivalents and note 32 Related party transactions on page 150.

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.

Reconciliation of movements in liabilities to cash flows arising from financing activities

US$M	Finance leases	Interest bearing liabilities
At the beginning of the financial year	**613**	**422**
Changes from Financing Cash Flows		
Net payment of finance lease liabilities	(11)	–
Net receipt/(repayment) of interest bearing liabilities	–	(62)
Total changes from financing cash flows	**(11)**	**(62)**
The effect of changes in foreign exchange rates	(25)	(1)
Increase/(decrease) in finance leases	(7)	–
Other changes		
Interest expense	52	18
Interest paid	(52)	(18)
At the end of the financial year	**570**	**359**

18. NET FINANCE COST

US$M	FY18	FY17
Finance expenses		
Interest on borrowings	**18**	21
Finance lease interest	**52**	52
Discounting on provisions and other liabilities	**105**	98
Change in discount rate on closure and rehabilitation provisions	**3**	(6)
Net interest expense on post-retirement employee benefits	**10**	9
Fair value change on financial asset	**3**	3
Exchange rate variations on net debt	**(23)**	35
	168	212
Finance income		
Interest income	**68**	41
Net finance cost	**100**	171

Interest income or expense is recognised using the effective interest rate method.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Other financial assets and liabilities

US$M	FY18	FY17
Current assets		
Derivative contracts	**77**	73
Shares – available for sale	**3**	30
Total current other financial assets	**80**	103
Non-current assets		
Derivative contracts	**74**	129
Shares – available for sale	**403**	201
Other investments – available for sale	**136**	135
Total non-current other financial assets	**613**	465
Current liabilities		
Derivative contracts	**2**	–
Total current other financial liabilities	**2**	–

(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, foreign 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.

Interest rate risk

The Group is exposed to interest rate risk on its 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	FY18	FY17
Financial assets		
Cash and cash equivalents	**2,902**	2,600
Trade and other receivables	**43**	219
Derivative contracts	**143**	202
Financial liabilities		
Interest bearing liabilities	**(359)**	(422)
Net exposure	**2,729**	2,599

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 after tax is affected through the impact on floating rate borrowings and investments, as follows:

Increase/ decrease in basis points	Impact on profit after tax US$M FY18	Impact on profit after tax US$M FY17
+100	**19**	19
−100	**(19)**	(19)

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.

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)

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	FY18	FY17
Australian dollar	**(721)**	(840)
Brazilian real	**119**	65
Colombian peso	**(18)**	(21)
South African rand	**14**	119
Canadian dollar	**255**	99
Other	**(1)**	8
Total	**(352)**	(570)

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 after tax and Other Comprehensive Income, net of tax as follows:

30 June 2018 Currency movement US$M	Profit after tax	Other Comprehensive Income, net of tax
10% movement in Australian dollar	**(50)**	**–**
10% movement in Brazilian real	**(1)**	**13**
10% movement in Colombian peso	**(2)**	**–**
10% movement in South African rand	**(13)**	**14**
10% movement in Canadian dollar	**–**	**26**

30 June 2017 Currency movement US$M	Profit after tax	Other Comprehensive Income, net of tax
10% movement in Australian dollar	(59)	–
10% movement in Brazilian real	(4)	10
10% movement in Colombian peso	(2)	–
10% movement in South African rand	(5)	17
10% movement in Canadian dollar	–	10

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 with a commodity price link will change in response to changes in commodity prices. Refer to note 19(b) Accounting classification and fair value on page 130 for the commodity price sensitivity analysis on financial instruments subject to commodity price risk.

Provisionally priced commodity sales and purchases contracts

Provisionally priced sales or purchases volumes are those for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales and purchases arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part of trade receivables or trade payables. The Group's exposure at 30 June 2018 to the impact of movements in commodity prices upon provisionally invoiced sales and purchases volumes was predominantly around nickel, silver, lead and zinc.

The Group had 3.7kt of nickel, 2.2Moz of silver, 18.8kt of lead and 4.9kt of zinc exposure at 30 June 2018 (FY17: 2.9kt of nickel, 2.4Moz of silver, 26.2kt of lead and 4.6kt of zinc) that was provisionally priced. The final price of these sales or purchases will be determined during the first half of FY19. A 10 per cent change in the realised price of these commodities, with all other factors held constant, would increase or decrease profit after tax by US$10 million (FY17: US$10 million). The relationship between commodity prices and foreign currencies is complex and movements in foreign exchange rates can impact commodity prices. The sensitivities should therefore be used with care.

(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 2018 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 2018 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)	822	822	818	3	1
Interest bearing loans and borrowings	359	386	325	24	37
Finance leases	570	1,202	59	240	903
Derivative contracts	2	2	2	–	–
Total	**1,753**	**2,412**	**1,204**	**267**	**941**

(1) Excludes input taxes of US$13 million included in other payables. Refer to note 14 Trade and other payables on page 123.

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 123.

(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:

US$M	FY18	FY17
Neither past due nor impaired	**1,034**	1,030
Past due 1-30 days	**4**	6
Past due 31-90 days	**2**	4
Past due over 91 days	**34**	43
Total	**1,074**	1,083

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 those 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 2018 US$M	Note	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Cash flow hedges[3]	Other financial assets and liabilities at amortised cost	Total
Financial assets							
Cash and cash equivalents	16	2,970	–	–	–	–	**2,970**
Trade and other receivables[1]	9	669	–	87	–	–	**756**
Derivative contracts		–	–	146	5	–	**151**
Loans to equity accounted investments	9	94	–	–	–	–	**94**
Interest bearing loans receivable	9	38	–	–	–	–	**38**
Other investments		–	542	–	–	–	**542**
Total		**3,771**	**542**	**233**	**5**	**–**	**4,551**
Financial liabilities							
Trade and other payables[2]	14	–	–	2	–	820	**822**
Derivative contracts		–	–	2	–	–	**2**
Finance leases	17	–	–	–	–	570	**570**
Unsecured other	17	–	–	–	–	359	**359**
Total		**–**	**–**	**4**	**–**	**1,749**	**1,753**

(1) Excludes input taxes of US$186 million included in other receivables. Refer to note 9 Trade and other receivables on page 116.

(2) Excludes input taxes of US$13 million included in other payables. Refer to note 14 Trade and other payables on page 123.

(3) Represents an arrangement designed to manage foreign exchange rate exposure associated with the purchase consideration for the remaining 83 per cent of the issued and outstanding shares of Arizona Mining Inc. The transaction completed on 10 August 2018, refer to note 34 Subsequent events on page 152.

30 June 2017 US$M	Note	Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Cash flow hedges	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 116.

(2) Excludes input taxes of US$51 million included in other payables. Refer to note 14 Trade and other payables on page 123.

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.

30 June 2018 US$M	Level 1	Level 2	Level 3	Total
Financial assets and liabilities				
Trade and other receivables	–	87	–	**87**
Trade and other payables	–	(2)	–	**(2)**
Derivative contracts	–	6	143	**149**
Shares – available for sale	277	–	129	**406**
Other investments – available for sale	–	136	–	**136**
Total	**277**	**227**	**272**	**776**

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Accounting classification and fair value (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
Shares – available for sale	99	–	132	231
Other investments – available for sale	–	135	–	135
Total	99	208	334	641

Level 3 financial assets and liabilities

US$M	FY18	FY17
At the beginning of the financial year	**334**	161
Disposals recognised in the Consolidated Income Statement(1)	**(31)**	–
Realised gains/(losses) recognised in the Consolidated Income Statement(2)	**(98)**	(61)
Unrealised gains/(losses) recognised in the Consolidated Income Statement(3)	**41**	246
Unrealised gains/(losses) recognised in the Consolidated Statement of Comprehensive Income(4)	**26**	(12)
At the end of the financial year	**272**	334

(1) Refer to note 4(b)(ii) Significant items on page 109.

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

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

(4) Unrealised gains and losses recognised in the Consolidated Statement of Comprehensive Income are recorded in the financial assets reserve.

Sensitivity analysis

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

			Profit after tax		Other Comprehensive Income, net of tax	
30 June 2018 US$M	Carrying amount	Significant inputs	10% increase in input	10% decrease in input	10% increase in input	10% decrease in input
Financial assets and liabilities						
Derivative contracts (1)	143	Aluminium price(2)	(89)	84	–	–
		Foreign exchange rate(2)				
		Electricity price(3)				
Investments – available for sale(1)(4)	129	Alumina price(5)	–	–	41	(52)
		Aluminium price(5)				
		Foreign exchange rate(5)				
Total	**272**		**(89)**	**84**	**41**	**(52)**

(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 after tax.

(5) Alumina and aluminium prices are comparable to market consensus forecasts and foreign exchange rates are aligned with forward market rates.

NOTES TO FINANCIAL STATEMENTS – CAPITAL STRUCTURE AND FINANCING

19. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(b) Accounting classification and fair value (continued)

30 June 2017 US$M	Carrying amount	Significant inputs	Profit after tax 10% increase in input	Profit after tax 10% decrease in input	Other Comprehensive Income, net of tax 10% increase in input	Other Comprehensive Income, net of tax 10% decrease in input
Financial assets and liabilities						
Derivative contracts	202	Aluminium price	(131)	123	–	–
		Foreign exchange rate				
		Electricity price				
Investments – available for sale	132	Alumina price	–	–	51	(55)
		Aluminium price				
		Foreign exchange rate				
Total	334		(131)	123	51	(55)

(c) Offsetting financial assets and liabilities

There was no offsetting of financial assets or financial liabilities during the reporting period (FY17: 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

20. SHARE CAPITAL

	FY18 Shares	FY18 US$M	FY17 Shares	FY17 US$M
Share capital				
At the beginning of the financial year	**5,217,919,888**	**14,747**	5,323,762,901	14,958
Shares bought back and cancelled	**(98,006,113)**	**(254)**	(105,843,013)	(211)
At the end of the financial year	**5,119,913,775**	**14,493**	5,217,919,888	14,747
Treasury shares				
At the beginning of the financial year	**(13,161,908)**	**(26)**	(2,240,000)	(3)
Purchase of shares by ESOP Trusts	**(31,714,442)**	**(84)**	(14,195,000)	(27)
Employee share awards exercised following vesting	**13,984,974**	**27**	3,273,092	4
At the end of the financial year	**(30,891,376)**	**(83)**	(13,161,908)	(26)

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	FY18	FY17
Dividend income	**7**	23
Sale of logistics capacity	**23**	8
Gains/(losses) on sale of property, plant and equipment	**4**	5
Gains/(losses) on sale of investments(1)	**33**	–
Rental income	**3**	2
Electricity sales	**36**	120
Other(2)	**120**	117
Total other income	**226**	275

(1) Includes earnings adjustment of US$31 million (FY17: nil). Refer to note 4(b)(ii) Significant items on page 109.

(2) 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	FY18	FY17
Fees payable to the Group's auditor for assurance services		
Audit and review of financial statements	**4,741**	4,195
Other assurance services(1)	**717**	549
Fees payable to the Group's auditor for all other services		
All other services(2)	**158**	195
Total auditor's remuneration	**5,616**	4,939

(1) Mainly comprises assurance in respect of the Group's sustainability reporting.

(2) Includes consulting services.

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 those described for defined benefit pension schemes.

Key estimates, assumptions and judgements

The Group's accounting policy for defined benefit pension schemes and post-retirement medical 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 pension schemes and post-retirement medical schemes, where relevant, management is required to make annual estimates and assumptions about discount rates, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, foreign exchange rates, life expectancy, medical cost trends, pension increase rates 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.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

The Group operates the following pension and post-retirement medical schemes:

Defined contribution schemes

The Group contributed US$77 million (FY17: US$72 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.

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	FY18	FY17	FY18	FY17
Present value of funded defined benefit obligation	**99**	109	**–**	–
Present value of unfunded defined benefit obligation	**17**	19	**90**	97
Fair value of defined benefit scheme assets	**(117)**	(129)	**–**	–
Scheme (surplus)/deficit	**(1)**	(1)	**90**	97
Unrecognised surplus	**1**	–	**–**	–
Net (asset)/liability recognised in the Consolidated Balance Sheet	**–**	(1)	**90**	97

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 and post-retirement medical scheme in accordance with the latest recommendations of each scheme actuary.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(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	FY18	FY17	FY18	FY17
Current service cost	**2**	3	**–**	–
Net interest (income)/expense on net defined benefit balance	**–**	–	**10**	9
Total expense recognised in the Consolidated Income Statement	**2**	3	**10**	9
– Recognised in employee benefits expense	**2**	3	**–**	–
– Recognised in net finance cost	**–**	–	**10**	9

(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	FY18	FY17	FY18	FY17
Actuarial (gains)/losses	**–**	1	**(5)**	(9)
Change in unrecognised surplus	**1**	–	**–**	–
Total amount recognised in the Consolidated Statement of Comprehensive Income(1)	**1**	1	**(5)**	(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	FY18	FY17	FY18	FY17
Net (asset)/liability at the beginning of the financial year	**(1)**	–	**97**	88
Amount recognised in the Consolidated Income Statement	**2**	3	**10**	9
Amount recognised in the Consolidated Statement of Comprehensive Income	**1**	1	**(5)**	(9)
Disbursements and settlements paid to participants	**–**	–	**(6)**	(5)
Employer contributions	**(3)**	(4)	**–**	–
Foreign exchange (gains)/losses	**2**	(2)	**(6)**	13
Transfer and other movements	**(1)**	1	**–**	1
Net (asset)/liability at the end of the financial year	**–**	(1)	**90**	97

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(d) Movements in net asset/liability (continued)

The change in the present value of the defined benefit liability is as follows:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	FY18	FY17	FY18	FY17
Defined benefit liability at the beginning of the financial year	**128**	125	**97**	88
Current service cost	**2**	3	**–**	–
Interest cost	**10**	10	**10**	9
Actuarial (gains)/losses due to experience	**–**	3	**–**	2
Actuarial (gains)/losses due to demographic assumptions	**–**	–	**–**	(1)
Actuarial (gains)/losses due to changes in financial assumptions	**(4)**	(2)	**(5)**	(10)
Benefits paid to participants	**(12)**	(18)	**(6)**	(5)
Foreign exchange (gains)/losses	**(7)**	6	**(6)**	13
Transfer and other movements	**(1)**	1	**–**	1
Defined benefit liability at the end of the financial year	**116**	128	**90**	97

Weighted average maturity profile of schemes:

	Defined benefit pension schemes		Post-retirement medical schemes	
US$M	FY18	FY17	FY18	FY17
Weighted average duration of defined benefit obligation (years)	**9**	9	**12**	12

The change in the fair value of scheme assets is as follows:

	Defined benefit pension schemes	
US$M	FY18	FY17
Fair value of scheme assets at the beginning of the financial year	**129**	125
Interest income on scheme assets	**10**	10
Return on scheme assets (less)/greater than the discount rate	**(4)**	–
Employer contributions	**3**	4
Benefits paid to participants	**(12)**	(18)
Foreign exchange gains/(losses)	**(9)**	8
Fair value of scheme assets at the end of the financial year	**117**	129

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(e) Plan assets

The fair value of scheme assets by major asset class is as follows:

Asset class US$M	Fair value FY18	 FY17
Bonds[(1)]	**51**	67
Equities	**11**	12
Cash and cash equivalents	**7**	4
Other[(2)]	**48**	46
Total	**117**	129

(1) Comprises Fixed Interest Government bonds of US$16 million (FY17: US$7 million), Index Linked Government bonds of US$27 million (FY17: US$60 million) and Corporate bonds of US$8 million (FY17: nil).

(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.

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 2019	**1**	**–**
Estimated benefits paid to participants directly by the employer for the year ending 30 June 2019	**2**	**6**

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

23. PENSION AND OTHER POST-RETIREMENT OBLIGATIONS (CONTINUED)

(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	
%	FY18	FY17	FY18	FY17	FY18	FY17
Discount rate	**3.9**	3.9	**9.9**	9.8	**8.4**	9.2
Pension increase rate	**n/a**	n/a	**6.7**	7.3	**4.0**	5.2
Future salary increases	**2.8**	2.5	**7.7**	8.3	**5.5**	5.5

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for post-retirement medical schemes are as follows:

	South Africa	
%	FY18	FY17
Discount rate	**9.9**	10.1
Medical cost trend rate (ultimate)	**8.2**	8.9

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: male employees in South Africa 19.7 (FY17: 19.5), female employees in South Africa 24.1 (FY17: 24.0).

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%	(9)	(9)
Decrease of 1%	11	11
Future salary increases		
Increase of 1%	2	n/a
Decrease of 1%	(2)	n/a
Mortality		
Increase in life expectancy at age 65 of 1 year	2	3
Decrease in life expectancy at age 65 of 1 year	(2)	(3)
Medical cost trend rate (initial and ultimate)		
Increase of 1%	n/a	11
Decrease of 1%	n/a	(9)
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	FY18	FY17
Employee share awards reserve		
At the beginning of the financial year	**57**	25
Accrued employee entitlements for unexercised awards	**45**	37
Share awards vested and transferred to retained earnings	**(14)**	(5)
At the end of the financial year	**88**	57
Financial assets reserve		
At the beginning of the financial year	**30**	10
Net valuation (gains)/losses on available for sale investments transferred to the Consolidated Income Statement	**(33)**	–
Net valuation gains/(losses) on available for sale investments recognised in equity	**170**	19
Deferred tax relating to revaluation gains and losses	**(3)**	1
At the end of the financial year	**164**	30
Other reserves		
At the beginning of the financial year	**(3,590)**	(3,590)
Cash flow hedge gains/(losses) recognised in equity	**5**	–
At the end of the financial year	**(3,585)**	(3,590)
Total reserves	**(3,333)**	(3,503)

(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 vested.

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 gains/(losses) on disposal of entities as part of the Group's Demerger.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS

At 30 June 2018, the Group had the following employee share ownership arrangements:

- Awards granted to Lead Team members on 4 December 2015, 2 December 2016 or 13 December 2017:
  - the FY16 Long-Term Incentive Plan
  - the FY17 Long-Term Incentive Plan
  - the FY18 Long-Term Incentive Plan
  - the FY15 Deferred Short-Term Incentive Plan
  - the FY16 Deferred Short-Term Incentive Plan
  - the FY17 Deferred Short-Term Incentive Plan
  - the FY16 Executive Transitional Award Plan
  - the FY17 Executive Transitional Award Plan
  - the FY18 Executive Transitional Award Plan
- Awards granted to eligible employees on 30 October 2015, 13 May 2016, 17 November 2016, 28 April 2017, 13 November 2017 or 7 May 2018:
  - the FY16 Management Share Plan
  - the FY17 Management Share Plan
  - the FY18 Management Share Plan
  - the 2015 AllShare Plan
  - the 2016 AllShare Plan
  - the 2017 AllShare Plan
  - the FY16 Advance Award Plan
  - the FY16 Management Transitional Award Plan
  - the FY17 Management Transitional Award Plan
  - the FY18 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 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 and/or service conditions being met. A portion of the 2015, 2016 and 2017 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. Employees in Africa 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 indicies 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 IHS Markit (formerly 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 indicies 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, FY17 and FY18 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, 1 July 2016 to 30 June 2020 and 1 July 2017 to 30 June 2021 respectively.

FY16 and FY17 Deferred Short-Term Incentive Plan

The FY16 and FY17 Deferred Short-Term Incentive Plan is Group's short-term incentive plan for Lead Team members. Awards vest in August 2018 and August 2019 respectively provided participants remain employed by the Group.

FY16, FY17 and FY18 Management Share Plan

The FY16, FY17 and FY18 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, August 2019 and August 2020 provided participants remain employed by the Group
- Performance Rights vesting in August 2019, August 2020 and August 2021 subject to performance conditions

2015, 2016 and 2017 AllShare Plan

The 2015, 2016 and 2017 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, August 2019 and August 2020
- Participants elsewhere: August 2018 and August 2019

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

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 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.

FY16, FY17 and FY18 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. The FY18 Executive Transitional Award Plan is a one-off grant made to two Lead Team members 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 2017 to 30 June 2020.

FY16, FY17 and FY18 Management Transitional Award Plan

The FY16, FY17 and FY18 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. Transitional awards will be made for a maximum of five years until FY20. The FY16, FY17 and FY18 Management Transitional Award Plans have the same conditions as the FY16, FY17 and FY18 Management Share Plan and comprises both service and performance conditions.

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.

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 the Group’s outcomes, and (3) the participant's personal performance.

(b) Employee Share Ownership Plan Trusts

The South32 Limited Employee Incentive Plans Trust (the Australian Trust) and the South32 South African AllShare Trust (the South African Trust) are discretionary trusts for the benefit of employees of South32 Limited and its subsidiaries.

The trustee for the Australian Trust (CPU Share Plans Pty Ltd) is an independent company, resident in Australia. The trustee for the South African Trust is made up of employer and employee representatives per the B-BBEE requirements under South African law. 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 plans.

The shares may be acquired by purchase in the market or by subscription at no 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.

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 and
- 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 volatility
- Expected dividends and
- Risk-free interest rate

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

25. EMPLOYEE SHARE OWNERSHIP PLANS (CONTINUED)

(c) Measurement of fair values (continued)

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 2018	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					
FY18 Long-Term Incentive Plan(3)	1.33	2.39	35.00	4.00	2.07
FY17 Deferred Short-Term Incentive Plan(3)	2.27	2.39	35.00	2.00	1.91
FY18 Management Share Plan – Retention Rights(4)	2.35 – 2.40	2.54 – 2.57	35.00	3.00	1.94 – 8.40
FY18 Management Share Plan – Performance Rights(4)	1.53 – 2.02	2.54 – 2.57	35.00	4.00	2.04 – 8.60
2017 AllShare Plan(4)	2.47 – 2.58	2.54 – 2.57	35.00	2.00 – 3.00	1.73 – 8.40
Transitional plans					
FY18 Executive Transitional Award Plan(3)	1.34	2.39	35.00	3.00	1.98
FY18 Management Transitional Award Plan(4)(5)	1.53 – 2.40	2.54 – 2.57	35.00	3.00 – 4.00	1.94 – 8.60

(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. The risk-free rate and expected volatility does not materially impact service based awards.

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

(3) Grant date 13 December 2017.

(4) Grant date 13 November 2017 or 7 May 2018.

(5) The range for performance based awards is 2.04 per cent – 8.60 per cent.

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.

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 2018.

Year ended 30 June 2018	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	–	–	(588,163)	6,632,568
FY17 Long-Term Incentive Plan	8,839,503	–	–	(993,886)	7,845,617
FY18 Long-Term Incentive Plan	–	5,766,758	–	–	5,766,758
FY15 Deferred Short-Term Incentive Plan	2,415,867	–	(2,415,867)	–	–
FY16 Deferred Short-Term Incentive Plan	1,319,339	–	(260,790)	–	1,058,549
FY17 Deferred Short-Term Incentive Plan	–	796,267	–	–	796,267
FY16 Management Share Plan – Retention Rights	4,078,871	–	(493,211)	(144,761)	3,440,899
FY16 Management Share Plan – Performance Rights	10,903,316	–	–	(563,732)	10,339,584
FY17 Management Share Plan – Retention Rights	5,148,476	17,086[1]	(317,214)	(344,756)	4,503,592
FY17 Management Share Plan – Performance Rights	12,613,782	41,100[1]	–	(998,168)	11,656,714
FY18 Management Share Plan – Retention Rights	–	3,143,800	(56,927)	(124,650)	2,962,223
FY18 Management Share Plan – Performance Rights	–	7,804,870	–	(333,879)	7,470,991
2015 AllShare Plan	15,103,800	–	(5,901,600)	(350,400)	8,851,800
2016 AllShare Plan	9,370,080	–	(226,080)	(335,520)	8,808,480
2017 AllShare Plan	–	6,813,600	(125,460)	(135,660)	6,552,480
Transitional plans					
FY16 Executive Transitional Award Plan	1,423,506	–	–	(177,817)	1,245,689
FY16 Advance Award Plan	10,901,381	–	(307,916)	(361,896)	10,231,569
FY16 Management Transitional Award Plan	3,907,940	–	(99,728)	(192,738)	3,615,474
FY15 Deferred Shares Plan	3,234,420	–	(3,234,420)	–	–
FY15 MAP Replacement Plan	66,427	–	(66,427)	–	–
Replacement BHP Long-Term Incentive Plan	7,286,350	–	(478,299)	(1,054,571)	5,753,480
Replacement BHP Management Award Plan	344,662	–	(344,662)	–	–
Replacement BHP Transitional Award Plan	218,845	–	(175,076)	(43,769)	–
FY15 Transitional Award Plan	1,077,494	–	(457,934)	(80,813)	538,747
FY17 Executive Transitional Award Plan	239,197	–	–	–	239,197
FY17 Management Transitional Award Plan	2,749,692	–	(42,201)	(264,910)	2,442,581
FY18 Executive Transitional Award Plan	–	245,840	–	–	245,840
FY18 Management Transitional Award Plan	–	1,237,184	(3,772)	(92,939)	1,140,473
Total awards	**108,463,679**	**25,866,505**	**(15,007,584)**	**(7,183,028)**	**112,139,572**

(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 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	(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	(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

26. CONTINGENT LIABILITIES

Contingent liabilities not otherwise provided for in the consolidated financial statements are categorised as arising from:

US$M	FY18	FY17
Subsidiaries and joint operations		
Actual or potential litigation	**522**	282
Total contingent liabilities	**522**	282

Prior to Demerger, the Group entered into a Separation Deed with the BHP Group which deals with matters arising in connection with the Demerger. 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. Actual or potential litigation excludes amounts indemnified by the BHP Group, as per the Separation Deed.

The actual or potential litigation primarily relates to numerous tax assessments or matters relating to transactions in prior years in Colombia and Brazil. 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 disclosed. On 11 April 2018, a Court decision found Cerro Matoso SA (CMSA) liable for several Orders relating to alleged health and environmental impacts on certain nearby communities (Claimant Group). CMSA is appealing to the Court to annul the relevant Orders and expects a decision shortly. At this stage, it is not possible to reliably estimate the overall financial or operational impact of the Orders as they require consultation with the Claimant Group. In response, compensation claims have been initiated by the Group with the Colombian government. Once a reliable estimate can be determined for liability recognition, a corresponding contingent asset amount would likely be disclosed.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

27. COMMITMENTS

US$M	FY18	FY17
Capital expenditure commitments	**193**	42
Lease expenditure commitments		
Finance leases		
Within one year	**59**	62
After one year but not more than five years	**240**	260
More than five years	**903**	1,000
Total minimum lease payments under finance leases	**1,202**	1,322
Less amounts representing finance charges	**(632)**	(709)
Finance lease liability	**570**	613
Operating leases		
Within one year	**48**	41
After one year but not more than five years	**94**	96
More than five years	**26**	26
Total commitments for operating leases	**168**	163

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.

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 FY18 %	Effective interest FY17 %
Cerro Matoso SA	Colombia	Ferronickel mining and 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	**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.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

28. SUBSIDIARIES (CONTINUED)

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.

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:

Significant joint ventures	Country of incorporation/ principal place of business	Principal activity	Reporting date	Acquisition date	Ownership interest FY18 %	Ownership interest FY17 %
Australia Manganese(1)(2)	Australia	Integrated producer of manganese ore and alloy	30 June 2018	8 May 2015	**60**	60
South Africa Manganese(1)(3)	South Africa	Integrated producer of manganese ore and alloy	30 June 2018	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 Proprietary Limited.

A reconciliation of the carrying amount of the equity accounted investments is set out below.

Investment in joint ventures US$M	FY18	FY17
At the beginning of the financial year	**569**	570
Investment in equity accounted investments	**–**	21
Distribution from equity accounted investments	**–**	(22)
Share of profit/(loss)	**521**	312
Other Comprehensive Income/(loss)	**1**	1
Dividends received from equity accounted investments	**(394)**	(313)
At the end of the financial year	**697**	569

Share of profit/(loss) of equity accounted investments US$M	FY18	FY17
Australia Manganese and South Africa Manganese	**503**	287
Individually immaterial(1)	**18**	25
Total(2)	**521**	312

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Samancor Marketing Pte Ltd (60 per cent), Richards Bay Coal Terminal Proprietary Limited (21.1 per cent) and Port Kembla Coal Terminal Limited (16.7 per cent).

(2) Includes Underlying earnings adjustment of (US$30) million (FY17: US$8 million). Refer to note 4(b)(i) Earnings adjustments on page 109.

Carrying amount of equity accounted investments US$M	FY18	FY17
Australia Manganese and South Africa Manganese	**583**	413
Individually immaterial(1)	**114**	156
Total	**697**	569

(1) Individually immaterial consists of investments in Samancor AG (60 per cent), Samancor Marketing Pte Ltd (60 per cent), Richards Bay Coal Terminal Proprietary Limited (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	FY18		FY17	
Reconciliation of carrying amount of equity accounted investments				
Current assets	339	349	380	238
Non-current assets	742	664	735	688
Current liabilities	(295)	(132)	(267)	(107)
Non-current liabilities	(336)	(288)	(590)	(341)
Net assets – 100%	**450**	**593**	258	478
Net assets – the Group share	270	318	155	262
Elimination of gains/(losses) on intragroup sales	(1)	(4)	(2)	(2)
Carrying amount of equity accounted investments	**269**	**314**	153	260
Reconciliation of share of profit/(loss) of equity accounted investments				
Revenue – 100%	1,730	771	1,307	590
Profit/(loss) after tax – 100%	603	235	399	80
Profit/(loss) after tax – the Group share	362	142	240	49
Elimination of gains/(losses) on intragroup sales	1	(2)	(2)	–
Share of profit/(loss) of equity accounted investments	**363**	**140**	238	49
Other balances of equity accounted investments presented on a 100% basis				
Cash and cash equivalents	**–**	**13**	–	13
Current financial liabilities (excluding trade and other payables and provisions)	**–**	**(1)**	–	(5)
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	**(76)**	(280)	(94)
Depreciation and amortisation	**(94)**	**(42)**	(87)	(44)
Interest income	**2**	**6**	1	5
Interest expense	**(24)**	**(18)**	(24)	(33)
Income tax (expense)/benefit (excluding royalty related tax)	**(295)**	**(41)**	(231)	(38)

(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.

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	FY18	FY17
Share of contingent liabilities relating to joint ventures	**5**	–
Share of commitments relating to joint ventures(1)(2)	**24**	12
Total	**29**	12

(1) Australia Manganese: Commitments with a maturity of less than a year includes capital commitments of US$13 million (FY17: US$7 million). Commitments with a maturity of 1 to 5 years includes operating leases of US$1 million (FY17: nil). Commitments with a maturity of greater than five years includes operating leases of US$2 million (FY17: nil).

(2) South Africa Manganese: Commitments with a maturity of less than a year includes capital commitments of US$8 million (FY17: US$3 million) and finance leases of nil (FY17: 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'.

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	FY18 %	FY17 %
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 certain matters and are entitled to receive output from the arrangement.

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.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

31. KEY MANAGEMENT PERSONNEL

(a) Key management personnel compensation

US$'000	FY18	FY17
Short-term employee benefits	**6,806**	7,334
Post-employment benefits	**219**	129
Other long-term benefits	**305**	306
Share-based payments	**6,961**	7,761
Total	**14,291**	15,530

(b) Transactions with key management personnel

There were no transactions with key management personnel during the year ended 30 June 2018 (FY17: nil).

(c) Loans to key management personnel

There were no loans with key management personnel during the financial year and as at 30 June 2018 (FY17: 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 2018 (FY17: nil).

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 146.

(c) Joint ventures

The percentage interest held in significant joint ventures is disclosed in note 29 Equity accounted investments on page 147.

(d) Joint operations

The percentage interest held in significant joint operations is disclosed in note 30 Interests in joint operations on page 149.

(e) Associates

The percentage interest held in associates is disclosed in note 29 Equity accounted investments on page 147.

(f) Key management personnel

Disclosures relating to key management personnel are set out in note 31 Key management personnel on page 150.

(g) Transactions with related parties

Transactions with related parties

	Joint ventures		Associates	
US$'000	FY18	FY17	FY18	FY17
Sales of goods and services	**207,560**	165,455	**2,851**	2,920
Purchases of goods and services	**–**	–	**54,101**	66,289
Interest income	**4,864**	6,902	**–**	–
Dividend income	**393,635**	313,180	**–**	–
Interest expense	**8,585**	6,522	**–**	–
Short-term financing arrangements to/(from) related parties	**58,250**	(110,347)	**–**	–
Loans made to/(from) related parties	**(168,817)**	(131,175)	**15,866**	29,812

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Transactions with related parties (continued)

Outstanding balances with related parties

	Joint ventures		Associates	
US$'000	FY18	FY17	FY18	FY17
Trade amounts owing to related parties	**–**	–	**607**	3,219
Other amounts owing to related parties[(1)]	**321,223**	379,473	**–**	–
Trade amounts owing from related parties	**61,980**	35,987	**–**	–
Other amounts owing from related parties	**–**	218	**4,453**	–
Loan amounts owing from related parties[(2)]	**8**	168,825	**93,539**	82,126

(1) Amount owing relates to short-term deposits and cash managed by the Group on behalf of its equity accounted investments. Interest is paid based on the three month LIBOR and the one month JIBAR.

(2) Amounts owing from associates include loans to Port Kembla Coal Terminal Limited. An interest free loan repayable by 30 June 2030 and an interest bearing loan repayable by 30 June 2020. Interest is paid based on the BBSY and is secured against other shareholders of the associates.

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.

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	FY18	FY17
Result of the parent entity		
Profit/(loss) after tax for the year	**1,302**	1,376
Total Comprehensive Income	**1,302**	1,376
Financial position of the parent entity at year end		
Current assets	**1,231**	1,210
Total assets	**11,764**	11,533
Current liabilities	**108**	168
Total liabilities	**113**	182
Net assets	**11,651**	11,351
Total equity of the parent entity comprising		
Share capital	**14,493**	14,747
Treasury shares	**(83)**	(26)
Other reserves	**68**	37
Profit reserve[(1)]	**1,726**	1,132
Retained earnings/(accumulated losses)	**(4,553)**	(4,539)
Total equity	**11,651**	11,351

(1) Current and prior years profits, net of dividends paid, have been appropriated to a profits reserve for future dividend payments.

NOTES TO FINANCIAL STATEMENTS – OTHER NOTES

33. PARENT ENTITY INFORMATION (CONTINUED)

(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 2018.

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 2018 (FY17: nil).

(d) Commitments

The parent entity did not have any contractual commitments for the acquisition of property, plant and equipment at 30 June 2018 (FY17: nil).

34. SUBSEQUENT EVENTS

On 23 August 2018, the Directors resolved to pay a fully franked final dividend of US 6.2 cents per share (US$317 million) in respect of the 2018 financial year. The dividend will be paid on 11 October 2018. The dividend has not been provided for in the consolidated financial statements and will be recognised in the 2019 financial year.

On 10 August 2018, the Group completed its acquisition of the remaining 83 per cent of issued and outstanding shares of Arizona Mining Inc. that it did not already own via a plan of arrangement.

The transaction was completed for a total consideration of US$1.3 billion via a fully funded, all cash offer at CAD 6.20 per share. With the acquisition now complete, Arizona Mining's shares have ceased trading on the Toronto Stock Exchange (TSX) and were delisted from the TSX on 10 August 2018. The acquisition will be treated as an acquisition of assets as it involves the acquisition of exploration licences and some exploration surface facilities.

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 97 to 152 and the Remuneration Report in section 6 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 2018 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 2018.
3. The Directors draw attention to note 2 to the financial statements on page 103, 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

Dated 6 September 2018

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

To the Directors of South32 Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of South32 Limited for the financial year ended 30 June 2018 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.

KPMG

Denise McComish
Partner

Perth
6 September 2018

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 2018 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 2018
- 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 risks

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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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INDEPENDENT AUDITOR'S REPORT

Asset valuation

Refer to Note 13 Impairment of non-financial assets of the Financial Report. As at 30 June 2018, the Group's Balance Sheet included property, plant and equipment (PPE) of US$8,196m, intangible assets of US$221m, and equity accounted investments (EAI) of US$697m, which have been assessed for impairment purposes as cash generating units (CGUs).

The key audit matter

The assessment of the existence of impairment indicators, and any resultant impairment testing, in respect 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 or reversal 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, allocation 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. Manganese, thermal coal and alumina have experienced significant volatility in forecast short and long-run commodity prices. The Group is also subject to 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, which 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, which 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.

How the matter was addressed in our audit

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 CGUs, including:

- commodity prices
- capital expenditure
- production and sales volumes
- operating cash flows
- foreign exchange rates
- discount rates.

With our modelling specialists, we assessed the integrity and consistency of the models on a sample basis, including the accuracy of the underlying calculations.

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 historical accuracy of the Group's 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 commodity prices, discount rates and foreign exchange rates to publicly available data for comparable entities or 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 an observable range, to identify those CGUs with impairment or reversal indicators for 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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INDEPENDENT AUDITOR'S REPORT

Closure and rehabilitation provision

Refer to Note 15 Provisions of the Financial Report. As at 30 June 2018 the Group's Balance Sheet included current and non-current closure and rehabilitation provisions of US$1,672m.

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 at which 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 and risk adjustments ▪ 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 planned activities 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, risk adjustments, and underlying documentation; and against our knowledge of the Group, its industry and significant changes in 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 risks

Refer to Note 6 Tax and Note 26 Contingent Liabilities of the Financial Report. As at 30 June 2018, the Group's Balance Sheet included current tax assets of US$8m, deferred tax assets of US$245m, current tax payables of US$135m, deferred tax liabilities of US$445m and the Notes disclosed contingent liabilities of US$522m which includes tax-related exposures.

The key audit matter	How the matter was addressed in our audit
Tax risks were 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. It 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 were 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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INDEPENDENT AUDITOR'S REPORT

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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 and Company or to cease operations, or have no realistic alternative but to do so.

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 the 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: *https://www.auasb.gov.au/auditors_responsibilities/ar1.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 2018, 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 90 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

DMcComish

Denise McComish
Partner

Perth
6 September 2018

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 in South32 Limited, 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 10 August 2018, South32 Limited has three substantial shareholders who, together with their associates, hold five per cent or more of the voting rights in South32 Limited, 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	9 October 2017	419,327,939(1)	8.06%
Schroder	13 February 2018	325,687,668	6.29%
The Vanguard Group	5 June 2018	256,669,781	5.01%

(1) The number of shares includes 204 American Depositary Shares, representing an interest in 1,020 ordinary shares in South32 Limited.

DISTRIBUTION OF SHAREHOLDINGS AND NUMBER OF SHAREHOLDERS

The following table shows the distribution of South32 Limited shareholders by size of shareholding and number of shares as at 10 August 2018.

Size of holding	Number of shareholders	Number of shares	Percentage of capital
1 – 1,000	148,910	73,053,613	1.43
1,001 – 5,000	92,939	214,821,991	4.20
5,001 – 10,000	19,943	143,876,528	2.81
10,001 – 100,000	16,825	375,327,371	7.33
100,001 and over	545	4,312,834,272	84.23
Total	**279,162**	**5,119,913,775**	**100.00**

DISTRIBUTION OF RIGHTS HOLDINGS AND NUMBER OF RIGHTS HOLDERS

The following table shows the distribution of rights holders in South32 Limited by size of rights holding and number of rights as at 10 August 2018.

Size of holding	Number of rights holders	Number of rights
1 – 1,000	692	363,840
1,001 – 5,000	12,117	23,709,001
5,001 – 10,000	3	27,017
10,001 – 100,000	94	4,876,058
100,001 and over	143	82,167,825
Total	**13,049**	**111,143,741**

20 LARGEST SHAREHOLDERS IN SOUTH32 LIMITED

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 10 August 2018.

	Name	Number of fully paid shares	Percentage of capital
1	HSBC Custody Nominees (Australia) Limited	1,506,078,823	29.42
2	J P Morgan Nominees Australia Limited	947,442,488	18.51
3	Computershare Clearing Pty Ltd <Ccnl Di A/C>	498,084,613	9.73
4	Citicorp Nominees Pty Ltd	364,834,607	7.13
5	South Africa Control A/C\C	224,288,480	4.38
6	National Nominees Limited	120,864,513	2.36
7	HSBC Custody Nominees (Australia) Limited – A/C 2	93,241,868	1.82
8	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	86,470,701	1.69
9	Citicorp Nominees Pty Limited <Citibank NY Adr DEP A/C>	75,848,860	1.48
10	BNP Paribas Noms Pty Ltd <DRP>	52,639,248	1.03
11	National Nominees Limited <N A/C>	25,720,635	0.50
12	CPU Share Plans Pty Ltd <S32 ASP Unallocated A/C>	25,212,324	0.49
13	HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	23,655,611	0.46
14	AMP Life Limited	17,299,763	0.34
15	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	15,925,184	0.31
16	Australian Foundation Investment Company Limited	13,990,941	0.27
17	HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	13,313,845	0.26
18	HSBC Custody Nominees (Australia) Limited-GSCO ECA	8,775,134	0.17
19	BNP Paribas Noms Pty Ltd <Arbitrage SNC DRP>	7,784,006	0.15
20	Argo Investments Limited	7,265,004	0.14

RESTRICTED AND ESCROWED SECURITIES

As at 10 August 2018, 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 10 August 2018, there were 11,159 shareholders on the Australian South32 Limited register holding less than a marketable parcel (A$500) based on the closing market price of A$3.63.

ON-MARKET PURCHASES OF SOUTH32 LIMITED SECURITIES FOR EMPLOYEE INCENTIVE PLANS

The Group purchases South32 Limited ordinary shares on-market on behalf of the ESOP Trusts for the purposes of the South32 Equity Incentive Plans. During FY18, 22,640,000 shares were purchased on-market for the Australian ESOP Trust. The average price at which the shares were purchased was A$3.42.

A further 9,074,442 shares were purchased on-market for the South African ESOP Trust. The average price for which the shares were purchased was ZAR34.04.

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 its 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 of South32 Limited 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 of South32 Limited 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*

BREAKTHROUGH 3

CAPITAL MANAGEMENT PROGRAM

South32 has announced a capital management program of up to US$1 billion, comprised of a US$845 million on-market share buy-back and a special dividend of US$155 million in respect of the 2018 half year.

This capital management program complements the Group's dividend policy, having commenced as a US$500 million on-market share buy-back in Australia. The buy-back was initially announced on 27 March 2017 and purchasing commenced on 19 April 2017.

On 24 August 2017, we announced our intention to increase the capital management program to $750 million. We subsequently announced, on 2 February 2018, a special dividend of US$155 million and a further increase of the on-market buy-back to US$845 million, together bringing the expanded capital management program to US$1 billion.

During the year ended 30 June 2018, South32 Limited purchased 98,006,113 shares under the on-market share buy-back, which represented 1.88 per cent of share capital at the beginning of the financial year. The total consideration paid for the shares bought back during the year ended 30 June 2018 is US$254 million.

Between 19 April 2017 and 30 June 2018, South32 Limited purchased a total of 203,849,126 shares under the on-market share buy-back, which represented 3.83 per cent of share capital at commencement of the program. The total consideration paid for the shares bought back up to 30 June 2018 is US$465 million.

All of the shares purchased by South32 Limited in the on-market share buy-back have been cancelled. From 30 June 2018, South32 has observed a blackout period in accordance with its Securities Dealing Policy. As at 10 August 2018 the blackout remained in place and no further shares had been purchased. The on-market buy-back program is expected to be completed by 10 April 2019.

ANNUAL GENERAL MEETING (AGM)

Our AGM will be held on Thursday 25 October 2018 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 10 August 2018, 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 Limited 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 AND ABBREVIATIONS

GLOSSARY OF TERMS AND ABBREVIATIONS

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', 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
The lowest grade, or quality, of mineralised material that qualifies as economically mineable and available in a given deposit. May be defined on the basis of economic evaluation, or on physical or chemical attributes that define an acceptable product specification (JORC Code).

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
Any physical or chemical measurement of the characteristics of the material of interest in samples or product (JORC Code).

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 (JORC Code).

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 Code).

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 2012 Edition prepared by the JORC.

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 (JORC Code).

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 (JORC Code).

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 (JORC Code).

Mineral Resource
A concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or 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. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories (JORC Code).

Mineralisation
Any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest (JORC Code).

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 (JORC Code).

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 (JORC Code).

Proved Ore Reserves
The economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors (JORC Code).

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 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 percentage of material of interest that is extracted during mining and/or processing. A measure of mining or processing efficiency (JORC Code).

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 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.

AEL
Atmospheric Emissions Licence.

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 Australia.

B-BBEE
Broad-Based Black Economic Empowerment.

BHP
The group of companies headed by, and including, BHP Billiton Ltd and BHP Billiton plc.

Black People
Refers to 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)).

BRL
Brazilian Real being the currency of Brazil.

Board
The Board of Directors of South32 Limited.

BUSA
Business Unity South Africa.

CAD/C$
Canadian dollars being the currency of Canada.

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 Plans.

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 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 IASB.

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.

Lead Team
Members of Executive Management.

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, 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.

Operational Leadership Teams
South32 leaders who are based at an operation and report directly into a member of the Senior Leadership Team (excludes functional roles).

Our values
Our values of care, togetherness, trust and excellence govern how we act, how we speak to each other and how we evaluate our own behaviour. They guide us and are part of every decision we make.

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

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 Group's Underlying effective tax rate, divided by the sum of fixed assets (excluding any rehabilitation asset and impairments) and inventories.

Senior Leadership Team
South32 leaders who report directly to the Lead Team.

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.

TCFD
Task Force on Climate-related Financial Disclosures.

The way we work
Together, we will create an inclusive workplace where we hold ourselves and each other to account to demonstrate our values of care, trust, togetherness and excellence.

Where we ensure all work is well designed and reliably delivers safe outcomes, with a focus on continuously improving and learning.

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 for employees and contractors. 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 before net finance costs, tax and after any earnings adjustment items, including impairments, impacting profit. 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 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

CORPORATE DIRECTORY

GROUP HEADQUARTERS (REGISTERED OFFICE)
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COMPANY SECRETARIES
Nicole Duncan
Melanie Williams

SOUTH32