BHP BILLITON LTD
Form 6-K
March 19, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

March 19, 2015

BHP BILLITON LIMITED	**BHP BILLITON PLC**
(ABN 49 004 028 077) **(Exact name of Registrant as specified in its charter)**	**(REG. NO. 3196209)** **(Exact name of Registrant as specified in its charter)**
VICTORIA, AUSTRALIA	**ENGLAND AND WALES**

(Jurisdiction of incorporation or organisation)	**(Jurisdiction of incorporation or organisation)**
171 COLLINS STREET, MELBOURNE,	**NEATHOUSE PLACE, VICTORIA, LONDON,**
VICTORIA 3000 AUSTRALIA **(Address of principal executive offices)**	**UNITED KINGDOM** **(Address of principal executive offices)**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

x Form 20-F ¨ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

¨ Yes x No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

Table of Contents

Table of Contents

This document (the **South32 Listing Document**), which comprises a prospectus relating to South32 Limited (**South32** or the **Company**), prepared in accordance with the UKLA Prospectus Rules made under section 73A of FSMA, has been approved by the Financial Conduct Authority in accordance with section 87A of FSMA and has been made available to the public in accordance with Rule 3.2 of the UKLA Prospectus Rules. This document has been prepared in connection with the admission of the South32 Shares to the Official List and to trading on the London Stock Exchange. It is proposed that United Kingdom Admission will take place shortly after the demerger of South32 becomes effective.

South32 and the South32 Directors, whose names appear in Section 8.1(a) of this document, accept responsibility for the information contained in this document, (the liability of South32 and the South32 Directors being subject to certain indemnities BHP Billiton Limited has agreed to provide South32 as described in section 14.4 of this document).

BHP Billiton Limited accepts responsibility for the information contained in this document save for the information contained in Sections 5.2, 5.3, 5.5, 7.7, 8.1 to 8.6 and 8.8 (as well as information included in other sections of this document which substantially replicates, derives from or summarises the information referred to these sections).

To the best of the knowledge of South32, BHP Billiton Limited and the South32 Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

Application will be made to the FCA for all of the issued and to be issued shares of South32 to be admitted to the standard listing segment of the Official List and to the London Stock Exchange for the South32 Shares to be admitted to trading on the London Stock Exchange s main market for listed securities, which together will constitute official listing on a stock exchange under the UKLA Listing Rules (together, the **United Kingdom Admission**). It is expected that, subject to completion of the Demerger, the United Kingdom Admission will become effective and that dealings on the London Stock Exchange in the South32 Shares will commence at 8.00 a.m. (London time) on 26 May 2015 (ISIN: AU000000S320). Conditional dealings in the South32 Shares are expected to commence on the London Stock Exchange on 18 May 2015. Dealings on the London Stock Exchange before United Kingdom Admission will only be settled if United Kingdom Admission takes place. All dealings before the commencement of unconditional dealings will be on a when issued basis and will be of no effect if United Kingdom Admission does not take place and such dealings will be at the sole risk of the parties concerned.

Application will also be made to the ASX for quotation of the South32 Shares (the **ASX Admission**). It is expected, subject to completion of the Demerger, that the ASX Admission will become effective and that deferred settlement trading on the ASX of the South32 Shares will commence at midday (AEST) on 18 May 2015. Application will also be made to the JSE for the South32 Shares to be admitted to listing and trading on the Main Board of the JSE (the **South African Admission**). It is expected, subject to completion of the Demerger, that the South African Admission will become effective and that dealings on the JSE in the Letters of Allocation will commence at 9.00 a.m. (SAST) on 18 May 2015.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, any security.

Prospective investors should read the whole of this document and, in particular, the discussion of certain risks and other factors that should be considered in connection with an investment in the South32 Shares as set out in the Risk Factors section.

South32 Limited

(incorporated in Australia under the

Australian Corporations Act with

Australian Company Number 093 732 597)

Prospectus

Admission to the standard segment of the Official List

and to trading on the London Stock Exchange of the

entire issued share capital of South32 Limited

The South32 Shares have not been marketed to and are not available for purchase, in whole or in part, by the public in the United Kingdom or elsewhere in connection with the Demerger. This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any securities.

The distribution of this document and the issue of the South32 Shares in certain jurisdictions may be restricted by law. No action has been taken or will be taken to permit the possession or distribution of this document in any jurisdiction where action for that purpose may be required. Accordingly, this document may not be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document should come in overseas territories are required to inform themselves about and observe any restrictions on the issue of the South32 Shares and the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

BHP Billiton Shareholders who are Ineligible Overseas Shareholders will not receive South32 Shares under the Demerger. South32 Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Overseas Shareholders. Refer to the Shareholder Circular for further information.

Notice to prospective South32 Shareholders in the United States

The South32 Shares have not been and will not be registered under the US Securities Act. Please refer to Section 3.8 of this document.

The South32 Shares have not been approved or disapproved by the US Securities and Exchange Commission (**SEC**), any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the South32 Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Certain terms used in this document are defined in the Definitions section of this document.

References to the singular in this document shall include the plural and vice versa, where the context so requires. References to sections or Parts are to sections or Parts of this document.

All references to time in this document are to London times unless otherwise stated.

The date of this document is 16 March 2015.

Table of Contents

CONTENTS

Table of Contents

Table of Contents

Table of Contents

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Table of Contents

1 SUMMARY

The information in this document has been prepared to meet the disclosure requirements associated with the admission to trading of South32 s ordinary shares on the ASX, JSE and LSE (as noted in Section 15.10(b), ASIC has granted an exemption from the prospectus provisions in the Corporations Act and this document is not a prospectus under the Corporations Act). It therefore reflects and meets the disclosure requirements of three jurisdictions.

The form and content of the summary below are prescribed by European Union Regulation and are required to be included for the purposes of the admission of the South32 Shares to trading on the LSE. The statements in Section A.1 in relation to claims based on the summary are only applicable where claims are brought on the basis of the UK Prospectus and do not alter the rights or liabilities of any person in relation to the information memorandum for the purposes of the listing of South32 Shares on the ASX or the pre-listing statement for the purposes of the listing of South32 Shares on the JSE.

Summaries are made up of disclosure requirements known as Elements . These Elements are numbered in Sections A E (A.1 E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of not applicable .

SECTION A INTRODUCTION AND WARNING

A.1 Warning

This summary should be read as an introduction to this document. Any decision to invest in South32 Shares should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this document or it does not provide, when read together with other parts of this document, key information in order to aid investors when considering whether to invest in such securities.

A.2 Any consents to and conditions regarding use of this document

Not applicable.

SECTION B ISSUER

B.1 Legal and commercial name of the company
South32 Limited

B.2 Domicile and legal form of the company
South32 is a public company incorporated in Australia on 12 July 2000 (formerly known as BHP Coal Holdings Pty Limited) and registered under the Corporations Act.

B.3 Description of South32 s current operations and principal activities
Following implementation of the Demerger, South32 will be a globally diversified metals and mining company with a portfolio of assets producing alumina, aluminium, coal, manganese, nickel, silver, lead and zinc. South32 will have multiple large assets, the majority of which are competitively positioned in the first or second quartile of their respective industry cost curves. South32 s operated assets will have the advantage of having historically been managed and maintained in accordance with BHP Billiton s standards and practices.

South32 s portfolio will comprise of the South32 Businesses, which are:

Worsley Alumina: an 86 per cent interest in an integrated bauxite mining and alumina refining operation located in Western Australia, Australia;

Table of Contents

South Africa Aluminium: a 100 per cent interest in the Hillside smelter near Richards Bay, South Africa. The business previously included the Bayside smelter, which was closed in FY2014, and Bayside casthouse. An agreement has been reached for the sale of the assets comprising the Bayside casthouse (the sale is subject to certain regulatory and other conditions, which are expected to be fulfilled in the first half of CY2015);

Mozal Aluminium: a 47.1 per cent interest in the Mozal Aluminium smelter located near Maputo, Mozambique;

Brazil Aluminium: a 14.8 per cent interest in the Mineração Rio do Norte open-cut bauxite mine (**MRN Mine**), as well as a 36 per cent interest in the Alumar alumina refinery and a 40 per cent interest in the Alumar aluminium smelter (together with certain interests in ancillary facilities and lands);

South Africa Energy Coal: a 90 per cent interest in four operating energy coal mines in the Witbank region in the Mpumalanga province of South Africa;

Illawarra Metallurgical Coal: a 100 per cent interest in three underground metallurgical coal mines located near Wollongong in New South Wales, Australia;

Australia Manganese: a 60 per cent interest in the Groote Eylandt Mining Company (**GEMCO**) open-cut manganese mine and the Tasmanian Electro Metallurgical Company (**TEMCO**) manganese alloy plant. GEMCO is located in the Northern Territory, Australia near port facilities at Milner Bay, and TEMCO is located in Tasmania, Australia, near the Bell Bay wharf;

South Africa Manganese: a 44.4 per cent effective interest in the Mamatwan open-cut mine and the Wessels underground mine (collectively known as the **Hotazel Mines**) and a 60 per cent interest in the Samancor Manganese Metalloys alloy plant (**Metalloys**). The Hotazel Mines are located near the town of Kuruman, South Africa;

Cerro Matoso: a 99.94 per cent interest in an open-cut lateritic nickel mine and ferronickel smelter located near Montelibano, in the Córdoba Department in northern Colombia;

Cannington: a 100 per cent interest in a silver, lead and zinc underground mine and concentrator operation located in northwest Queensland, Australia, approximately 200 km southeast of Mount Isa.

B.4a Description of significant trends affecting the company and the industries in which it operates

As a company which mines and produces commodities used in a range of manufacturing and industrial processes, South32 is exposed to fluctuations in the prices of its key commodities. Global demand and supply for the commodities the South32 Businesses produce are key drivers of commodity prices, and fluctuations in product demand and supply therefore affect South32 s results, including cash flows and asset values.

B.5 Description of the South32 Group and the company s position within it

South32 is an Australian public company, which will be the holding company of the South32 Group. As at the date of this document, South32 is a wholly-owned subsidiary of BHP Billiton Limited. As part of the Demerger, South32 will be separated from the BHP Billiton Group to operate as a standalone entity.

South32 will be headquartered in Perth, Australia, with its Australian operations managed from Perth and African operations managed from a regional head office in Johannesburg, South Africa. South32 will also have a global shared service centre located in Johannesburg, South Africa.

B.6 Interests in the company and voting rights

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), the entire issued share capital of South32 is held by BHP Billiton Limited. Following the Demerger, the shareholders of South32 shall be the same as the shareholders of BHP Billiton as at the relevant Record Date, except where BHP Billiton Shareholders are Ineligible Overseas Shareholders or elect to sell their South32 Shares pursuant to the Sale Facility.

To the knowledge of South32 and BHP Billiton Limited:

BHP Billiton is not (and therefore South32, immediately following the Demerger, will not be) directly or indirectly majority owned or controlled by another corporation or by any foreign government.

Immediately following the implementation of the Demerger, there is no person who, directly or indirectly, jointly or severally, will exercise or could exercise control over South32.

There are no arrangements the operation of which may at a subsequent date result in a change in control of BHP Billiton or South32 (other than as a result of implementation of the Demerger).

No public takeover offers by third parties have been made in respect of BHP Billiton s shares during the current and preceding financial year.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), to the knowledge of South32 and BHP Billiton Limited, there are no persons that are directly or indirectly interested in five per cent or more of the issued shares in BHP Billiton Limited and the following persons are directly or indirectly interested in three per cent or more of the issued shares in BHP Billiton Plc:

Aberdeen Asset Managers Limited, which holds 157,061,561 shares of which it controls voting rights in respect of 127,971,161 shares, representing 6.06 per cent of the BHP Billiton Plc Shares on issue (as notified on 13 March 2015);

BlackRock Inc, which holds and controls voting rights in respect of 213,014,043 shares, representing 10.08 per cent of the BHP Billiton Plc Shares on issue (as notified on 3 December 2009), and none of the shareholders referred to above has or will have different voting rights from any other holder of South32 Shares in respect of any South32 Shares held by them.

Table of Contents

B.7 Selected historical combined financial information

The table below sets out summary historical combined financial information for the six months ended 31 December 2014 (H1 FY2015) and the six months ended 31 December 2013 (H1 FY2014), which has been extracted from the historical combined financial information of the South32 Group set out in Annexure 2, and for the twelve months ended 30 June 2014 (FY2014), the twelve months ended 30 June 2013 (FY2013) and the twelve months ended 30 June 2012 (FY2012), which has been extracted from the historical combined financial information of the South32 Group set out in Annexure 1.

Table 1.1: Selected summary South32 historical combined financial information

	6 months ended December		12 months ended June		
US$M	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Income statement information					
Revenue	5,040	5,348	10,444	12,093	13,835
Profit/(loss) from operations	1,251	554	774	(963)	2,060
Profit/(loss) before taxation	1,214	446	422	(1,096)	2,018
Profit/(loss) after taxation	738	358	217	(1,304)	1,433
Other financial information[(a)]					
Underlying EBITDA	1,306	976	2,055	2,118	2,831
Underlying EBIT	800	510	1,070	1,154	1,926
Underlying Earnings	534	369	614	755	1,258
Cash flow information					
Cash generated from operations	1,131	781	2,108	2,138	2,899
Less interest and tax, net of dividends received	118	(288)	(438)	(712)	(506)
Net operating cash flows	**1,249**	**493**	**1,670**	**1,426**	**2,393**
Capital expenditure	(411)	(394)	(769)	(1,139)	(2,013)
Net operating cash flows after capital expenditure	**838**	**99**	**901**	**287**	**380**
Balance sheet information					
Current assets	12,630	5,361	5,002	5,236	7,544
Non-current assets	14,093	14,322	14,688	14,307	16,468
Total assets	**26,723**	**19,683**	**19,690**	**19,543**	**24,012**
Current liabilities	1,936	2,601	2,133	2,764	3,194
Non-current liabilities	7,240	6,793	7,737	6,659	7,006
Total liabilities	**9,176**	**9,394**	**9,870**	**9,423**	**10,200**
Net assets/Total invested capital	**17,547**	**10,289**	**9,820**	**10,120**	**13,812**

(a) Underlying Earnings is the key measure that South32 proposes to use to assess the performance of South32, make decisions on the allocation of resources and assess senior management. In addition, the performance of each of the South32 Businesses and operational management will be assessed based on Underlying EBIT. Underlying EBITDA and Underlying EBIT are calculated based on the accounting policies that South32 proposes to use when discussing its operating results in future periods. Refer to note 2 Segment reporting of Annexure 1 for further details of this approach. The accounting policies proposed by South32 for calculating these measures differ from those currently used by BHP Billiton, the key differences being that South32 will adjust for certain items each period, irrespective of materiality, and South32 management will retain the discretion to adjust for other significant non-recurring items that are not considered to reflect the underlying performance of the assets it holds.

Table of Contents

The significant changes to South32 s financial condition and operating results during or subsequent to the period covered by the historical combined financial information set out above, to the date of this document, are as follows:

reductions in operating costs, including the benefit of a stronger US dollar, have resulted in improved profitability during H1 FY2015;

there was a year on year decrease in revenue in FY2014 of US$1,649 million and US$1,742 million in FY2013. The primary cause was a fall in prices for most commodities over these periods, which in turn led to a significant decrease in profit attributable to shareholders;

the fall in commodity prices had an impact on asset values across the period. A decline in export prices for energy coal resulted in impairments booked against the South Africa Energy Coal assets in FY2014 of US$292 million. The strength in the Australian dollar and weak alumina prices at the time led to a reduction in the asset value of Worsley Alumina in FY2013 of US$2,190 million;

cost pressures impacted operating margins leading to the cessation of some smelting activities at South Africa Aluminium in June 2014. Closure costs of US$167 million were recorded in FY2014 in relation to the cessation of production;

as part of a regular portfolio review in June 2012, various operations and projects were either suspended or closed early. These included: the temporary suspension of production at Australia Manganese, the permanent closure of the Metalloys South Plant at South Africa Manganese and the termination of the Samancor Manganese Gabon project, resulting in the recognition of US$93 million in asset write-downs;

the move to joint control arising from changes to the joint venture arrangements for the Manganese Business effective from 2 March 2015 resulted in a gain of approximately US$2 billion recorded after 31 December 2014 and the subsequent equity accounting for South32 s interest in the Manganese Business;

certain other adjustments resulting from the Internal Restructure in preparation for the Demerger, including tax charges;

as part of the Internal Restructure during H1 FY2015 there was an issue of shares to BHP Billiton Limited of US$8 billion to capitalise South32 to enable the acquisition of the companies that will comprise the South32 Group. The proceeds were primarily placed on deposit with BHP Billiton.

B.8 Selected pro forma historical financial information

The following is a summary of South32 pro forma historical financial information for the periods, which has been prepared to illustrate the effect:

(a) on the income statement and cash flow statement of the move to joint control of the Manganese Business and the impact of the Demerger (including adjustments to reflect reversal of intercompany net financing costs and dividends), as if they had occurred on 1 July 2013;

(b) on the balance sheet, of the move to joint control of the Manganese Business and the Demerger (including adjustments to reflect settlement of intercompany balances between South32 and BHP Billiton and Demerger set up costs to be incurred by South32 after the Demerger takes effect), as if they had occurred on 31 December 2014.

The South32 pro forma historical financial information has been prepared, and is intended, for illustrative purposes only. It addresses a hypothetical situation and therefore does not purport to reflect South32 s actual financial performance or the actual financial position that South32 would have achieved if South32 had operated as a standalone entity for the periods presented.

Table 1.2: Selected summary of South32 s pro forma historical income statement and cash flow information(a)

US$M	6 months ended December H1 FY2015	12 months ended June FY2014
Income statement information		
Revenue	4,089	8,344
Profit from operations	724	337
Profit before taxation	729	150
Profit after taxation	306	103
Basic earnings per share (US cents)	5.75	1.93
Other financial information		
Underlying EBITDA	1,065	1,483
Underlying EBIT	648	660
Underlying Earnings	442	446
Underlying basic earnings per share (US cents)	8.30	8.38

Table of Contents

US$M	6 months ended December H1 FY2015	12 months ended June FY2014
Cash flow information		
Cash generated from operations	929	1,419
Dividends received (including equity accounted investments)	131	206
Capital expenditure	(317)	(590)
Net operating cash flows before financing activities and tax and after capital expenditure	743	1,035

(a) As described in Section 10.2, no pro forma adjustments have been made to South32 s pro forma historical consolidated income statements or cash flow information to reflect the anticipated additional corporate overhead costs or savings of South32 operating as a standalone entity or savings from implementation of South32 regional operating model (refer to Section 11.2(d)).

Table 1.3: Selected summary of South32 s pro forma historical balance sheet information

US$M	South32 31 December 2014	Adjustments	South32 pro forma 31 December 2014
Balance sheet information			
Current assets	12,630	(10,075)	2,555
Non-current assets	14,093	1,037	15,130
Total assets	26,723	(9,038)	17,685
Current liabilities	1,936	(201)	1,735
Non-current liabilities	7,240	(4,240)	3,000
Total liabilities	9,176	(4,441)	4,735
Net assets/Total invested capital	17,547	(4,597)	12,950

B.9 Profit forecast or estimate

Not applicable.

B.10 A description of the nature of any qualifications in the Independent Audit Report on the historical combined financial information

Not applicable. There are no qualifications to the Independent Audit Report on the historical combined financial information.

B.11 Working capital

Not applicable. South32 and its Directors are of the opinion that the South32 Group has sufficient working capital for its present requirements, that is for at least the next 12 months following the date of publication of this document.

SECTION C SECURITIES

C.1 Types and class of securities being admitted to trading, including the security identification number

This document has been prepared in connection with the demerger of a selection of BHP Billiton Group s alumina, aluminium, coal, manganese, nickel, silver, lead and zinc assets into a separate company, South32. South32 will apply for admission of its ordinary shares to trading on the ASX, JSE and LSE.

Following the Demerger, South32 is expected to have a primary listing on the ASX and a secondary listing of all the issued South32 Shares in the general mining sector of the main board of the JSE and all the issued South32 Shares will be admitted to the standard segment of the Official List and to trading on the LSE s main market for listed securities.

When admitted to trading on the ASX, JSE and LSE, the South32 Shares will be registered with an ISIN AU000000S320.

South32 will also establish an ADS program, but the South32 American Depositary Shares (**ADSs**) will not be listed on the New York Stock Exchange or any other securities exchange in the United States and will trade over-the-counter.

Table of Contents

C.2 Currency of the securities in issue

The South32 Shares will be denominated in Australian dollars and quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE. South32 ADSs will be denominated in US dollars.

C.3 Number of shares in issue and par value

Immediately following the implementation of the Demerger, the issued share capital of South32 will be equal to the aggregate number of BHP Billiton Limited Shares on issue on the Limited Record Date and BHP Billiton Plc Shares on issue on the Plc Record Date. The South32 Shares will have no par value and, immediately following implementation of the Demerger, all South32 Shares will be fully paid.

As at 14 March 2015 (being the latest practicable date prior to the publication of this document), there were 3,211,691,105 BHP Billiton Limited ordinary shares and 2,112,071,796 BHP Billiton Plc ordinary shares on issue.

C.4 Rights of securities

All the South32 Shares will rank pari passu in all respects, there being no conversion or exchange rights attaching thereto, and all of the South32 Shares will have equal rights to participate in capital, dividend and profit distributions by South32.

C.5 Restrictions on the transferability of shares

There are no restrictions on the transferability of the South32 Shares imposed by the South32 Constitution.

C.6 Application for admission to trading on a regulated market

South32 will apply for its ordinary shares to be admitted to trading on the ASX, JSE and LSE.

South32 ADSs will not be listed on the New York Stock Exchange or any other securities exchange in the United States and will trade over-the-counter.

C.7 Dividend policy

The South32 dividend policy will be determined by the South32 Board at its discretion, having regard to South32 s first two priorities for cash flow, being a commitment to maintain safe and reliable operations and an intention to maintain an investment grade credit rating through the cycle.

South32 intends to distribute a minimum of 40 per cent of Underlying Earnings as dividends to its shareholders following each six month reporting period. Consistent with South32 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 excess capital.

South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system. The extent to which a dividend can be franked will depend on South32 s franking account balance (which immediately following the Demerger will be nil) and its level of distributable profits. South32 s franking account balance will depend on the amount of Australian income tax paid by South32 following the Demerger. The timing of South32 s Australian income tax payments may also impact its capacity to frank any dividend declared for the half year ending 31 December 2015.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances.

South32 does not intend to pay a dividend for the period ending 30 June 2015, which will conclude only one month after the implementation of the Demerger.

SECTION D RISKS

D.1 Key information on key risks specific to South32 and the industries in which it operates

External risks relating to the industries in which South32 operates

The prices South32 obtains for its products are determined by, or linked to, prices in world commodity markets, which have historically been subject to substantial volatility. In addition South32 s assets, earnings and cash flows are affected by a wide variety of currencies, with the US dollar being the currency in which the majority of South32 s sales are determined, and South32 s operating costs are also influenced by the currencies of the countries in which it operates. Fluctuations in commodity prices, currency exchange rates and impacts of ongoing global economic volatility may negatively affect South32 s results, including cash flows and asset values.

Actions by governments or political events could have a negative impact on South32 or the South32 Businesses. In particular, South32 or the South32 Businesses could be adversely affected by new or changed government regulations, such as controls on imports, exports and/or prices and changes in fiscal legislation. In addition, South32 or the South32 Businesses could be exposed to the risk of terrorism, civil unrest, nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements, particularly in emerging markets in which the South32 Businesses operate.

Table of Contents

Audits and reviews by administrative bodies, in particular tax authorities, may result in South32 incurring additional tax or royalty payments. South32 is currently the subject of a number of tax-related claims.

Operational risks

South32 Businesses are dependent on access to infrastructure that is economical, and without such access these operations may be disrupted or further development may be prevented. A number of factors could disrupt the availability of the services utilised by the South32 Businesses to transport products to customers, including weather-related problems, rail or port capacity and allocation constraints, key equipment and infrastructure failures and industrial action.

South32 Businesses are dependent on access to water and power that is economical. Such access to water and power may be disrupted or further development may be prevented due to factors such as climate (including drought), changes in allocations, changes in activities or conditions at South32 s operations, elections by contract counterparties to cease current arrangements, the term of contractual arrangements ending or changes in government policy.

Unexpected natural or operational catastrophes may adversely impact South32 s operations or cause harm to its assets or equipment. In particular, the South32 Businesses rely on access to key port and rail infrastructure which may be subject to port, shipping or rail incidents and include six underground mines that can be exposed to incidents such as fire and explosion, loss of power supply and critical equipment failures.

Business risks

Failure to maintain, realise or enhance existing reserves, discover new reserves or develop new operations could negatively affect South32 s future results and financial condition. Production from South32 s operations results in existing reserves being depleted over time. The volume and quality of product the South32 Businesses recover may be less than South32 or Competent Persons have estimated. In addition, Mineral Resources and Ore Reserves estimates are expressions of judgement based on knowledge, experience and industry practice, among other things.

Financial risks

South32 is required in its financial statements to include provisions for the expected closure and rehabilitation costs of its operations. Closure and rehabilitation costs require significant judgements and estimates and are therefore subject to change. South32 and its management consider its closure and rehabilitation provisions to be appropriate based on currently available information (including estimated closure dates) and certain assumptions. However, given inherent uncertainties, the future actual expenditure may differ from the amounts currently provided.

One or more of the South32 Businesses may be affected by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover its Ore Reserves or increased operating cost levels.

These may cause South32 to fail to recover all or a portion of its investment in mining assets and may require financial write-downs, adversely impacting financial results.

Sustainability risks

South32 and/or its workforce may be adversely affected by health and safety and environmental risks in respect of its activities. Longer-term health impacts may arise due to the exposure of the South32 workforce to hazardous substances. Potential safety events that may have an adverse impact on South32 s operations may occur. In addition South32 s operations, by their nature, have the potential to impact biodiversity, land, water resources and related ecosystems including from the discharge of contaminants.

South32 s operations are exposed to a range of water and waste water management risks, including water scarcity, water excess, water quality, water discharge or discharge into ground water issues. Some assets are more prone than others to these water management-related risks.

South32 Businesses may be disrupted without the support of the local communities in which they are located. Notwithstanding South32 s contributions to the communities in which the South32 Businesses are located, local communities may become dissatisfied with the impact of South32 s operations or oppose new development projects, including through litigation, which may affect costs and production, and, in extreme cases, viability of the relevant operation or project.

D.3 Key information on the key risks that are specific to South32 Shares

South32 Shareholders should be aware that there are risks associated with investment in financial products quoted on a stock exchange. Share price movements could affect the value of any investment in South32.

The South32 Shares will be quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE. Dividends in respect of South32 Shares, if any, will be declared in US dollars. Fluctuations in the exchange rate between the US dollar and each of these currencies will affect, among other matters, the local currency value of the South32 Shares and of any dividends.

The rights of South32 Shareholders are governed by Australian law and may differ from the rights available to shareholders under the laws of South Africa, the United Kingdom or the United States.

Table of Contents

SECTION E OFFER

E.1 Proceeds of the issue/offer
Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in South32. BHP Billiton and South32 will not receive any proceeds as a result of the Demerger.

E.2a Reasons for the issue/offer and use of proceeds
Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in South32. South32 will apply for its ordinary shares to be traded on the ASX, JSE and LSE, in connection with the Demerger. South32 will not receive any proceeds as a result of the Demerger.

E.3 Terms and conditions of the offer
Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in South32.

E.4 Interests material to South32/the offer including conflicting interests
Certain South32 Directors and some of the Independent Competent Persons have shareholding interests in BHP Billiton and will therefore have shareholding interests in South32 immediately following the Demerger. South32 does not consider the interests of the Independent Competent Persons to be sufficiently material to compromise their independence. So far as the South32 Directors are aware, no other person involved in the Demerger has any interest, including conflicting ones, that are material to the Demerger.

E.5 Name of persons offering to sell the securities
Lock-up agreements details, including the parties involved and indication of the period of the lock-up

Not applicable.

E.6 Amount and percentage of immediate dilution resulting from the offer
Not applicable.

E.7 Estimated expenses charged to the investor by South32
Not applicable.

Table of Contents

2 RISK FACTORS

In addition to the other information set out in this document, the following risk factors should be carefully considered. The risks and uncertainties described below represent those the South32 Directors consider to be material as at the date of this document. However, these risks and uncertainties are not the only ones facing South32 and the South32 Businesses or relevant to an investment in South32 Shares. Additional risks and uncertainties not presently known to the South32 Directors, or that the South32 Directors currently consider to be immaterial, could also materially and adversely affect the business, results of operations, financial condition and/or prospects of South32. In such case, the market price of the South32 Shares could decline and investors may lose all or part of their investment. Prospective investors in South32 Shares should consider not only the information on key risks summarised in Section 1, but also, among other things, the risks and uncertainties described below.

Many of these are risks to which South32 and the South32 Businesses are already exposed, while others arise or are increased as a result of the Demerger and the ability to take mitigating action may be more limited. Some of these risks may be mitigated by appropriate controls, systems and other actions as further described below, but others will be outside the control of South32 and may not be able to be mitigated.

Investors and prospective investors should consider carefully whether an investment in South32 is a suitable investment in light of the information in this document, their ability to bear risk and the financial resources available to them.

2.1 EXTERNAL RISKS RELATING TO THE INDUSTRIES IN WHICH SOUTH32 OPERATES

(a) Fluctuations in commodity prices and impacts of ongoing global economic volatility may negatively affect South32 s results, including cash flows and asset values

The prices South32 obtains for its products are determined by, or linked to, prices in world commodity markets, which have historically been subject to substantial volatility. Commodity prices are affected by underlying global economic and geopolitical factors, industry demand and supply balances, product substitution and national tariffs. In particular, the Chinese market has been a key driver of global materials demand and pricing over the past decade. A slowing in China s economic growth or additional supply has the potential to adversely impact prices for many of South32 s products. South32 s exposure to a range of commodities and customers operating in different economies, provides a level of diversification to partially protect against this risk.

(b) South32 s financial results may be negatively affected by currency exchange rate fluctuations

South32 s assets, earnings and cash flows are affected by a wide variety of currencies. The US dollar is the currency in which the majority of South32 s sales are determined and its financial results will be reported. Operating costs are influenced by the currencies of those countries where South32 Businesses mines and processing plants are located and also by those currencies in which the costs of imported equipment and services are determined. The Australian dollar, South African rand, Brazilian real, Colombian peso and US dollar are the most important currencies affecting South32 Businesses operating costs. Fluctuations in the exchange rates of relevant currencies may impact on South32 s financial results.

(c) Actions by governments or political events could have a negative impact on the business

South32 or the South32 Businesses could be adversely affected by new government regulations, such as controls on imports, exports and/or prices. Increasing requirements relating to regulatory and environmental approvals may affect existing operations or potentially cause delays in and adversely affect the expansion of existing operations. South32 could also be adversely affected by changes in fiscal legislation, as South32 s operations are based on material long-term investments that are dependent on long-term fiscal stability.

In addition, South32 or the South32 Businesses could be exposed to the risk of terrorism, civil unrest, nationalisation, renegotiation or nullification of existing contracts, leases, permits or other agreements, changes in laws and policy (including changes in exchange control policies regulating the repatriation of earnings or capital out of the relevant jurisdiction) and governmental reviews and investigations (including historical tax audits), as well as other unforeseeable risks in the jurisdictions in which it operates that could have an adverse impact upon the profitability of an operation. In particular, South32 has operations in emerging markets, where such risks are more prevalent.

Potential government actions, reviews or policies that may have specific application to the South32 Businesses are set out below:

The South African tax policy review by the Davis Commission, the outcomes of which are uncertain and may impact upon the financial results of South32 s operations in South Africa.

The Indonesian Government ban on export of unprocessed aluminium and nickel ores, which affects Chinese alumina and nickel pig iron production, may be reversed at any time with potential changes to global supply balances and the prices South32 receives for some of its products.

Table of Contents

Possible amendments to the Mineral and Petroleum Resources Development Act, which are under consideration by the South African Government through the National Assembly. Furthermore, a review of compliance with the Mining Charter is also currently being undertaken by the Department of Minerals and Energy.

In Brazil, the Executive Branch submitted to the Brazilian House of Representatives Bill of Law No 5.807/201 which, if and when approved, will replace the existing Mining Code. Among other changes, the proposed bill of law provides for changes in the procedure for the granting of mineral exploration and concession rights, new rules for the calculation of the Financial Compensation for the Exploitation of Mineral Resources (Compensação Financeia pela Exploracao de Recursos Minerais, or CFEM) and the assessment of new taxes on mining activities. A new mining regulatory framework may result in limitations on the term of existing mining concessions and in the tender of mining concessions if they are deemed by the Brazilian government to have strategic and economic importance.

In February 2015, TEMCO was notified of a petition filed with the United States Department of Commerce and the United States International Trade Commission requesting the imposition of antidumping duties on silicomanganese imports of Australian origin (of which TEMCO is the only producer). The petition is being investigated at a preliminary phase by the Department of Commerce and the International Trade Commission and TEMCO intends to co-operate fully in the investigations. TEMCO intends to vigorously contest the claims and strongly defend its position. An adverse outcome could potentially result in the imposition of duties on the sale of TEMCO s product into the United States, which could significantly impact demand for TEMCO s product in that market and, as a result, could impact TEMCO s revenues.

(d) Challenges by administrative bodies, in particular tax authorities, may lead to additional liabilities for South32

Consistent with the general separation principles set out in Section 14.4(b), South32 will assume, and be responsible, for all tax liabilities relating to the South32 Businesses and to the former South32 Businesses, subject to certain exceptions.

Audits and reviews by administrative bodies, in particular tax authorities, may result in South32 incurring additional tax or royalty payments.

Excluding tax exposures that will remain with BHP Billiton, there are certain material claims (or categories of claims) made by tax authorities to which South32 is exposed, which are discussed in further detail below.

In Brazil there are eight separate disputes involving BHP Billiton Metais S.A. (**BMSA**) (a wholly-owned subsidiary of South32), which relate to the payment of Federal and State Value Added Tax, which are currently the subject of proceedings in the Tax Administrative Court. The principal claims relate to non-payment of State Value Added Tax by BMSA on interstate sales of aluminium to customers in the period from 2000 to 2004 and the use of Federal Value Added Tax credits relating to power supply by BMSA. As at the date of this document, the estimated total amount being claimed against BMSA in respect of these eight matters is equal to approximately US$84 million.

BMSA is also currently disputing an adverse tax assessment in respect of social security contributions in the Tax Administrative Court. The assessment relates to social security contributions not paid by BMSA during 2004 to 2007. BMSA s position that social security contributions in respect of this period are not payable is based on a 1992 Federal Regional Court decision exempting BMSA from payment of the contributions on the basis that the tax was unconstitutional. The Supreme Court subsequently decided in favour of the constitutionality of the tax in 2007. BMSA contests that the Supreme Court s decision should not apply where a previous judicial decision has exempted payment of the contributions, such as the exemption provided to BMSA pursuant to the Federal Regional Court s decision in 1992. As at the date of this document, the amount claimed in respect of this matter is equal to approximately US$105 million.

Cerro Matoso SA (**CMSA**) (a 99.94 per cent owned subsidiary of South32) is disputing an adverse assessment by the Colombian Revenue Service made in July 2014 concerning the non-taxation of revenue sales and deductibility of certain costs. The likely timing of the resolution of this matter is currently uncertain. As at the date of this document, the amount claimed in respect of this matter is equal to US$60 million.

South Africa Energy Coal is disputing an adverse assessment by the South African Revenue Service made in September 2013 concerning the purchase price allocation for a sale of assets that occurred in 2008. The likely timing of the resolution of this matter is currently uncertain. As at the date of this document, the amount claimed in respect of this matter is equal to approximately US$53 million.

Certain other tax-related claims have been made in respect of the South32 Businesses, which are separate and none of which is considered to be individually material but aggregate to a total of US$149 million. These comprise tax claims relating to corporate income tax credits and offsets in Brazil and underpayment of royalties and income tax payment shortfalls and certain other matters have been claimed against South32 Businesses in Colombia.

In each of these cases, South32 intends to continue to vigorously contest the matter. While South32 believes that some of these claims may take many years to be resolved, if there is an adverse finding against South32 in these matters it may result in material liabilities for, or reduce future profitability of, South32.

Where South32 considers a claim may result in probable loss, it is reflected in a provision in South32 s balance sheet. Where South32 considers that a claim has a lower probability of resulting in loss, South32 s exposure may be reflected in a contingent liability disclosure in South32 s financial statements (set out in Section 10.8(d) and note 18 Contingent liabilities to the historical combined financial information set out in Annexure 1).

Table of Contents

Given the uncertainty in respect of claims of this nature from tax authorities, and South32 s view that it is confident that an outcome favourable to South32 will be achieved in most of these cases, the provisions and contingent liabilities in South32 s financial statements do not cover all of, and may not adequately capture, South32 s total potential liability in respect of these and similar claims. As a result, the ultimate exposure South32 faces for claims may be greater than that provided for in South32 s financial statements or included in its contingent liabilities.

(e) South32 s operations are dependent on licences and permits, the obtaining, renewal or maintenance of which may be uncertain or challenging

South32 Businesses generally require governmental licences, permits, authorisations, concessions and other approvals in connection with their activities. Obtaining and complying with the necessary governmental permits and regulations can be particularly complex, costly and time-consuming and are therefore not assured.

The duration, cost and success of permit applications are contingent on many factors, including those outside the control of the South32 Group. Failure to obtain or renew a necessary permit could mean that South32 Businesses would be unable to proceed with the development or continued operation of a mine or project, which in turn may have an adverse effect on the relevant South32 Businesses, results of operations, financial condition or prospects. The permits that South32 Businesses need may not be issued, maintained or renewed either in a timely fashion or at all, which may constrain the ability of South32 Businesses to conduct their mining operations, which in turn may impact South32 s financial results.

From time to time, parties may seek to challenge the validity of permits and licences or attempt to interfere with rights granted to South32 Businesses. This may result in the loss of rights held by, or the incurrence of additional cost to, South32 Businesses.

(f) South32 may be exposed to litigation and claims that could result in a significant cost to South32 or affect its operations

South32 is exposed to risks of litigation that may have an adverse effect on South32. There are some actions and claims that have been raised by third parties that are yet to be resolved. South32 may lose such claims and may incur costs in addressing such claims.

CMSA and certain Colombian Government agencies are defendants to proceedings in the Colombian Constitutional Court. The proceedings involve a review of multiple claims that are similar in nature brought by representatives of local communities. The claims, which CMSA and the defendant Government Agencies strongly contest, allege that Amendment No. 4 to Contract 051-96M (which set forth revised conditions for the continued operation of CMSA under its key mining licence in 2012) is not valid on the basis that local communities should have been consulted about the amendment, that CMSA s environmental licence expired when the concessions under which CMSA operated until 30 September 2012 expired (notwithstanding that the environmental licence was issued for the term of the project and the project continues under Contract 051-96M) and that CMSA s operations are impacting the health of the neighbouring communities. First and second instance judgments in respect of one of these actions and a first instance judgment in respect of the other action were issued against the plaintiffs in 2013 and early 2014. The Constitutional Court is now conducting a review of these judgments, with submission of evidence and arguments in the proceedings continuing. A decision in respect of this matter is expected in 2015. An adverse outcome could result in a court order for the temporary suspension or revocation of CMSA s mining or environmental licences, require CMSA to modify its operations to address the alleged health and environmental impacts or require CMSA to undertake a retrospective community consultation process in relation to Amendment No. 4 under the supervision of the Ministry of the Interior.

A separate action has been brought in respect of the privatisation process conducted for Cerro Matoso. The relief sought is the annulment of the sale of a shareholding of approximately 47.6 per cent in CMSA to BHP Billiton Group (BVI) Limited in 1997 (which, if successful, would require the Colombian Government to reimburse the South32 subsidiary for the amount it paid for the shareholding and to reimburse CMSA for investments made in the Cerro Matoso project after 1997 that have not been amortised as at the date of the judgment). At first instance, a decision was issued by a Civil Judge in favour of CMSA and the other defendants. However, an appeal of the decision at first instance decided that the Colombian administrative courts (which are responsible for considering actions involving government-related law suits) have the appropriate jurisdiction in respect of the matter. An action was therefore commenced in the Council of State (Colombia s highest administrative court dealing with government-related law suits). The basis for the claim has not been stated, the proceedings have not progressed since this action was commenced in October 2008 and notice of the action has not been formally served upon BHP Billiton Group (BVI) Limited, the relevant South32 subsidiary. Illawarra Metallurgical Coal has a long term contract with BlueScope Steel for the supply of metallurgical coal to BlueScope Steel s steelworks located at Port Kembla. BlueScope Steel has made certain claims in relation to the calculation of historical prices under the contract, and in relation to the quality of coal supplied under the contract. Illawarra Metallurgical Coal does not accept the claims made by BlueScope Steel, and a dispute resolution process to resolve these claims has recently commenced.

In each of the cases above, South32 intends to continue to strongly contest the matter. However, if there is an adverse finding it may result in liability for, and/or reduce the future profitability of, South32.

There are also other litigation and arbitration proceedings to which South32 Businesses are exposed, but which are not regarded as material by South32. However, it is possible that South32 s assessment of its exposure in respect of these proceedings may change in the future, including as a result of developments in the proceedings or additional information becoming available.

Table of Contents

2.2 OPERATIONAL RISKS

(a) Cost pressures and reduced productivity could negatively impact South32 s operating margins and expansion plans

Cost pressures may occur across industries to which South32 Businesses are exposed and affect a variety of inputs into South32 s operations, which would negatively impact South32 s operating margins.

Labour is a significant input into South32 s operations, and labour costs may vary depending on demand and requirements at South32 s operations. Labour costs and productivity may also be affected by the actions of labour unions, which may adversely affect workplace flexibility, productivity and costs.

Increased costs of energy and other raw materials used by South32 may also adversely affect South32 s earnings.

(b) South32 Businesses are dependent on access to infrastructure that is economical, and without such access these operations may be disrupted or further development may be prevented

South32 Businesses products are transported to customers by a range of methods, including road, rail and sea. A number of factors could disrupt the availability of these transport services, including weather-related problems, rail or port capacity and allocation constraints, key equipment and infrastructure failures and industrial action, which may limit South32 Businesses ability to deliver product to customers and may have an impact on productivity and profitability. Furthermore, the cost of accessing required infrastructure may increase (possibly substantially), and South32 Businesses may not be able to pass on the full extent of that cost increase to its customers.

In South Africa, South32 Businesses access to the rail infrastructure of Transnet (the South African Government-owned rail freight and port provider) is key to its operations. South Africa Manganese and South Africa Energy Coal currently have allocations to access Transnet s rail infrastructure; however, securing future access when current allocations expire (and the terms on which that access may be secured) is uncertain due to capacity constraints and the level of demand from third parties. Transnet has recently allocated volumes for the next five years for manganese export capacity (final terms are still under discussion). The ability of South32 Businesses to develop and expand operations, particularly in South Africa, is impacted by South32 s access to infrastructure to support increased output.

(c) South32 Businesses are dependent on access to water and power that is economical, and without such access these operations may be disrupted or further development may be prevented

Water and power are critical to a number of South32 s operations. However, continued access, or access on current terms, to water and electricity to support existing activities cannot be guaranteed in the future, due to factors such as climate (including drought), changes in allocations, changes in activities or conditions at South32 s operations, elections by contract counterparties to cease current arrangements, the term of contractual arrangements ending or changes in government policy.

The cost and reliability of power supply are risks to the financial position and operations of South32 s aluminium smelters, particularly South Africa Aluminium and Mozal Aluminium. Due to ongoing power shortages and reliability issues in the South African power grid, South Africa Aluminium and Mozal Aluminium are, at times, subject to load shedding. In recent years the reliability of electricity supply in South Africa has further deteriorated and the frequency of load shedding has increased. Eskom, the South African Government-owned power utility, announced a national program of load shedding in January 2015 and has stated that the South African power system is likely to be constrained for the foreseeable future. A temporary increase in the electricity levy has been proposed until the electricity shortage is over. Interruptions to the supply of power to South32 s aluminium smelters can result in production losses and damage to plant. More generally, the lack of reliability, and potential increases in the cost, of power supply could significantly affect operations at South Africa Aluminium and Mozal Aluminium for an extended period of time. In addition, Eskom referred the power pricing regime for South Africa Aluminium s power supply contracts to the National Energy Regulator of South Africa for review in October 2012.

Current levels of hydro-generation power plants water reservoirs in Brazil have increased the risk of electricity rationing occurring. Should electricity rationing occur, the performance and profitability and ongoing operations of the Alumar Smelter could be adversely impacted.

Furthermore, expansion and development of activities of South32 Businesses may be subject to the ability to access sufficient water and power on economic terms. A failure to procure supplies of water and power, or access to water and power infrastructure on economically acceptable terms, could limit the ability of South32 Businesses to expand activities or develop new operations.

(d) Unexpected natural or operational catastrophes may adversely impact South32 s operations

Members of the South32 Group have extractive, processing and logistical operations in a number of geographic locations. South32 s operations may be subject to accidents or incidents that impact the ability of South32 Businesses to continue operating or cause harm to its assets or equipment.

In particular, South32 Businesses access key port facilities located at Richards Bay in South Africa and Bunbury, Milner Bay, Bell Bay, Townsville and Port Kembla in Australia, together with key rail facilities located at Richards Bay and Bunbury. This port and rail infrastructure may be subject to port, shipping or rail incidents that could temporarily or permanently restrict access.

Table of Contents

South32 Businesses include six underground mines, including four underground coal mines. Mines, particularly underground mines, and associated mining and processing equipment and processing plants can be exposed to incidents such as fire and explosion, loss of power supply and critical mechanical equipment failures. South32 may also be exposed to other incidents that affect operations, including pit wall failures at open-cut mines.

South32 s operations may also be subject to unexpected natural catastrophes such as earthquakes, floods, hurricanes and fires. The mine and processing facility at Cannington is located between the confluence of two ephemeral watercourses at the headwaters of the Lake Eyre Basin catchment, and, if flooding were to occur, this could have adverse implications on the operations.

Existing business continuity plans may not provide full protection for all of the costs that arise from such events. The impact of these events could lead to disruptions in production, increased costs and/or loss of facilities, which would adversely affect South32 s financial results and prospects. Third party claims arising from these events may also exceed the limit of liability in the insurance policies South32 has in place in respect of such events.

(e) South32 is reliant on non-controlled operators and contractors at some operations

South32 does not control (or solely control) all aspects of each of the South32 Businesses. The Brazil Aluminium assets (MRN and Alumar) are managed by joint venture partners, limiting the level of decision-making power South32 has in respect of these assets. Other South32 Businesses or assets may, in the future, also be managed by joint venture partners. These non-controlled assets may not comply with South32 s management and operating standards, controls and procedures, including its health, safety, environment and community (**HSEC**) standards. Failure to adopt equivalent standards, controls and procedures at these assets could adversely impact South32 s reputation and financial results.

South32 is also reliant on the use of contractors and other third parties for exploration, mining and other activities. While the situation is normal practice for the mining and exploration industry and South32 seeks to actively manage these contractors to achieve desired performance levels, to some extent South32 relies on these contractors performing their roles properly and their failure to do so may impact the performance of South32.

(f) Outputs produced from processing are dependent on quality and consistent supply of inputs

Some of South32 s activities rely on the processing of raw materials, including some raw materials supplied from South32 s own mines, the quality of which is not always consistent. In these activities, the quality and quantity of output, cost of processing and/or time taken to process raw materials may be affected by the quality of raw material supplied and the consistency of supply of inputs, which may in turn impact the financial results achieved by South32.

The grade of minerals produced from mining operations often diminishes over the life of a mine, resulting in lower quality products being produced from mining operations in their later stages.

(g) South32 s operations may be affected by unfavourable employee and union relations, which could disrupt its activities

Some of the employees at South32 Businesses are represented by labour unions under various collective labour agreements.

Parts of South32 s workforce in certain locations, including Australia, Colombia and South Africa, are members of unions. The South32 Businesses may not be able to satisfactorily renegotiate collective labour agreements when they expire and may face higher wages and changes in benefits.

In addition, existing labour agreements may not prevent strikes or work stoppages in the future, and any strike or other work stoppage could have an adverse effect on the operations and financial results of the South32 Businesses.

(h) Due to the nature of its business and operations, South32 is exposed to the risks of fraud and corruption

As a diversified metals and mining company operating in a number of jurisdictions, South32 is exposed to the risks of fraud and corruption, both within its organisation and in dealing with parties external to the organisation. Some of South32 s activities are located in countries where corruption is generally understood to exist.

South32 will seek to fully comply with applicable legislative and regulatory requirements in respect of fraud and corruption in the jurisdictions in which it operates. South32 will also seek to implement internal control systems to limit the occurrence of fraud or corruption. However, there can be no assurance that such procedures and established internal controls will adequately protect South32 against fraudulent or corrupt activity and such activity could have an adverse effect on South32 s business, reputation, results of operations, financial condition or prospects. In addition, South32 may suffer from delays or disruption resulting from a refusal to make so-called facilitation payments in some of the countries in which South32 operates.

BHP Billiton s policies on financial sanctions and competition law are currently applicable to South32. Prior to implementation of the Demerger, South32 will establish policies or controls to address trade and financial sanctions and competition law. However, such policies and controls may not prevent instances of dishonesty by employees, contractors or third parties nor guarantee compliance with legal or regulatory requirements. This may lead to regulatory fines, disgorgement of profits, litigation, loss of operating licences or reputational damage.

(i) South32 will be smaller in scale than BHP Billiton following the Demerger

Following the Demerger, South32 will be an independent entity and much smaller in scale than BHP Billiton. This may result in South32 facing additional costs or risks compared to the position historically, including reduced access to, and less favourable terms in, any future financing facilities and different terms on which it procures goods or services.

(j) The Demerger may fail to realise anticipated benefits for South32

South32 may fail to realise any or all of the anticipated benefits of the Demerger, either in a timely manner or at all. Some of the potential benefits of the Demerger may not be achieved as a result of circumstances outside the control of South32.

(k) Third party consents required as part of the Demerger may not be obtained

The Demerger (or steps associated with the Demerger) may result in breaches or defaults under certain contracts to which South32 is a party, unless relevant counterparty consents are obtained. In addition, there are certain BHP Billiton Group-wide contracts relevant to South32 s operations, which BHP Billiton is seeking to assign to South32 or renegotiate so that there are separate contracts for South32 and BHP Billiton.

Although all material contractual consents required to effect the Demerger have been obtained, there are a number of less material consents that have not been obtained as at the date of this document. BHP Billiton has started seeking these consents, but not all counterparties may provide consent (and some counterparties may seek to alter the terms of the relevant contract, as a condition of providing consent). A failure to obtain these consents may result in breaches or defaults under contracts, or an inability to align contractual arrangements to South32 and BHP Billiton as independent entities.

(l) There is potential for delays, unexpected costs or other issues in establishing South32 as a standalone legal entity

As a subsidiary of BHP Billiton prior to the Demerger, South32 has been supported by BHP Billiton s corporate services infrastructure, including the provision of services relating to group accounting, treasury, tax, superannuation, legal, insurance administration, information management and information technology, certain group purchasing and general human resources.

As part of the implementation of the Demerger, South32 will replace these support services with its own internal capability, third party contracts and transitional service agreements as appropriate. During a transitional period of up to 12 months, South32 will be reliant on BHP Billiton for the provision of certain information management-related services.

It may take some time to procure the necessary resources and services and ensure that all processes are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated.

(m) Breaches of South32 s information technology security processes may adversely impact South32 s business activities

South32 will acquire or develop and maintain, or source from other parties, global information technology systems, consisting of infrastructure, applications and communications networks to support South32 s business activities. These systems could be subject to security breaches (for example cyber-crime) resulting in theft, disclosure or corruption of information, including information relating to acquisitions and divestments, strategic decision-making, non-public investment market communications or commercially sensitive information relating to major contracts. Security breaches could also result in misappropriation of funds or disruptions to South32 s operations.

(n) Failure to retain and attract key employees to South32 may impact on operations and financial results

The loss of key personnel or the failure to attract, train and recruit sufficiently qualified staff could affect South32 s operations, financial condition and growth.

Furthermore, BHP Billiton employees may not accept employment offered by South32 as part of the Demerger, resulting in South32 not retaining the benefit of employees with specialist knowledge of their functions.

Table of Contents

2.3 BUSINESS RISKS

(a) Failure to maintain, realise or enhance existing reserves, discover new reserves or develop new operations could negatively affect South32 s future results and financial condition

The volume and quality of product the South32 Businesses recover may be less than South32 or Competent Persons have estimated. Mineral Resource and Ore Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. There are risks associated with such estimates, including that the ore mined may be of a different grade, tonnage or strip ratio from those in the estimates. Mineral Resource and Ore Reserve estimates also depend to some extent on interpretations and geological assumptions, commodity prices, cost assumptions and statistical inferences, which may ultimately prove to have been unreliable.

Consequently, Ore Reserve and Mineral Resource estimates are often regularly revised based on actual production experience or new information and could therefore be subject to change.

Moreover, a decline in the price of commodities that South32 Businesses sell, reduction in recovery rates or ore grades or changes in applicable laws and regulations, including environment, permitting, title or tax regulations, that are adverse to South32, may mean the volumes of product that South32 can feasibly extract may be lower than the Ore Reserve estimates, which may result in a reduction of such estimates.

Furthermore, production from South32 s operations results in existing reserves being depleted over time. A failure to discover new reserves, enhance existing reserves or develop new operations in sufficient quantities to maintain or grow the current level of its reserves could negatively affect South32 s results or prospects.

The discovery of new mineral deposits does not guarantee that the mining of that deposit would be commercially viable; the size of the deposit, location, access to infrastructure, development and operating costs, commodity prices and recovery rates are all key factors in determining commercial viability. Furthermore, local communities in close proximity to new proposed operations may create additional costs or delays in respect of, or ultimately prevent the commencement or continuation of, those operations.

(b) Increased costs or schedule delays may adversely affect South32 s development projects

While significant time and resources have been devoted to project planning, approval and review processes, many of the development projects of South32 Businesses are highly complex and rely on factors that are outside its control, which may result in South32 underestimating the cost or time required to complete a project. In addition, South32 Businesses may fail to manage projects as effectively as anticipated or unforeseen challenges may emerge. Furthermore, the cost of inputs into the development of projects may rise over time or be volatile, making development less economically rewarding.

Increased capital costs or schedule delays at development projects of South32 Businesses will adversely affect such future development projects and impact anticipated financial returns.

2.4 FINANCIAL RISKS

(a) If South32 s liquidity and cash flow deteriorate, it could adversely affect South32 s access to capital and ability to operate existing assets or fund major capital programs

South32 will target an investment grade credit rating throughout the cycle. However, fluctuations in commodity prices and the ongoing global economic volatility may adversely impact South32 s future cash flows. If South32 s key financial ratios are not maintained and an investment grade credit rating is not obtained or maintained, its liquidity and cash reserves, interest rate costs on borrowed debt and future access to financial capital markets could be adversely affected.

(b) Closure and rehabilitation costs require significant judgements and estimates and are therefore subject to change

Closure planning is a key consideration in the planning and development of South32 s projects and operations. All operations are required to develop and maintain closure plans, which describe the proposed methods to rehabilitate disturbed land and remediation requirements for contaminated land, and end uses for land and infrastructure.

South32 is required in its financial statements to include provisions for the expected closure and rehabilitation costs of its operations. Those provisions are measured at the expected future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Significant judgements and estimates are involved in forming expectations as to future activities and the amount and timing of future cash flows, having regard to factors 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.

South32 and its management consider its closure and rehabilitation provisions to be appropriate based on currently available information (including estimated closure dates). However, given inherent uncertainties, the future actual expenditure may differ from the amounts currently provided.

Table of Contents

(c) South32 may not recover its investments in mining assets, which may require financial write-downs

One or more of the South32 Businesses may be affected by changed market or industry structures, commodity prices, technical operating difficulties, inability to recover its Ore Reserves or increased operating cost levels. These may cause South32 to fail to recover all or a portion of its investment in mining assets and may require financial write-downs, adversely impacting financial results.

(d) The commercial counterparties the South32 Businesses transact with may not meet their obligations, which may negatively impact South32 s financial condition and results

The South32 Group contracts with a number of commercial, governmental and financial counterparties, including customers, suppliers and financial institutions. Counterparties may fail to perform against existing contracts and obligations. Non-supply or changes to the terms of supply of key inputs, such as tyres, mining and mobile equipment and other key consumables, may unfavourably impact costs and production at South32 s operations. Furthermore, South32 will need to replace certain services provided under transitional service arrangements entered into with BHP Billiton with agreements with third parties, creating the risk of counterparties failing to meet performance standards that were achieved prior to the Demerger or under transitional services provided by BHP Billiton. These factors could negatively affect South32 s Businesses and there can be no assurance that South32 would be successful in attempting to enforce any of its contractual rights through legal action.

(e) South32 may be subject to restrictions on its ability to pay dividends or extract capital out of certain jurisdictions

South32 s ability to pay dividends will depend on, among other things, government regulation, the level of distributions, if any, received from South32 s operating subsidiaries and associates, and their level of cash balances and access to those cash balances.

Certain of South32 s operating subsidiaries may, from time to time, be subject to restrictions on their ability to make distributions to South32 or return cash to it by other means, and there can be no assurance that such restrictions will not have an adverse effect on the market price of South32 Shares.

It is a condition of SARB s approval of South32 s inward listing on the JSE, that South32 will have the right to pay dividends from its South African subsidiaries and to remit any such dividends abroad without having to obtain the prior written consent of the FinSurv Department, provided that the payout ratio of dividends from the distributable reserves of the South African subsidiaries shall be no greater than the average payout ratio of dividends from the distributable reserves of non-South African subsidiaries.

(f) South32 s insurance coverage may be inadequate to respond to significant events, causing disruptions to its activities or financial loss

South32 s insurance coverage with respect to its operations may be inadequate and the occurrence of an event could adversely affect the South32 Businesses, including its operations, financial condition and results or prospects. In addition, South32 may incur liabilities to third parties (in excess of any insurance cover or statutory reserves) arising from negative environmental impacts or other damage or injury.

2.5 SUSTAINABILITY RISKS

(a) Impacts, incidents or accidents and related regulations may adversely affect South32 s people, operations, reputation or licence to operate or the environment

There are a number of risks that could adversely affect South32 s people, operations, reputation or licence to operate or the environment.

(1) South32 may be adversely affected by health and safety risks in respect of its activities

Health-related risks at South32 s operations include potential occupational exposure to noise, manganese, carcinogenic substances, such as silica, diesel particulate matter, nickel, sulphuric acid mist, flourides and coal tar pitch. Longer-term health impacts may arise due to the exposure of the South32 workforce to these and other hazardous substances. The South32 Businesses have, and have had for a number of years, in place comprehensive health and safety policies and performance requirements that are intended to help mitigate the impact of such exposures.

Risks to fitness-for-work, such as fatigue and impairment from illegal or legal drugs, including alcohol, may also affect South32 s operations. South32 Businesses operated by members of the South32 Group are required to develop and implement a fatigue management plan and a risk-based drug and alcohol program. Infectious diseases such as HIV and malaria may also have an adverse impact upon South32 s workers or on its communities, primarily in Africa. Because South32 operates internationally, it may be affected by potential pandemic outbreaks.

South32 has controls in place to understand, manage and, where possible, eliminate the safety risks in its business. Potential safety events that may have an adverse impact on South32 s operations include fire, explosion or rock fall incidents both in above ground and underground mining operations, personnel conveyance equipment failures or human errors in underground operations, aircraft incidents, incidents involving light vehicles and mining mobile equipment, ground control failures or gas leaks, equipment isolation during repair and maintenance, working from heights or lifting operations.

Table of Contents

Fatal injuries have historically occurred at South32 Businesses sites and there is a risk of future fatalities. These incidents may result in claims or criminal prosecutions against South32 Businesses.

South32 s approach to health and safety is reflected in its controls and procedures, which are intended to eliminate risk wherever possible. However, there can be no assurance that these controls and procedures will always fully protect against these potential future risks.

(2) South32 may be adversely affected by environmental risks in respect of its activities

South32 s operations, by their nature, have the potential to impact biodiversity, land, water resources and related ecosystems, including from the discharge of contaminants. Changes in scientific understanding of these impacts, regulatory requirements or stakeholder expectations may prevent or delay project approvals and result in increased costs for mitigation, offsets or compensatory actions.

All of South32 s operating and closed facilities are required to have comprehensive closure plans in place, which include the proposed methods to rehabilitate disturbed land and remediation requirements for contaminated land, and end uses for land and infrastructure. Changes in circumstances and regulatory or community expectations may result in closure plans requiring change. Furthermore, challenges may be faced in implementing existing closure plans or amendments may be required to closure plans to address new circumstances that come to light or to ensure appropriate rehabilitation and remediation of sites. These factors may impact financial closure provisions and costs at the affected operations.

South32 s operations (particularly South Africa Energy Coal) include a number of closed mines and facilities. Implementation of the closure plans for the South Witbank colliery (which is a former operation of South Africa Energy Coal that closed in 1975) remains subject to ongoing review having regard to structural risks relating to the surface area of the former mine (where some sink-holes have formed) and the long-term risk of underground fires spreading from nearby mines owned by third parties.

Incidents that may occur or may have historically occurred at South32 s operations may have an adverse environmental impact, including from uncontrolled tailings containment breaches, escape of polluting substances and subsidence from mining activities, (particularly at South32 s underground mines, including Illawarra Metallurgical Coal, which has the potential to cause damage to adjacent infrastructure). Certain of South32 Businesses sites are subject to remediation plans that seek to address known contamination as a result of past activities. Remediation plans for these sites are subject to ongoing review and change, including as a result of engagement with regulatory authorities, landowners and local communities. Changes to the remediation plan may have an impact on the closure provision. Furthermore, as yet undiscovered contamination may be identified or future contamination may occur that requires remediation action that could result in additional costs for South32.

Diesel in ground water has been identified at GEMCO s Milner Bay port facility. The contamination is currently contained and discussions with local landowners and regulators as to the final rehabilitation plan for the contaminated area are ongoing. If this results in any changes to the closure plan or assumptions underlying the current provision, it is possible that the provision for this event will need to change.

(3) Water and waste water management risks have the potential to adversely impact the sustainability of South32 s operations

South32 is strongly focused on water and waste water management, as the sustainability of South32 s operations relies on South32 s ability to obtain an appropriate quality and quantity of water, use it responsibly and manage it appropriately, including taking account of natural supply variations.

South32 s operations are exposed to a range of water risks, including water scarcity, water excess, water quality, water discharge or discharge into ground water issues. Some assets are more prone than others to these water management related risks.

Worsley Alumina has implemented a number of projects to address water management risks, including to control, monitor and assign accountability for all aspects of residue management and to improve liquor return to the refinery, reduce additional water use and minimise dust emissions. Contaminated water from Worsley Alumina s operations is stored in site containment facilities from which contaminated water could be released if higher than average rainfall or extreme weather occurs. South32 is considering various mitigation strategies to address this risk.

(4) South32 Businesses may be disrupted without the support of the local communities in which the South32 Businesses are located

Notwithstanding South32 s contributions to the communities in which the South32 Businesses are located, local communities may become dissatisfied with the impact of South32 s operations or oppose new development projects, including through litigation, which may affect the costs, production, and, in extreme cases, viability of such operations. Community-related risks may include community protests or civil unrest, delays to proposed developments, mistreatment of local communities by South32 employees or contractors and inadvertent breaches of human rights or other international laws or conventions.

Table of Contents

In CY2013, Cerro Matoso faced a community incident relating to a protest by local communities. Following on from this incident, agreement has been reached with the communities regarding the provision of community support and the establishment of a regular forum to engage with the communities located close to Cerro Matoso to better facilitate the resolution of concerns and complaints at an early stage. There remains a risk of community incidents occurring at Cerro Matoso or any other South32 Businesses.

There are also security risks that may impact on South32 s operations and people. This security risk includes the prospect of unpredictable actions, such as violence, that may be taken by illegal miners discovered at certain mines, including South Africa Manganese.

(b) Climate change and greenhouse gas effects may adversely impact South32 s operations and markets

The South32 Businesses have significant sales of carbon-based energy products. Carbon-based energy is also a significant input in a number of South32 s mining and processing operations.

A number of governments and governmental bodies have introduced, or are contemplating introducing, fiscal and/or regulatory change to address the impacts of climate change. Many countries have established, or are contemplating establishing, individual greenhouse gas targets and/or other national mitigation actions.

The South African National Treasury published its Revised Carbon Tax Policy Paper in May 2013 that sets out the South African Government s intention to introduce a carbon tax. The South African Government has proposed a phased implementation of the carbon tax, phase one of which is scheduled to commence on 1 January 2016. Uncertainty exists around the final form of the tax and whether the tax will actually be implemented.

There is a potential gap between the current valuation of fossil fuel reserves on the balance sheets of companies and in global equities markets and the reduced value that could result if a significant proportion of reserves were rendered incapable of extraction in an economically viable fashion due to regulatory or market responses to climate change.

Furthermore, there is the potential impact on South32 s financial results of increased input costs caused by measures taken by governments in respect of the use of carbon-based energy. Certain South32 smelting and refining assets are particularly prone to this risk, given they are significant users of electricity produced from coal and natural gas.

The physical impacts of climate change on South32 s operations are uncertain and will be specific to the geographic circumstances. These may include changes in rainfall patterns, water shortages, rising sea levels, increased storm intensities or higher temperatures. These effects may adversely impact the productivity and financial performance of South32 s operations.

Recently, there has also been activism by certain parties against companies with significant exposures to fossil fuels. Given South32 s commodity profile, South32 may be the target of such activism, which could lead to investors being encouraged not to invest in, or to divest their interests in, South32 or other actions being taken that would impact South32 s operations, results or share price.

2.6 GENERAL RISKS RELATING TO THE SOUTH32 SHARES

(a) The price of South32 Shares may be subject to broader share market conditions

South32 Shareholders should be aware that there are risks associated with an investment in financial products quoted on a stock exchange. Share price movements could affect the value of any investment in South32.

The value of South32 Shares can be expected to fluctuate depending on various factors, including fluctuations in the domestic and international markets for listed stocks, general worldwide economic conditions, changes in government policies, investor perceptions, movements in interest rates, prices of South32 s products, variations in operating costs and costs of replacing capital assets which South32 may require in the future.

In addition, following the Demerger, some BHP Billiton Shareholders may not wish to hold South32 Shares (or may not be permitted to do so under the terms of their investment mandates, including because South32 will not qualify for inclusion in FTSE indices), and may sell the South32 Shares they received under the Demerger. Sales of this sort could create short term selling pressure on the South32 Shares. The sale of South32 Shares by the Sale Agent may also impact the trading price of South32 Shares.

However, it is expected that 100 per cent of the South32 Shares will qualify for inclusion in the S&P/ASX indices, although not all of the South32 Shares will initially be distributed to investors whose portfolios are benchmarked against those indices (as a proportion of South32 Shares will be distributed to shareholders in BHP Billiton Plc). This means that the allocation of shares to shareholders who benchmark their portfolios against the S&P/ASX indices may be less than would be required for them to initially achieve an equivalent portfolio exposure to that benchmark, creating a relative underexposure to South32 in their portfolios. It is reasonable to expect that this underexposure may give rise to demand for South32 Shares, as would demand from shareholders who wish to increase their exposure to South32 for any other reason.

Table of Contents

(b) Future share issues by South32 may dilute existing South32 Shareholders or cause volatility in the price of South32 Shares

The issue of additional shares by South32 or the possibility of such issue may cause the market price of South32 Shares to fluctuate, decline or be lower than might otherwise be the case or result in the dilution of the interests of South32 Shareholders. In addition, future share issues conducted by South32 may adversely affect South32 s ability to raise capital in the future or dilute interests of South32 Shareholders.

(c) Exchange rate fluctuations may adversely affect the foreign currency value of South32 Shares and any dividend

The South32 Shares will be quoted in Australian dollars on the ASX, South African rand on the JSE and pounds sterling on the LSE. Dividends in respect of South32 Shares, if any, will be declared in US dollars. Fluctuations in the exchange rate between the US dollar and each of these currencies will affect, among other matters, the local currency value of the South32 Shares and of any dividends.

(d) The rights afforded to South32 Shareholders are governed by Australian law. Not all rights available to shareholders under the laws of South Africa, the United Kingdom and the United States will be available to South32 Shareholders

The rights afforded to South32 Shareholders will be governed by Australian law, and these rights differ in certain respects from the rights of shareholders in typical South African, English and United States companies (or companies incorporated in any other jurisdictions).

Under English law, generally speaking, directors may allot shares if authorised to do so by ordinary resolution of the company s members or by the articles of association. In addition, shareholders have pre-emption rights unless those rights are explicitly excluded or disapplied. This means that an issue for cash of equity securities or rights to subscribe for, or convert into, equity securities must be offered in the first instance to the existing equity shareholders in proportion to the respective nominal values of their holdings, unless a special resolution has been passed at a general meeting of shareholders to the contrary. However, South32 will not be subject to the requirements of the Companies Act 2006 to obtain authority from shareholders to allot new shares and to issue equity securities otherwise than on a pre-emptive basis to existing holders of ordinary shares. Any future increase in South32 s share capital or granting of rights to subscribe for South32 Shares may be dilutive to South32 Shareholders as they do not have pre-emption rights under the South32 Constitution or Australian law (although shareholders are afforded certain protections against dilution pursuant to the ASX Listing Rules and Corporations Act).

(e) Foreign investors may find it difficult to enforce foreign judgements obtained against South32 and the South32 Directors

The majority of the South32 Directors and officers reside outside South Africa and the United Kingdom. In addition, South32 s assets are located in various jurisdictions. As a result, it may not be possible for non-Australian investors to effect service of process on or to enforce judgements obtained against South32, or its directors or officers, in respect of actions commenced in the investor s home jurisdiction.

Table of Contents

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Table of Contents

3 IMPORTANT INFORMATION

3.1 GENERAL

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult their own lawyer, financial adviser or tax adviser for legal, financial or tax advice.

The contents of the BHP Billiton website (www.*bhpbilliton.com)* do not form part of this document and South32 Shareholders and prospective investors should not rely on them. Furthermore, neither BHP Billiton nor South32 does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, or the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Demerger, BHP Billiton or South32. Neither BHP Billiton nor South32 make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

Without prejudice to any obligation of South32 to publish supplementary disclosure pursuant to Section 87G of FSMA and PR 3.4.1 of the UKLA Prospectus Rules, neither the publication of this document nor any distribution of South32 Shares shall, under any circumstances, create any implication that there has been no change in the business or affairs of the South32 Group taken as a whole since the date of this document or that the information contained herein is correct as of any time subsequent to its date.

3.2 PREPARATION OF, AND RESPONSIBILITY FOR, THIS DOCUMENT

South32 and the South32 Directors, whose names appear in Section 8.1(a), accept responsibility for the information contained in this document (the liability of South32 and the South32 Directors being subject to certain indemnities BHP Billiton Limited has agreed to provide to South32, as described in Section 14.4). BHP Billiton Limited accepts responsibility for the information contained in this document save for the information contained in Sections 5.2, 5.3, 5.5, 7.7, 8.1 to 8.6 and 8.8 (as well as information included in other sections of this Document which substantially replicates, derives from or summarises the information referred to in these sections).

To the knowledge of South32, BHP Billiton Limited and the South32 Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

KPMG Financial Advisory Services (Australia) Pty Ltd (**KPMG Transaction Services**) has given, and has not withdrawn, its written consent to be named in this document as Independent Accountant to the South32 Group in relation to the pro forma historical financial information in the form and context in which it is named and the inclusion in this document of its report in Section 12 (Independent Accountant s Assurance Report) in the form and context in which it is included. KPMG Transaction Services has authorised the contents of such report for the purpose of PR 5.5.3R(2)(f) of the UKLA Prospectus Rules.

KPMG and KPMG Inc have given and have not withdrawn their written consent to be named in this document as Auditor to the South32 Group in relation to the historical combined financial information in Annexures 1 and 2 in the form and context in which they are named and the inclusion in this document of the Independent Audit Report and Independent Review report in Annexures 1 and 2 in the form and context in which they are included. KPMG and KPMG Inc have authorised the contents of such reports for the purpose of PR 5.5.3R(2)(f) of the UKLA Prospectus Rules.

Each of the Independent Competent Persons has given and has not withdrawn their written consent to the inclusion in this document of their report(s), set out in Annexure 6 (Independent Competent Persons Reports) and to the references to their name included herein in the form and context in which it appears and has authorised the contents of those parts of this document, which comprise their report(s). Each of the Independent Competent Persons accepts responsibility for their report(s) as part of this document together with information in this document, which has been extracted directly from their report(s). To the best of the knowledge of each of the Independent Competent Persons (each of whom has taken all reasonable care to ensure that such is the case), the information contained in their report(s) is in accordance with the facts and contains no omission likely to affect the import of such information.

Greenwoods & Herbert Smith Freehills Pty Ltd has reviewed and agrees with and accepts responsibility for Section 13.2 relating to the description given of the tax implications of holding South32 Shares for South32 Shareholders who, among other things, are residents of Australia for Australian tax purposes. Greenwoods & Herbert Smith Freehills Pty Ltd has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.2 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.2. To the best of the knowledge of Greenwoods & Herbert Smith Freehills Pty Ltd (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.2 is in accordance with the facts and contains no omissions likely to affect the import of such information.

Table of Contents

Slaughter and May has reviewed and agrees with and accepts responsibility for Section 13.3 relating to the description given of the United Kingdom tax implications of holding South32 Shares for South32 Shareholders who, among other things, are residents of the United Kingdom for United Kingdom tax purposes. Slaughter and May has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.3 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.3. To the best of the knowledge of Slaughter and May (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.3 is in accordance with the facts and contains no omissions likely to affect the import of such information.

Cleary Gottlieb Steen & Hamilton LLP has reviewed and agrees with and accepts responsibility for the description given of the United States federal income tax laws included in Section 13.4 (except for Section 13.4(b)(4)) of this document relating to the tax implications of holding South32 Shares for certain South32 Shareholders who, among other things, are subject to United States federal income tax on a net income basis with respect to income from the South32 Shares or ADSs. Cleary Gottlieb Steen & Hamilton LLP has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.4 (except for Section 13.4(b)(4)) and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.4 (except for Section 13.4(b)(4)). To the best of the knowledge of Cleary Gottlieb Steen & Hamilton LLP (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.4 (except for Section 13.4(b)(4)) is in accordance with the facts and contains no omissions likely to affect the import of such information.

Ernst & Young Advisory Services (Pty) Ltd has reviewed and agrees with and accepts responsibility for Section 13.5 relating to the description given of the South African taxation implications of holding South32 Shares for South32 Shareholders whose registered address on the South32 Share Register is in South Africa or who are otherwise deemed resident in South Africa for South African tax purposes. Ernst & Young Advisory Services (Pty) Ltd has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.5 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.5. To the best of the knowledge of Ernst & Young Advisory Services (Pty) Ltd (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.5 is in accordance with the facts and contains no omissions likely to affect the import of such information.

Bell Gully has reviewed and agrees with and accepts responsibility for Section 13.6 relating to the description given of the New Zealand tax implications of holding South32 Shares for South32 Shareholders whose registered address on the BHP Billiton Limited Share Register is in New Zealand or who are otherwise deemed resident in New Zealand for New Zealand tax purposes. Bell Gully has given, and has not withdrawn, its written consent to the inclusion in this document of Section 13.6 and to the references to its name included herein in the form and context in which it appears and has authorised the contents of Section 13.6. To the best of the knowledge of Bell Gully (which has taken all reasonable care to ensure that such is the case), the information contained in Section 13.6 is in accordance with the facts and contains no omissions likely to affect the import of such information.

3.3 INVESTMENT DECISIONS

This document does not take into account the investment objectives, financial situation or particular needs of any BHP Billiton Shareholder, South32 Shareholder or any other person. This document should not be relied upon as the sole basis for any investment decision in relation to South32 Shares or any other securities, and you should consult your financial, legal, tax or other professional adviser before making any such investment decision.

3.4 FORWARD LOOKING STATEMENTS

Certain statements in this document relate to the future, including forward looking statements relating to South32 s financial position and strategy. Forward looking statements can be identified by the use of terminology such as intend , aim , project , anticipate , estimate , plan , believe , expect , may , should , will , continue or other si statements discuss future expectations concerning the results of operations or financial condition, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, including the risk factors set out in Section 2, many of which are beyond BHP Billiton s or South32 s control, and which may cause the actual results to differ materially from those expressed in the statements contained in this document. South32 Shareholders are cautioned not to put undue reliance on forward looking statements.

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

Additionally, statements of the intentions of the South32 Board and/or Directors reflect the present intentions of the South32 Directors, respectively, as at the date of this document and may be subject to change as the composition of the South32 Board alters, or as circumstances require. Except as required by law, BHP Billiton and South32 disclaim any obligation or undertaking to update or revise any forward looking statement in this document.

Table of Contents

The forward looking statements speak only as at the date of this document. To the extent required by applicable law or regulation (including as may be required by the Corporations Act, ASX Listing Rules, UKLA Prospectus Rules, UKLA Listing Rules, UKLA Disclosure and Transparency Rules, JSE Listings Requirements and Financial Markets Act), South32 will update or revise the information in this document. Otherwise, BHP Billiton and South32 expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The statements above relating to forward looking statements are not intended to qualify the working capital statement set out in Section 15.20 of this document.

3.5 PRESENTATION OF FINANCIAL INFORMATION

This document includes both historical combined financial information and pro forma historical financial information for South32. The basis of preparation of the historical combined financial information is set out in Annexure 1 and the basis of preparation of the pro forma historical financial information is set out in Section 10.2.

The financial information contained in this document has been prepared and presented in accordance with the recognition and measurement requirements of:

- Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the Australian Accounting Standards Board;
- International Financial Reporting Standards and interpretations as adopted by the European Union;
- International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board.

The above accounting standards and interpretations are collectively referred to as **IFRS** in this document.

Information on departures from the disclosure requirements of IFRS is set out in the basis of preparation to the historical combined financial information set out in Annexure 1.

South32 uses the measures in Table 3.1 below which are included in the historical combined financial information in Annexures 1 and 2, in accordance with IFRS 8 Operating Segments .

South32 plans to use the measures of Underlying Earnings, Underlying EBIT and Underlying EBITDA to assess the performance of the South32 Group and the South32 Businesses. Underlying EBITDA and Underlying EBIT are calculated based on the accounting policy that South32 proposes to use when discussing its operating results in future periods. The accounting policy proposed by South32 for calculating these measures differs from that currently used by BHP Billiton, the key differences being that South32 will adjust for certain items each period, irrespective of materiality, and South32 management will retain the discretion to adjust for other significant non-recurring items that are not considered to reflect the underlying performance of the South32 Businesses. Refer to note 2 Segment reporting of Annexure 1 for further details of South32 s policy for calculating Underlying Earnings, Underlying EBIT and

Underlying EBITDA. South32 also uses a number of non-IFRS financial measures in addition to those reported in accordance with IFRS. The South32 Directors believe that these non-IFRS measures, listed below, are important when assessing the underlying financial and operating performance of South32 and the South32 Businesses.

Table 3.1: IFRS 8 measures

IFRS 8 measure	Definition
Underlying Earnings	Underlying Earnings is Profit after taxation and earnings adjustments. Earnings adjustments represent items that do not reflect the underlying operations of South32.
Underlying EBIT	Earnings before net finance costs, taxation and any earnings adjustments before net finance costs and income tax expense.
Underlying EBITDA	Underlying EBIT before depreciation and amortisation.

Non-IFRS measures used in this document are defined below:

Table 3.2: Non-IFRS measures

Non-IFRS measure	Definition
Adjusted effective tax rate	Comprises total taxation expense excluding the impact of exchange rate movements included in taxation expense, remeasurements of deferred tax assets associated with Minerals Resource Rent Tax (**MRRT**), non-recognition of tax benefits where the tax benefit resides with BHP Billiton and the tax impacts of amounts excluded from Underlying EBIT divided by Profit before taxation and amounts excluded from Underlying EBIT.
Underlying EBIT margin	Comprises Underlying EBIT excluding third party product profit from operations, divided by revenue excluding third party product revenue.

Table of Contents

Non-IFRS measure	Definition
Underlying EBITDA margin	Comprises Underlying EBITDA excluding third party product EBITDA, divided by revenue excluding third party product revenue.
Margin on third party products	Comprises Underlying EBIT on third party products, divided by third party product revenue.
Net debt	Comprises interest bearing liabilities less cash and cash equivalents.
Net operating assets	Represents operating assets net of operating liabilities, including the carrying value of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and deferred tax balances.

3.6 INDEPENDENT COMPETENT PERSONS REPORTS

The Independent Competent Persons Reports, which are set out in Annexure 6, have been prepared by individuals who South32 believes to be sufficiently independent to provide those reports. As disclosed in the Independent Competent Persons Reports, certain of those individuals have some small interests in BHP Billiton Shares. South32 does not consider those interests to be material so as to compromise the independence of the Independent Competent Persons Reports.

The scope of work undertaken by each Independent Competent Person is set out in the relevant Independent Competent Person s Report.

In relation to each Independent Competent Persons Report, no material changes have occurred since the date of the Independent Competent Persons Report the omission of which would make the Independent Competent Person s Report misleading.

3.7 CREDIT RATING

References to investment grade are made with reference to ratings criteria published by one or a combination of credit rating agencies which are registered under Regulation (EC) No. 1060/2009.

3.8 NOTICE TO BHP BILLITON SHAREHOLDERS OUTSIDE AUSTRALIA, THE UNITED KINGDOM AND SOUTH AFRICA

This document does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer.

The Demerger will not be registered with the United States Securities and Exchange Commission under the United States Securities Act of 1933, as amended. BHP Billiton expects South32 to qualify for the exemption from registration under Rule 12g3-2(b) of the Exchange Act, and accordingly the South32 Shares will not be registered under the Exchange Act and South32 will not be subject to the reporting requirements of the Exchange Act.

BHP Billiton Shareholders who are Ineligible Overseas Shareholders will not receive South32 Shares under the Demerger. South32 Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Overseas

Shareholders. Refer to the Shareholder Circular for further information.

3.9 WHERE TO FIND HELP

If you have any additional questions in relation to this document, please call the Shareholder Information Line on:

BHP Billiton Limited Shareholders

- 1300 582 743 (within Australia) on weekdays between 8:30am and 7:30pm (AEST/ADST);
- +61 3 9415 4808 (international) on weekdays between 8:30am and 7:30pm (AEST/ADST).

BHP Billiton Plc Shareholders

UK register

- 0844 472 7001 (within the United Kingdom) on weekdays between 8:30am and 5:30pm (GMT/BST);
- +44 844 472 7001 (international) on weekdays between 8:30am and 5:30pm (GMT/BST).

South African register

- 086 1100 634 (within South Africa) on weekdays between 8:00am and 4:30pm (SAST);
- +27 11 870 8216 (international) on weekdays between 8:00am and 4:30pm (SAST).

BHP Billiton ADS Holders

- 877 248 4237 (within the United States) on weekdays between 8:30am and 6:00pm (EST/EDT);
- +1 781 575 4555 (international) on weekdays between 8:30am and 6:00pm (EST/EDT).

For legal reasons, the Shareholder Information Line will not provide advice on the merits of the Demerger or give any legal, financial or taxation advice, for which you are recommended to consult your own legal, financial or taxation adviser.

Table of Contents

4 KEY TRADING DATES

The key dates relating to South32 securities trading on the ASX, JSE and LSE are set out below:

Table 4.1: Key trading dates

Event	Indicative date	ASX	JSE	LSE	Other
South32 Shares commence trading on the ASX on a deferred settlement basis	18 May 2015	12:00pm AEST			
South32 Shares commence trading on the JSE on a normal settlement basis	18 May 2015		9:00am SAST		
South32 Shares commence trading on the LSE on a when-issued basis	18 May 2015			8:00am BST	
South32 ADSs that will be distributed to BHP Billiton ADS Holders commence trading over-the-counter on a when-issued basis	18 May 2015				During the day EDT
Transfer of South32 Shares to Eligible BHP Billiton Limited Shareholders (**BHP Billiton Limited Distribution Date**)	24 May 2015	5:00pm AEST			
Transfer of South32 Shares to Eligible BHP Billiton Plc Shareholders (**BHP Billiton Plc Distribution Date**)	25 May 2015		Commencing 7:00am SAST[(a)]	8:30am BST	
Commencement of normal trading of South32 Shares on the LSE	26 May 2015			8:00am BST	

Distribution of South32 ADSs to BHP Billiton ADS Holders	29 May 2015		During the day EDT
South32 ADSs commence regular way trading in the over-the-counter market	1 June 2015		During the day EDT
Commencement of normal trading of South32 Shares on the ASX	2 June 2015	10:00am AEST	

(a) For the dematerialised holders this will be dependent on the Strate settlements process, commencing 7:00am SAST. Prior to start of trade on JSE (9:00am) for certificated holders.

All dates and times are indicative only and, among other things, are subject to change. Any changes to the timetable will be announced through the ASX, JSE and LSE and will be notified on BHP Billiton s website at *www.bhpbilliton.com/demerger.*

25

Table of Contents

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Table of Contents

5 SOUTH32 OVERVIEW

5.1 INTRODUCTION

On Demerger, South32 will be a globally diversified metals and mining company with a portfolio of high quality assets producing alumina, aluminium, coal, manganese, nickel, silver, lead and zinc.

South32 will comprise the following South32 Businesses, which are described in more detail in Section 7.1. All financial information shown in Section 5 reflects historical combined financial information for South32 extracted from Annexures 1 and 2.

Diagram 5.1: South32 s locations

Table 5.1: Worsley Alumina

Worsley Alumina (86 per cent interest) is an integrated bauxite mining and alumina refining operation located in Western Australia, Australia. Bauxite ore is mined near Boddington and conveyed to the Worsley Alumina refinery, located near Bunbury. Alumina is railed from Worsley Alumina to Bunbury for export to Worsley Alumina s export customers including South32 s Hillside and Mozal Aluminium smelters in southern Africa. Worsley Alumina is one of the largest and lowest-cost alumina refineries in the world, being in the first cost quartile in its industry based on CY2013 production.[1] Worsley Alumina has a resource life of 63 years and a reserve life of 17 years.

South32 s share of:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Alumina production (kt)	1,953	1,970	3,916	3,675	2,917
Underlying EBITDA (US$M)	143	108	162	60	(67)

1 Source: C1 cash cost curve, Wood Mackenzie Alumina refinery costs league, 2014 Q4.

27

Table of Contents

Table 5.2: South Africa Aluminium

South Africa Aluminium (100 per cent interest) comprises the Hillside smelter near Richards Bay, South Africa. The business previously included the Bayside smelter, which was closed in FY2014, and the Bayside casthouse. An agreement has been reached for the sale of the assets comprising the Bayside casthouse (the sale is subject to certain regulatory and other conditions, which are expected to be fulfilled during the first half of CY2015). Hillside is the largest aluminium smelter in the Southern Hemisphere and it imports alumina from the Worsley Alumina refinery. Historically, approximately 80 per cent of Hillside s aluminium production has been exported through Richards Bay Port with the balance of Hillside s aluminium production trucked to the Bayside casthouse or to domestic customers. The Hillside smelter extends across the first and second cost quartiles based on CY2013 production.[2]

South32 s share of:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Aluminium production (kt)	356	415	804	761	719
Underlying EBITDA (US$M)	201	84	190	73	(10)

Table 5.3: Mozal Aluminium

Mozal Aluminium (47.1 per cent interest) is an aluminium smelter located near Maputo, Mozambique. Alumina is currently supplied to Mozal Aluminium from the Worsley Alumina refinery, which is majority owned by South32. Most of Mozal Aluminium s aluminium is currently exported to Europe through Matola, the port of Maputo.
In CY2013, Mozal Aluminium had higher operating costs than the Hillside smelter (which extends across the first and second cost quartiles based on CY2013 production).[3]

South32 s share of:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Aluminium production (kt)	135	134	266	264	264
Underlying EBITDA (US$M)	88	17	52	31	51

Table 5.4: Brazil Aluminium

Brazil Aluminium comprises South32 s interests in the MRN Mine (14.8 per cent interest) as well as its interest in the Alumar alumina refinery (36 per cent interest) and Alumar aluminium smelter (40 per cent interest) (together with certain interests in ancillary facilities and lands). The MRN Mine is located in the Trombetas region in the state of Pará, Brazil and Alumar is located at São Luís in the state of Maranhão, Brazil. The majority of the bauxite produced from the MRN Mine is sold to its shareholders and related parties. South32 s share of bauxite produced from the MRN Mine is supplied to the Alumar refinery and most of the alumina produced from the Alumar refinery is exported via the nearby São Marcos Bay facilities, with a small portion transferred to the Alumar smelter. All of Alumar s aluminium production is trucked to domestic customers. Brazil Aluminium s Alumar refinery is in the second cost quartile and the Alumar smelter is in the third cost quartile based on CY2013 production.[4] MRN Mine has a resource life of 29 years and a reserve life of six years.

South32 s share of:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Alumina production (kt)	680	633	1,262	1,205	1,235
Aluminium production (kt)	26	63	104	154	170
Underlying EBITDA (US$M)	140	35	127	44	3

2 Source: C1 cash cost curve, Wood Mackenzie Aluminium smelter costs league, 2014 Q4.

3 Based on the C1 cash cost curve, Wood Mackenzie Aluminium smelter costs league, 2014 Q4, Mozal Aluminium was in the first cost quartile based on CY2013 production. Refer to Section 7.1 for historical operating cost data for Mozal Aluminium and South Africa Aluminium.

4 Source: C1 cash cost curve, Wood Mackenzie Aluminium smelter costs league, 2014 Q4.

Table of Contents

Table 5.5: South Africa Energy Coal

South Africa Energy Coal (90 per cent interest) operates four energy coal mines in the Witbank region in the Mpumalanga province of South Africa. Approximately 55 per cent of coal produced is sold domestically and the remainder is exported through the Richards Bay Coal Terminal (**RBCT**), in which South32 has a 21 per cent interest. South Africa Energy Coal is the third largest export energy coal producer in South Africa and fifth largest supplier of energy coal domestically. South Africa Energy Coal is in the second cost quartile based on CY2013 production.[5] Khutala, Klipspruit, Wolvekrans and Middelburg mines have resource lives of 103 (inclusive of undeveloped domains), 12, 42 and 34 years and reserve lives of six, six, 21 and 23 years respectively.

100 per cent terms[(a)]:	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Energy coal production (kt)	16,525	14,973	30,384	31,627	33,279
Underlying EBITDA (US$M)	83	54	197	115	416

(a) Production and earnings information for South Africa Energy Coal is shown on a 100 per cent basis. South32 s ownership interest in South Africa Energy Coal is 90 per cent, with the remaining 10 per cent held by minority shareholders, the purchase of which was funded with vendor-financed loans (refer to Section 7.1(e)). However, from an accounting perspective, South32 s interest in Underlying EBITDA will remain at 100 per cent until such loans are repaid to South32, following which South32 s interest in Underlying EBITDA will be 90 per cent.

Table 5.6: Illawarra Metallurgical Coal

Illawarra Metallurgical Coal (100 per cent interest) operates three underground metallurgical coal mines near Wollongong in New South Wales, Australia. Metallurgical coal is trucked to Port Kembla or to BlueScope Steel Limited s (**BlueScope Steel**) Port Kembla steelworks. Illawarra Metallurgical Coal is in the second quartile of the industry margin curve based on CY2013 production[6] and its mines have resource lives (inclusive of undeveloped domains) of 41, 15 and 43 years and reserve lives of 25, two and nine years for each of Appin, West Cliff and Dendrobium / Cordeaux respectively.

South32 s share of:	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Metallurgical coal production (kt)	3,858	2,614	5,974	6,664	6,621
Energy coal production (kt)	880	741	1,539	1,278	1,305
Underlying EBITDA (US$M)	120	70	135	302	818

Table 5.7: Australia Manganese

Australia Manganese (60 per cent interest) comprises the GEMCO open-cut manganese mine and the TEMCO manganese alloy plant. GEMCO, which is located in the Northern Territory, Australia, is one of the world s lowest-cost manganese ore producers. It exports to customers approximately 90 per cent of its ore product through port facilities at Milner Bay and the balance of the ore is shipped to the TEMCO manganese alloy plant in Bell Bay, Tasmania, Australia. The majority of TEMCO s alloy production is exported to customers in Asia and North America, with the balance of TEMCO s production being sold to steel customers in Australia and New Zealand. GEMCO is in the first cost quartile based on CY2013 production.[7] GEMCO has a resource life of 15 years and a reserve life of 11 years.

100 per cent terms[(a)]:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Manganese ore production (kt)	2,499	2,438	4,776	5,027	4,306
Manganese alloy production (kt)	139	123	269	234	198
Underlying EBITDA (US$M)	215	252	505	499	335

(a) Production and earnings information for Australia Manganese is shown on a 100 per cent basis. South32 s ownership interest in Australia Manganese is 60 per cent. South32 s interest in Underlying EBITDA is 60 per cent.

5 Source: C1 cash cost curve, Wood Mackenzie Seaborne export thermal coal, energy adjusted, November 2014.
6 Source: Margin curve (to account for coal quality differentials), Wood Mackenzie Seaborne export metallurgical, November 2014.
7 Source: Site operating costs with value in use adjustment, CRU cost curve, August 2014.

Table of Contents

Table 5.8: South Africa Manganese

South Africa Manganese comprises the Hotazel Mines, being the Mamatwan open-cut mine and the Wessels underground mine (44.4 per cent effective interest), and the Metalloys plant (60 per cent interest). The Hotazel Mines are located near the town of Kuruman, South Africa. Approximately 75 per cent of the ore processed at the mine results in export saleable product. The remainder of the ore is converted to alloy at the Metalloys plant, which is located near Johannesburg, South Africa. The Metalloys plant is one of the largest manganese alloy producers in the world and exports most of its product to customers in the United States, Europe and Asia. Hotazel Mines is in the third cost quartile based on CY2013 production.[8] Hotazel Mines have resource lives of 24 and 92 years and reserve lives of 18 and 46 years for Mamatwan and Wessels respectively.

100 per cent terms[(a)]:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Manganese ore production (kt)	2,056	1,808	3,526	3,490	3,625
Manganese alloy production (kt)	233	180	377	374	404
Underlying EBITDA (US$M)	63	21	120	111	(18)

(a) Production and earnings information for South Africa Manganese is shown on a 100 per cent basis. South32 s ownership interest in South Africa Manganese is 60 per cent, except Hotazel Mines which is 44.4 per cent. However, South32 s interest in Underlying EBITDA is 60 per cent, except Hotazel Mines which is 54.6 per cent (please refer to Section 7.1(h)(2) for further details of the Broad-Based Black Economic Empowerment (**BBBEE**) arrangements).

Table 5.9: Cerro Matoso

Cerro Matoso (99.94 per cent interest) is an open-cut lateritic nickel mine and ferronickel smelter, located near Montelibano, in the Córdoba Department in northern Colombia, which produces high-purity, low-carbon ferronickel granules and is currently one of the largest nickel producers in the world. The product is transported approximately 260 km by road to Cartagena. Cerro Matoso is in the second cost quartile based on CY2013 production,[9] and has a resource life of 37 years and a reserve life of 15 years.

South32 s share of:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Nickel production (kt)	21	24	44	51	49
Underlying EBITDA (US$M)	113	43	87	234	417

Table 5.10: Cannington

Cannington (100 per cent interest) is a silver, lead and zinc underground mine and concentrator operation located in northwest Queensland, Australia, approximately 200 km southeast of Mount Isa, and is the world s largest silver producing mine. Concentrate produced at Cannington is trucked to the Yurbi rail loading facility and then railed approximately 800 km to the Port of Townsville for export to customers mainly located in northeast Asia, Europe and Canada. Cannington is in the first cost quartile of silver production based on CY2013 production on a co-product cost basis,[10] and has a resource life of 22 years and a reserve life of nine years.

South32 s share of:	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Silver production (koz)	12,235	12,667	25,161	31,062	34,208
Lead production (kt)	99	94	187	213	239
Zinc production (kt)	37	32	58	56	55
Underlying EBITDA (US$M)	183	272	460	651	893

Details regarding resource and reserve life calculations

Resource and reserve life information in Section 5 is based on the information in Section 7.2. Resource life is estimated from the FY2014 Classified Mineral or Coal Resources (as applicable), and as provided in the ASX release titled, 2014 BHP Billiton Annual Report 25 September 2014 available on the BHP Billiton website at *www.bhpbilliton.com* or the ASX website at *www.asx.com.au,* converted to a run-of-mine basis using historical Mineral or Coal Resources (as applicable) to Ore Reserves conversion factors, divided by the FY2014 run-of-mine production rate on a 100 per cent basis. Weighted average individual mines Mineral or Coal Resources (as applicable) to Ore Reserves conversion factors and run-of-mine tonnages comprise:

Worsley Alumina: 0.96, 17.4 Mt;

Brazil Aluminium: 0.99, 17.75 Mt;

South Africa Energy Coal all resources: 0.83, 38.05 Mt;

8 Source: Site operating costs with value in use adjustment, CRU cost curve, August 2014.
9 Source: C1 cash cost curve, Wood Mackenzie Nickel industry costs league, 2014 Q4.
10 Source: Estimated 2013 silver cost information, AME Group.

Table of Contents

Illawarra Metallurgical Coal: Appin 0.38, 6.56 Mt, West Cliff 0.38, 2.81 Mt, Dendrobium/Cordeaux 0.34, 3.85 Mt;

Australia Manganese: 0.69, 8.8 Mt;

South Africa Manganese: Mamatwan 0.72, 3.2 Mt, Wessels 0.60, 0.9 Mt;

Cerro Matoso: 0.33, 3.2 Mt;

Cannington: 1.00, 3.4 Mt.

Resource life calculations are indicative only and do not necessarily reflect future uncertainties such as economic conditions, technical or permitting issues.

Reserve life is calculated based on the current stated Ore Reserves divided by the current approved nominated production rate as at the end of FY2014. For Cannington, estimated Ore Reserves are divided by a declining production rate.

Historical Mineral or Coal Resources to Ore Reserves conversion factors may not be indicative of future conversion factors.

5.2 SOUTH32 ORGANISATIONAL STRUCTURE

Following the Demerger, South32 intends to adopt a regional organisational structure, as shown in Diagram 5.2. The key aspects of this organisational structure are as follows:

South32 s head office will be in Perth, Australia;

South32 will operate two regional business hubs for its operations, one in Perth, Australia, which will be co-located with South32 s head office, and one in Johannesburg, South Africa;

South32 s centralised marketing function will be based in Singapore;

South32 intends to have a global shared services centre in Johannesburg, South Africa.

Diagram 5.2: Organisational structure

South32 Businesses are generally located in Australia and Africa, which facilitates South32 s implementation of a regional organisational model. The regional organisational model involves combining the business units and assets into regional business units, which will reduce a layer of management. More authority will be devolved to regional business units, reducing the size of South32 s corporate centre and facilitating greater alignment with regional stakeholders.

A regional organisational structure is considered appropriate for South32 because the majority of its assets are geographically concentrated and because of the generally smaller scale of its operations compared to that of BHP Billiton, which allows for increased support at the regional organisational level, as opposed to the asset organisational level.

This model will involve aggregating functional support, such as finance, supply planning and human resources support, at the regional organisational level. This differs from the operating model employed under BHP Billiton s ownership, where such functional support has been provided at the asset organisational level.

Table of Contents

5.3 STRATEGY

South32 intends to maximise value for shareholders by being a safe, lean, responsible and predictable operator of its portfolio of high quality diversified metals and mining assets, and by managing its capital in a disciplined way. South32 intends to meet these objectives by pursuing the following strategic priorities:

Establish a distinctive, powerful culture and identity. South32 is proud of its BHP Billiton heritage but will create a new and independent culture and identity suited to its scale and requirements. South32 intends to adopt a flexible, agile and entrepreneurial approach designed to maximise the value of its assets. This approach will seek to foster a culture of innovation and continuous improvement.

Enhance environmental, health, safety and social programs. South32 recognises that all stakeholders benefit from a sustainable business and considers it a strategic priority to enhance its environmental, health, safety and social programs for the benefit of employees, host communities and governments.

Embed an efficient operating model that is aggregated at the regional level. South32 s operating model will be designed to ensure that each asset is operated in the most efficient manner. An important aspect of the South32 operating model is the regional organisational structure, which is described in Section 5.2 and is expected to help drive more efficient and productive operations.

Reduce costs and improve productivity. South32 s assets have benefited from the structured and focused approach to productivity pursued by BHP Billiton. South32 s lean operating model and performance-oriented culture offer the potential for additional gains, which may further enhance the already competitive position of South32 s assets.

Create strong alignment with investors. South32 will adopt a simple approach to manage its capital, with a view to generating strong cash returns. South32 will, in a manner consistent with its dividend policy described in Section 5.5, seek to return a proportion of Underlying Earnings as dividends. Other alternatives including special dividends, share buy-backs and high return investment opportunities will compete for excess capital.

Develop and pursue investment opportunities. South32 will rigorously evaluate and only pursue high quality investment options that meet strict financial criteria, including the low-cost, value accretive brownfield investment options that are embedded in its existing assets.

Continually seek to optimise the portfolio. South32 intends to continuously assess the make-up of its diverse portfolio of assets to ensure its capital is being deployed in the most efficient manner.

5.4 KEY STRENGTHS

(a) A significant diversified metals and mining company

The South32 Businesses have a significant presence in each of its major commodities. This includes being the world s largest producer of manganese ore, a top producer of silver and manganese alloy, and one of the world s largest ferronickel producers.

With operations spread across five countries and producing 10 commodities, South32 s diversification reduces its sensitivity to the price volatility of individual commodities and its reliance on individual operations, customers and regions.

Chart 5.1: Diversification of South32 revenue and Underlying EBITDA[(a)]

(a) Based on FY2014. Underlying EBITDA represents South32 s accounting policy. Manganese revenue and Underlying EBITDA presented on a proportional consolidation (60 per cent) basis.

(b) Includes inter-segment revenue.

Table of Contents

(b) A high quality, well-managed portfolio with competitively positioned assets

South32 will have a number of large assets, the majority of which are competitively positioned in the first or second quartile of their respective industry cost curves. For example, Worsley Alumina is one of the largest and lowest-cost global alumina refineries.

South32 s operated assets benefit from having historically been managed and maintained in accordance with BHP Billiton s standards and practices.

Recently completed projects include investments in Australia Manganese, completed in 2013, Worsley Alumina, completed in 2013, and South Africa Energy Coal, completed in 2010.

Chart 5.2: South32 total capital expenditure(a) over past 10 years

US$ billion

(a) The capital expenditure for FY2012 to FY2014 is based on historical combined financial information for South32 included in Annexure 1. For the period FY2005 to FY2011 the capital expenditure is based on information previously published by BHP Billiton as unaudited supplementary financial information released as part of BHP Billiton s results announcements.

(c) Meaningful reserve and resource lives

Many of South32 s assets have significant reserve lives, which positions South32 to sustain production from existing assets without the immediate need for material incremental capital expenditure to extend mine lives. These reserve lives are complemented by material incremental resources with the potential to further extend mine lives.

Table 5.11: South32 reserve lives and resource lives

	Reserve life (years)(a)	Resource life (years)(b)
Worsley Alumina	17	63
Brazil Aluminium	6	29
South Africa Energy Coal(c)	6, 6, 21, 23	103, 12, 42, 34
Illawarra Metallurgical Coal(d)	25, 2, 9	41, 15, 43
Australia Manganese	11	15
South Africa Manganese(e)	18, 46	24, 92
Cerro Matoso	15	37
Cannington	9	22

(a)

Estimated Ore Reserves (as set out in Section 7.2) divided by the current approved nominated production rate as at the end of FY2014. For Cannington, estimated Ore Reserves are divided by a declining production rate.

(b) Resource life is estimated from the FY2014 Classified Mineral or Coal Resources (as applicable), and provided in the ASX release titled, 2014 BHP Billiton Annual Report 25 September 2014 available on the BHP Billiton website at *www.bhpbilliton.com* or the ASX website at *www.asx.com.au*, converted to a run-of-mine basis using historical Mineral or Coal Resources (as applicable) to Ore Reserves conversion factors, divided by the FY2014 run-of-mine production rate on a 100 per cent basis. Details regarding resource and reserve life calculation are set out in Section 5.1.

(c) Lives shown for four mines: Khutala, Klipspruit, Wolvekrans and Middelburg respectively. Khutala Coal Resource life is inclusive of undeveloped domains.

(d) Lives shown for three mines: Appin, West Cliff and Dendrobium respectively. Dendrobium Coal Resource life is inclusive of Cordeaux resources. All resource lives are inclusive of undeveloped domains.

(e) Lives shown for two mines: Mamatwan and Wessels respectively.

Table of Contents

(d) Cash generative business

Over the last three years, the South32 Group has generated cash flow in excess of both investment and sustaining capital expenditure, despite falling commodity prices.

Chart 5.3: South32 historical combined cash generation and capital expenditure

US$ billion

(a) Cash generated from operations including dividends received (including from equity accounted investments).

(b) Net operating cash flows before financing activities and tax and after capital expenditure. On a pro forma basis, net operating cash flows before financing activities and tax and after capital expenditure would be US$1,035 million in FY2014 (as extracted from Section 10.4 Table 10.2).

(e) A financial position that provides strength and flexibility

South32 expects to have the financial strength and flexibility to implement its strategic objectives of returning cash to shareholders and investing in value accretive opportunities.

On implementation of the Demerger, South32 is expected to have net debt of US$674 million, including finance leases (based on pro forma net debt as at 31 December 2014). South32 will have a committed US$1.5 billion credit facility from a syndicate of international banks. Refer to Section 10.7 for further details.

South32 will target an investment grade credit rating throughout the cycle, with financial policies in place to safeguard its balance sheet strength and flexibility.

A range of potential projects are available to South32, with selected identified opportunities described in Section 7.1. Subject to further studies and pending South32 Board and management approvals, potential projects include:

Klipspruit Extension (South Africa Energy Coal): A life extension project for the Klipspruit opencast, export-oriented mine.

Khutala Life Extension (South Africa Energy Coal): A proposed life extension project for the existing Khutala Colliery, including the replacement of underground volumes with production from one or more surface mines.

Cannington mine life extension (Cannington): In the past, a number of studies have been undertaken into a possible open-cut development at Cannington. South32 management will carefully assess alternatives for effectively exploiting this significant resource.

(f) An experienced and capable South32 Board and management team with a clear strategy to drive operational performance

South32 will benefit from a dedicated board and management team leading the execution and implementation of a tailored operating strategy.

South32 s management has a broad range of mining, commercial, exploration and financial experience. The South32 senior management team set out in Section 8.2 has an average of 18 years of metals and mining experience, with members of the team having a track record of generating earnings improvements through cost management, productivity improvements and value accretive investments, both in roles with BHP Billiton and with other organisations. The team will have a near-term focus on cash flow and will seek to increase shareholder value by enhancing efficiency, with a drive towards lean operating and project development outcomes and by remaining financially disciplined.

Although operating independently after implementation of the Demerger (subject to limited transitional arrangements), South32 intends to maintain the same commitment to safe, reliable and sustainable operations as that of BHP Billiton.

Table of Contents

(g) A tailored operating model that allows targeted asset management

The regional organisational model involves combining the business units and assets into regional business units, which will reduce a layer of management. This will allow focused decision-making that is responsive to, and tailored for, regional needs. Further, operating with more authority devolved to regional business units will allow South32 to reduce the size of its corporate centre and facilitate greater alignment with its regional stakeholders. This will allow South32 to work towards better decision-making and is expected to facilitate cost reduction over the coming years.

5.5 DIVIDEND POLICY

The South32 dividend policy will be determined by the South32 Board at its discretion, having regard to South32 s first two priorities for cash flow, being a commitment to maintain safe and reliable operations and an intention to maintain an investment grade credit rating through the cycle.

South32 intends to distribute a minimum of 40 per cent of Underlying Earnings as dividends to its shareholders following each six month reporting period. Consistent with South32 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 excess capital.

South32 will distribute dividends with the maximum practicable franking credits for the purposes of the Australian dividend imputation system. The extent to which a dividend can be franked will depend on South32 s franking account balance (which immediately following the Demerger will be nil) and its level of distributable profits. South32 s franking account balance will depend on the amount of Australian income tax paid by South32 following the Demerger. The timing of South32 s Australian income tax payments may also impact its capacity to frank any dividend declared for the half year ending 31 December 2015.

No assurance can be given in relation to the level of future dividends or the franking of such dividends (if any), as these will depend on future events and circumstances.

South32 does not intend to pay a dividend for the period ending 30 June 2015, which will conclude only one month after the implementation of the Demerger.

Additional detail on the payment of dividends under South32 s Constitution can be found in Section 15.4(h).

Table of Contents

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Table of Contents

6 MARKET OVERVIEW

Set out below is a summary of aspects of the industries in which South32 operates. Refer to Section 11.2 for a discussion of recent trends in these markets and the impact of these trends on South32 s financial results.

6.1 BAUXITE, ALUMINA AND ALUMINIUM INDUSTRY

(a) Background

Overview

Aluminium is produced from bauxite via a two-step process:

First, bauxite is refined to alumina, the typical standard of which is in excess of 98.5 per cent pure aluminium oxide. A small portion (less than 10 per cent) of alumina produced is not processed into aluminium, but used in other applications.

Secondly, to process alumina to aluminium, the alumina produced undergoes electrolytic smelting to form aluminium.

Typically, two to three units of bauxite are required to produce one unit of alumina (actual ratios depend upon the bauxite grade), while approximately two units of alumina are required to produce one unit of aluminium. Bauxite is one of the most abundant metal ores in the Earth s crust.

End uses

Aluminium has a wide range of end-use demand segments, which include transportation, construction, packaging, power applications, machinery, equipment and consumer durables. The diverse nature of end uses for aluminium provides multiple sources for potential ongoing demand growth.

A small portion (less than 10 per cent) of alumina produced is used in applications such as ceramics, abrasives, flame retardants and industrial processing.

Trading and pricing

Traditionally, the third party bauxite segment has been limited, with most bauxite mines vertically integrated with a neighbouring alumina refinery. With the recent growth in the third party bauxite segment, largely supplying China, the segment is increasingly trading on supply and demand fundamentals and attempts are being made by a number of publications to establish a bauxite pricing index.

Alumina is not exchange traded; rather, it is sold directly to end-users and traders, with no ability to deliver to a terminal exchange warehouse (for example the LME). Historically, alumina was sold on a percentage of aluminium price basis, but in recent years the industry has transitioned to more material being sold either on a spot pricing basis, or contracts linked to an alumina-specific index.

The recognised reference price for aluminium is the LME daily cash settlements for deliverable metal of a minimum purity and particular chemistry. Physical aluminium has in recent years been sold at a premium to LME prices. Aluminium premiums are driven by the broad supply and demand balance in the market and vary according to the delivery location.

Historical Platts alumina pricing and LME aluminium pricing is provided in Annexure 5. Historical average prices realised by South32 s alumina and aluminium operations are provided in Section 7.1.

(b) Supply and demand

Total world production of alumina reached 107 Mt in 2013, with China, Australia and Brazil being the largest producers. China relies heavily on imported bauxite ore to meet its supply requirements.

Global primary aluminium production totalled 51 Mt in 2013,[1] with China being the major producing region. China has expanded smelting capacity in recent years to keep up with domestic demand growth and is currently substantially self-sufficient in aluminium. China s primary aluminium is 74 per cent of the country s consumption, with the balance supplied from scrap.

China accounted for almost half of global demand in 2013, with its recent growth in demand driven by increasing penetration of aluminium in end-use sectors such as automotive, transportation and power.

1 Source: Wood Mackenzie.

Table of Contents

Primary aluminium supply and demand

Source: Wood Mackenzie

6.2 ENERGY COAL INDUSTRY

(a) Background

Overview

Coal is a fossil fuel, comprising mainly of carbon, hydrogen and oxygen. The types of coal in order of coalification are peat (lowest rank), lignite, sub-bituminous coal, bituminous coal and anthracite (highest rank). Energy coal comprises both sub-bituminous and bituminous (steam) coal. It is extracted through surface and underground mining.

End uses

The major applications for energy coal are power generation, cement manufacture and industrial use. Currently, coal accounts for around 40 per cent of global electricity production. It is the world s second largest source of primary energy largely due to the fact it is abundant, widely distributed across the globe and affordable.

Trading and pricing

The energy coal segment is split into paper and physical trading. The former is typically financially settled and the latter is typically bilaterally traded. In the physical segment, the product is sold directly to end-users and traders.

The international energy coal market is priced in US dollars per metric tonne and there is a wide range of coal with different calorific values in the market. In general, energy coals with higher calorific values have a higher price.

Index providers for energy coal include Argus, IHS McCloskey and GlobalCOAL. The main benchmark price references for export coal are FOB Newcastle (gcNewc) for the Pacific and FOB Richards Bay (API 4) and CIF Northwest Europe (API 2) for the Atlantic.

Historical FOB Richards Bay (API 4) energy coal pricing is provided in Annexure 5. Historical average prices realised by South32 s energy coal operations are provided in Section 7.1.

Table of Contents

(b) Supply and demand

Global energy coal production was 7.2 Bt in 2013,[2] with total seaborne exports at 949 Mt. The largest exporters of energy coal are Indonesia and Australia. During the period of 2007 to 2013, Indonesia and Australia recorded compound annual production growth rates of 14 per cent and nine per cent respectively.

Demand from Asia-Pacific continues to be the key driver of global seaborne energy coal demand, primarily due to electrification and industrial expansion in Asia.

Source: Wood Mackenzie

6.3 METALLURGICAL COAL INDUSTRY

(a) Background

Overview

Metallurgical coal is a fossil fuel, comprising mainly of carbon, hydrogen and oxygen. Metallurgical coal is defined in three broad categories: hard coking coals, weak coking coals and PCI (pulverised coal injection). Hard coking coal produces high strength coke, while semi-soft or weak coking coal produces a lower strength coke. The utility of high-strength coke is greater in large, efficient blast furnaces and when high productivity is required.

End uses

Metallurgical coal is primarily used in the steel production process, which involves a variety of metallurgical coals being blended and converted into coke in an oven, which is typically located on site at steel mills. The coke is then charged in alternating layers with iron ore into the blast furnace where pig iron is created.

2 Source: Wood Mackenzie.

Table of Contents

Trading and pricing

Marketing of metallurgical coal is based on the three different types, each of which has a range of blends that offer different chemical properties. Sales are made to end-user steel mills, merchant cokeries and increasingly to traders as the market becomes more commoditised. Contracts are priced in US dollars per metric tonne.

Metallurgical coal has traditionally been sold through an annual benchmark pricing system, but the market has more recently evolved to index-based contracts.

Price reporting agencies for metallurgical coal include Platts, Argus, The Steel Index, Steel First and IHS McCloskey.

Historical metallurgical coal pricing (2011 onwards Platts Low-Vol Hard Coking Coal Index and pre-2011 Tex Reports hard coking coal) is provided in Annexure 5. Historical average prices realised by South32 s metallurgical coal operations are provided in Section 7.1.

(b) Supply and demand

Global metallurgical coal production was 1.1 Bt in 2013, with total seaborne exports at 303 Mt. Metallurgical coal resources are geographically concentrated, with the top five producing countries accounting for more than 90 per cent of the total seaborne supply. China is the largest producer, but relies on imports to meet demand growth. Export supply growth has principally been driven by Australia, where a number of new projects have recently been delivered.

Global demand growth continues to be driven by Chinese consumption and Indian urbanisation. China overtook Japan to become the largest importer of seaborne metallurgical coal in 2013.[3] India s demand is expected to grow as urbanisation and industrialisation gathers pace.

Source: Wood Mackenzie

3 Source: Wood Mackenzie.

Table of Contents

6.4 MANGANESE INDUSTRY

(a) Background

Overview

Metallurgical grade manganese ore is extracted through open-cut and underground mining. Manganese ferroalloys are commercially produced by carbothermic reduction of ores, either through a blast furnace or electrical smelting process.

End uses

Manganese is currently the fourth largest metal in terms of global consumption, behind iron, aluminium and copper. The major application for manganese is in steel production. Minor applications for manganese include use in batteries, aluminium/copper alloys, chemicals (potassium permanganate) and fungicides.

Manganese ore smelting and refining are intermediate businesses involving the conversion of ore to alloys in a form suitable for addition to steel. There are various manganese alloys and grades, such as silicomanganese (SiMn), high-carbon ferromanganese (**HCFeMn**) and refined alloys such as medium-carbon ferromanganese (**MCFeMn**). SiMn is commonly used in the production of long steel products, which are critical components in the construction industry, while HCFeMn and MCFeMn are generally used in the production of flat steel products.

Trading and pricing

Manganese is sold directly to end-users and traders, and there is no ability to deliver either ore or alloy to a terminal exchange warehouse. Since 2009, quotational periods for manganese ore have changed from quarterly to monthly and weekly, and the industry is in further transition to spot pricing and index-based contracts.

Ore is priced in US dollars per dry metric tonne unit and there is a wide range of ore grades in the market, with high-grade ores generally achieving higher prices. Alloy products are more standardised (as they are an intermediate product) although price differences can exist between regions due to localised supply and demand balances, different lead-times to supply and differences in logistics options.

Index publications for manganese ore and alloys include CRU, Ryan s Notes, Metal Bulletin and Platts. There is not sufficient liquidity and scale for the development of a transparent forward market.

Historical manganese ore pricing and historical manganese alloy pricing (CRU Bulk FerroAlloy HCFeMn Western Europe) is provided in Annexure 5. Historical average prices realised by South32 s manganese operations are provided in Section 7.1.

(b) Supply and demand

Global production of manganese ore reached 50 Mt in 2013,[4] with China, South Africa and Australia being the largest producers. China s supply is typically lower grade and is insufficient to meet growing domestic demand. Major exporters of manganese ore are South Africa, Australia and Gabon. Global manganese alloy production in 2013 totalled 18.1 Mt, with SiMn being the main alloy produced.[5] More than two thirds of manganese alloy production is in China and India, which is consumed domestically in these countries.

Chinese and Indian demand continues to be the key driver of manganese consumption, primarily due to steel production for continued urbanisation and infrastructure development. China accounted for half of global ore consumption in 2013,[6] and relies increasingly on imports to meet demand growth. China accounted for approximately 64 per cent of global ore imports in 2013.

4 Source: CRU.
5 Source: CRU.
6 Source: CRU.

Table of Contents

Source: CRU

6.5 NICKEL INDUSTRY

(a) Background

Overview

Nickel occurs as a mineral ore usually in oxide (laterite) or sulphide form. Nickel ores are mined by either open-cut or underground methods, and then processed into higher purity nickel forms such as ferronickel, nickel metal or nickel oxides. There are various processing methods, including concentrating then smelting and refining operations, direct smelting and leaching operations.

Historically, the majority of primary supply of nickel came from sulphide ores, which commonly provide significant co-product credits. The remaining economic resource base is now mostly lower grade laterite, which is less expensive to mine but more expensive to process.

End uses

Nickel is rarely used in its pure form; rather it is combined with other metals to form a range of alloys with properties that cannot be achieved by pure metals alone. Nickel s main use is in the manufacture of stainless steel alloys, which accounts for about two thirds of total primary nickel usage, while the balance is used in the production of non-stainless steel materials such as batteries and super-alloys.

Trading and pricing

The reference price is the LME cash settlement price for deliverable nickel with a minimum purity of 99.80 per cent.

Non-LME deliverable material, or products with qualities exceeding the LME specification, are sold at discounts or premiums to the LME benchmark.

Historical nickel pricing is provided in Annexure 5. Historical average prices realised by South32 s nickel operations are provided in Section 7.1.

Table of Contents

(b) Supply and demand

Global production of mined nickel ore reached 2.3 Mt (on a contained nickel basis) in 2013,[7] with Indonesia being the largest mined ore production region. However, in January 2014 the Indonesian Government banned ore exports, resulting in volatile prices in the subsequent months.

Nickel is a late economic development cycle commodity. Chinese demand has increased rapidly in the last decade, and now accounts for approximately half of global demand. Indian demand for nickel has begun to grow rapidly, albeit from a low base.

The rapid rise in demand within China has been met with a supply response through the emergence of Chinese nickel pig iron (**NPI**) production, whereby imported nickel bearing laterite ore (mostly from Indonesia and the Philippines) was smelted domestically in China to produce a crude nickel pig iron alloy which was then used in the production of stainless steel. The majority of the incremental demand growth since 2009 has therefore been met by NPI production from ore imports, rather than through increased imports of nickel metal.

The recycling of nickel-bearing materials forms an important part of the supply and demand balance. Scrap usage varies by region, but at a global level approximately 40 per cent of nickel units come from scrap.

Primary nickel

Source: Wood Mackenzie

7 Source: Wood Mackenzie.

Table of Contents

6.6 SILVER, LEAD AND ZINC INDUSTRY

(a) Background

Overview

Silver, lead and zinc are commonly found together, with silver being associated with the lead minerals. Processing of the ore yields two separate concentrates: lead (containing silver) and zinc. The lead and zinc concentrates are further processed to produce refined metal.

End uses

Silver is a precious metal with a wide range of uses including industrial applications (electronics, alloys and solders), in jewellery and as a financial asset.

Lead and zinc are the most widely used non-ferrous metals after copper and aluminium. Lead is mostly used in batteries, which account for 80 per cent of total consumption. Lead-acid batteries are used extensively in the automotive industry for starting-lighting-ignition, but increasingly as a source of motive power in electric vehicles.

Zinc is extensively used for the galvanisation of iron and steel to protect against corrosion, and also in alloys such as bronze and brass.

Trading and pricing

The reference price for silver has been the London Bullion Market Association, which is determined via a daily auction. The most significant paper contract trading market is the COMEX division of the New York Mercantile Exchange.

The most recognised reference prices for lead and zinc are LME daily cash settlements for deliverable metal of a minimum purity and particular chemistry. Lead and zinc also have active futures markets that are traded on the LME.

Silver, lead or zinc that is sold in concentrate form to refineries and smelters is typically sold on a payable metal basis, based on reference prices described above, less a treatment or refining charge. These charges notionally represent the cost of producing refined metals; however, they are also influenced by the balance between concentrate production and available refining and smelting capacity.

Historical silver, lead and zinc pricing is provided in Annexure 5. Historical average prices realised by South32 s silver, lead and zinc operations are provided in Section 7.1.

(b) Supply and demand

Global mine production for silver in 2013 was 820 Moz,[8] with another 192 Moz sourced from scrap. The largest silver-producing countries are Mexico, Peru and China, accounting for about half of the total mine production.

Silver demand has benefited in recent years as investor appetite for the commodity as a store of value has increased. This also means that silver prices are vulnerable to macroeconomic conditions and market sentiment. Demand for physical silver in 2013 was 1.1 Boz.[9] Given silver s role as a store of value, physical supply and demand fundamentals historical supply and demand charts have not been included in this document.

Global lead mine production in 2013 was 5.4 Mt in concentrate form.[10] Over half of this supply came from China. A large volume of lead is recycled, with 6.0 Mt of secondary refined metal production recorded in 2013. Lead demand in 2013 was 11.1 Mt,[11] of which 45 per cent was from China.

Global zinc mine production in 2013 totalled 13.2 Mt, with approximately 36 per cent coming from China.[12] Zinc refined metal production in 2013 totalled 12.9 Mt, of which approximately 12.05 Mt was from primary sources, and 0.8 Mt from secondary sources. Zinc demand in 2013 was approximately 13.0 Mt, with China accounting for 44 per cent.

8 Source: The Silver Institute.
9 Source: The Silver Institute.
10 Source: International Lead Zinc Study Group.
11 Source: International Lead Zinc Study Group.
12 Source: International Lead Zinc Study Group.

Table of Contents

Lead

Source: International Lead Zinc Study Group

Zinc

Source: International Lead Zinc Study Group

Table of Contents

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Table of Contents

7 SOUTH32 BUSINESS DESCRIPTION

7.1 SOUTH32 BUSINESSES

(a) Worsley Alumina

(1) Overview

Worsley Alumina is an integrated bauxite mining and alumina refining operation that is 86 per cent owned by South32. It is located in the southwest of Western Australia, Australia, and includes one of the largest and lowest-cost refineries in the world. Bauxite production in FY2014 was 18 Mt (100 per cent basis). The bauxite mine has a reserve life of 17 years. Alumina production in FY2014 was 4.6 Mt (100 per cent basis).

The location of Worsley Alumina s operations is set out below:

Diagram 7.1: Location of Worsley Alumina s operations

An overview of Worsley Alumina is set out below:

Table 7.1: Worsley Alumina overview

Location	The Worsley Alumina bauxite mine is located near the town of Boddington, Western Australia, approximately 123 km southeast of Perth.
	The Worsley Alumina refinery is located 55 km northeast of Bunbury, Western Australia.
Ownership	Worsley Alumina is an unincorporated joint venture with South32 holding 86 per cent, Japan Alumina Associates (Australia) Pty Ltd holding 10 per cent and Sojitz Alumina Pty Ltd holding four per cent.
Operatorship	BHP Billiton Worsley Alumina Pty Ltd operates the Worsley Alumina bauxite mining operation and alumina refinery on behalf of South32.
Workforce	Worsley Alumina had on average approximately 1,900 FTE employees and contractors in FY2014.
History	Construction of the Worsley Alumina project commenced in 1980, with first alumina being produced in May 1984. Production began at 1.0 Mtpa (100 per cent basis) and has steadily increased through expansion projects, efficiency initiatives and new technology to reach a capacity of 4.6 Mtpa (100 per cent basis) in 2014 (South32 s share 3.9 Mtpa).

BHP Billiton s ownership in Worsley Alumina (which will be transferred to South32 as part of the internal restructure preceding the Demerger) stems from two acquisitions. The first of these was Billiton s initial acquisition of a 30 per cent interest in Worsley Alumina from The Shell Company of Australia in 1994. BHP Billiton undertook the second acquisition of a further 56 per cent interest from Alcoa Alumínio S.A. (**Alcoa**) in 2001.

47

Table of Contents

Title, leases or options	All necessary mining leases are in place and are valid to various dates from 2024 to 2035. All mining leases are granted on 21 year renewable terms.
Resources and reserves	As at 30 June 2014, in 100 per cent terms, Worsley Alumina Measured, Indicated and Inferred Mineral Resource totalled 1,140 Mt at 31.4 per cent available alumina and 2.2 per cent of reactive silica grades. Worsley Alumina s Proved and Probable Ore Reserves were 295 Mt (100 per cent basis) at 31 per cent available alumina and 1.6 per cent of reactive silica grades.(a)
Mining and processing	Bauxite mining at the Worsley Alumina bauxite mine is conducted by shallow multi-pit open-cut mining techniques which have been developed over the last 30 years to efficiently extract bauxite from the discrete, pod-like nature of the deposit. Worsley Alumina refinery produces alumina exclusively from ore that is sourced from the Worsley Alumina bauxite mine. The refinery uses the Bayer refining process to produce alumina. Key energy sources for the processing operation include coal fired boilers, third party on-site gas-fired steam power co-generation plant and third party leased on-site multifuel co-generation steam and power generation plant. Various long-term arrangements exist for the supply of coal from the Collie coal mine and gas and gas transportation via the Dampier to Bunbury Natural Gas Pipeline. Raw materials and final product are transported by rail.
Logistics and marketing	Bauxite ore is supplied from the Worsley Alumina bauxite mine to the Worsley Alumina refinery via a 51 km conveying system. Alumina from the Worsley Alumina refinery is railed to the Bunbury Port and loaded on ships for export to customers. In FY2014, 42 per cent of South32 Worsley Alumina s alumina sales were to South32 s aluminium smelters in southern Africa (Hillside and Mozal Aluminium), to supply South32 s equity share, and the remainder was supplied to aluminium smelters predominantly in the Middle East and the Pacific Basin.
Overview of significant contracts	Worsley Alumina is primarily powered by a mix of coal and natural gas with long-term arrangements in place. In 2014, Worsley Alumina entered into a 32 year lease for two multifuel co-generation units to generate steam and electricity. Worsley Alumina s gas supply is currently provided by affiliates of BHP Billiton Petroleum under two agreements, which will continue after the Demerger. These arrangements are on arm s-length terms and are due to expire during 2018 and 2023 respectively.

Griffin Coal (owned by the Lanco Group) has supplied coal to Worsley Alumina under a long-term coal supply agreement for use by Worsley Alumina in steam and power generation. Griffin Coal did not supply coal to Worsley Alumina in December 2014 and January 2015 as a result of Griffin Coal s financial position. Griffin recommenced coal supply in February 2015, albeit at lower than contracted tonnage. Worsley Alumina separately also sources coal from Premier Coal and has increased the amount of coal sourced pursuant to these arrangements.

Worsley Alumina is currently exploring available alternatives to sourcing coal for steam and power generation. Any new terms of coal (or other energy) supply are likely to be higher cost to South32 than the historic arrangements with Griffin Coal.

Projects and developments	As at 31 December 2014, there were no planned material development projects being undertaken or shortly to be undertaken at Worsley Alumina.

(a) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

Table of Contents

(2) Summary historical financial and operating information

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.2: Worsley Alumina operating metrics

South32 s share	6 months ended December H1 FY2015	H1 FY2014	FY2014	12 months ended June FY2013	FY2012
Alumina production (kt)	1,953	1,970	3,916	3,675	2,917
Alumina sales (kt)	1,943	1,858	3,864	3,677	2,928
Realised alumina sales price (US$/t)[(a)]	335	304	318	307	339
Operating unit cost (US$/t produced)	260	232	272	291	363

(a) Realised sales price is calculated as sales revenue divided by sales volume.

Table 7.3: Worsley Alumina financial summary

South32 s share US$M	6 months ended December H1 FY2015	H1 FY2014	FY2014	12 months ended June FY2013	FY2012
Sales revenue	651	565	1,229	1,130	992
Underlying EBITDA	143	108	162	60	(67)
Underlying EBIT	67	45	24	(115)	(194)
Net operating assets	3,413	2,862	3,418	2,868	5,105
Minor and maintenance capital expenditure	27	22	56	77	127
Major projects capital expenditure				77	773
Exploration expenditure					
Exploration expensed					

During FY2014, raw materials and consumables, energy and labour-related costs comprised 51 per cent, six per cent and 40 per cent of Worsley Alumina s operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

(b) South Africa Aluminium

(1) Overview

South Africa Aluminium comprises Hillside Aluminium (Pty) Ltd (**Hillside**). Hillside owns (100 per cent) and operates an aluminium smelter located at Richards Bay, South Africa, approximately 200 km north of Durban.

Hillside is the largest aluminium smelter in the Southern Hemisphere and has a solid metal production capacity of 723 ktpa. Hillside solid metal production was 715 kt in FY2014.

Previously, South Africa Aluminium s operations included an aluminium smelter and casthouse owned by Billiton Aluminium SA (Pty) Ltd (**Bayside**). The Bayside smelter was closed in FY2014. An agreement to sell the assets comprising the Bayside casthouse, which produces aluminium slab products, has been reached and completion of the sale is subject to certain regulatory and other conditions, which are expected to be fulfilled during the first half of CY2015.

Table of Contents

The location of South Africa Aluminium s operations is shown below:

Diagram 7.2: Location of South Africa Aluminium s operations

An overview of South Africa Aluminium is set out below:

Table 7.4: South Africa Aluminium overview

Location	Hillside is located at Richards Bay, Kwa-Zulu Natal, South Africa, approximately 200 km north of Durban.
Ownership	100 per cent owned by South32.
Operatorship	Operated by South32.
Workforce	In total, Hillside and Bayside had on average approximately 3,350 FTE employees and contractors in FY2014. Following the closure of the Bayside smelter, as at 31 December 2014, the number of FTE employees and contractors at Hillside and Bayside was 2,597 FTE employees and contractors.
History	The Hillside smelter was commissioned between June 1995 and June 1996 with a production capacity of 466 ktpa. In FY2004, the brownfield Hillside 3 expansion project increased metal production by 132 ktpa. Various improvement projects since then have increased Hillside s solid metal production capacity to 723 ktpa.
Title, leases or options	Hillside owns the freehold title to the property on which the smelter operates. Hillside holds leases from the Transnet National Port Authority (**TNPA**) over harbour facilities at Richards Bay Port.
Processing	Hillside processes approximately 1,400 ktpa of alumina that is imported from Worsley Alumina. The initial stage of the process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium, which collects at the bottom of the specialised reaction vessels that are known as pots. The molten aluminium is then tapped out of the pots and transferred to the casthouse where it is cast into aluminium ingots. Hillside manufactures 22.7 kg primary aluminium ingots at better than P1020 quality (maximum 1,000 ppm silicon and maximum 2,000 ppm iron).

Logistics and marketing

Alumina and certain raw materials are imported through the Richards Bay Port. A portion of South32 s share of alumina produced at Worsley Alumina is supplied to Hillside Aluminium, pricing for which is index based.

In FY2014, Hillside exported approximately 80 per cent of its aluminium production in the form of primary aluminium ingot to customers located principally in western Europe and Asia. All export product is sold via South32 Marketing and is shipped through Richards Bay Port. The balance is sold into the domestic market, mainly to Hulamin under a long-term LME aluminium price-linked contract. All domestic product is transported by road to its South African domestic customers.

Hillside has historically trucked approximately 96 ktpa liquid aluminium to the Bayside casthouse for conversion into aluminium slab products. Following the expected sale of the Bayside casthouse in CY2015, liquid metal will continue to be trucked to the new owners of the Bayside casthouse.

Table of Contents

Overview of significant contracts

Hillside sources power from Eskom, the South African Government-owned power utility, under long-term contracts. The price of electricity supplied to the Hillside Potline 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 the Hillside Potline 3 is South African rand based and linked to the South African and United States producer price indices. The electricity supply arrangements also include fully utilised 75 MW of power which is not covered by a long-term contract and is priced at the same tariff as other South African industrial power users. As stated in Section 2.2(c):

Eskom has announced a national program of load shedding and has stated that the South African power

system is likely to be constrained for the foreseeable future;

the National Energy Regulator of South Africa is reviewing the terms of electricity supply arrangements

in respect of Hillside.

Hillside has three agreements with TNPA, the government port authority. These agreements are for the export stockyard facility, the liquid pitch terminal facility and the alumina and petcoke silo facilities. These agreements expire in CY2019.

Projects and developments

The engagement of a contractor is in progress to investigate the feasibility of introducing the AP3XLE technology enhancement at Hillside. AP3XLE is a commercially available technology aimed at increasing efficiency at smelters (**AP3XLE**). The benefits are optimisation of direct current energy consumption.

(2) Summary historical financial and operating information

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.5: South Africa Aluminium operating metrics

	6 months ended December		12 months ended June		
South32 s share	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Aluminium production (kt)	356	415	804	761	719
Aluminium sales (kt)[(a)]	352	401	804	772	713
Realised sales price (US$/t)[(a)]	2,338	1,985	2,007	2,154	2,309
Operating unit cost (US$/t produced)[(b)]	1,747	1,716	1,771	2,089	2,303

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

Table 7.6: South Africa Aluminium financial summary

South32 s share	6 months ended December		12 months ended June		
US$M	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Sales revenue	823	796	1,614	1,663	1,646
Underlying EBITDA	201	84	190	73	(10)
Underlying EBIT	167	48	121	1	(83)
Net operating assets	1,195	1,399	1,195	1,382	1,528
Minor and maintenance capital expenditure	10	7	28	17	14
Major projects capital expenditure					
Exploration expenditure					
Exploration expensed					

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 56 per cent, 22 per cent and 14 per cent of South Africa Aluminium s operating cash costs respectively. The remaining cash costs included freight, consumables and maintenance, among other things.

Table of Contents

(c) Mozal Aluminium

(1) Overview

Mozal Aluminium is an aluminium smelter located 17 km from Maputo, Mozambique. Following implemention of the Demerger South32 will own 47.1 per cent of, and operate, Mozal Aluminium. The operation includes a dedicated berth and other port terminal facilities at Matola, the port of Maputo, which are also operated by South32. Mozal Aluminium produces standard aluminium ingots and its FY2014 production was 266 kt (South32 s share). Mozal Aluminium is the only aluminium smelter in Mozambique and the second largest aluminium smelter in Africa.

The location of Mozal Aluminium s operations is shown below:

Diagram 7.3: Location of Mozal Aluminium s operations

An overview of Mozal Aluminium is set out below:

Table 7.7: Mozal Aluminium overview

Location	Mozal Aluminium is located at Industrial Free Zone of Beluluane Industrial Park, Maputo province, Mozambique. The site is 17 km from Maputo, the capital city of Mozambique.
Ownership	Mozal Aluminium is a joint venture in which South32 will hold 47.1 per cent, MCA Metals Holding GmbH holds 25.0 per cent, Industrial Development Corporation of South Africa Limited holds 24.0 per cent and the Government of the Republic of Mozambique holds 3.9 per cent (through preference shares).
Operatorship	Operated by South32.
Workforce	Mozal Aluminium had on average 1,950 FTE employees and contractors in FY2014.
History	Development of the Mozal Aluminium operation commenced in 1998 following a feasibility study undertaken by Billiton Plc. Production commenced in 2000 with a smelter capacity of 253 ktpa (100 per cent basis). In 2003, the Mozal Aluminium expansion project (Mozal 2) was commissioned and expanded the smelter s capacity to 566 ktpa (100 per cent basis).
Title, leases or options	Mozal Aluminium currently operates under a 50-year Investment Project Authorisation (**Mozal IPA**) that allows it to use the land for the operating plant and to access certain facilities within the Maputo harbour. The authorisation is renewable for a further 50 years provided Mozal Aluminium maintains effective production in accordance with the terms of the Mozal IPA.

Table of Contents

Processing

In FY2014 Mozal procured 1,072 kt of alumina that was imported from Worsley Alumina. 505 kt of that amount was procured by South32.

The smelting process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium in reaction pots. The molten aluminium, which collects at the bottom of the pots is then tapped out and transferred for casting into aluminium ingots.

Mozal Aluminium has the capacity to produce 566 ktpa aluminium (100 per cent basis) and manufactures 23.7 kg ingots with a purity grade of at least 99.7 per cent.

Mozal Aluminium utilises hydroelectric power generated by Hidroeléctric Cahora Bassa (**HCB**) situated on the Zambezi River in the northwest of Mozambique. HCB delivers power into the South African grid to the national electricity supplier, Eskom. Mozal Aluminium sources this power via Mozambique Transmission Company (**Motraco**).

Logistics and marketing

Mozal Aluminium operates a berth at the Matola Port, Maputo, which is located 15 km from the smelter.

Alumina and key raw materials such as petroleum coke and liquid pitch are shipped to Matola Port via the same berth that is used by Mozal Aluminium to export aluminium.

All raw materials and product are trucked to and from the Mozal Aluminium smelter to and from the port facilities.

Most of Mozal Aluminium s aluminium is sold into Europe; however, a portion of its product is used domestically in Mozambique by Midal Cables International.

Overview of significant contracts

Mozal Aluminium sources power under an electricity supply agreement with Motraco, a transmission joint venture between Eskom and the national electricity utilities of Mozambique and Swaziland.

Mozal Aluminium s port facilities are governed by a lease with the Company of Railways and Harbours of Mozambique. This lease covers the Matola harbour facilities consisting of a berth, storage silos, loading and unloading facilities, conveyor belts, roads, storage areas, parking and administration facilities located in the Maputo harbour area.

Mozal Aluminium has recently agreed a long-term domestic aluminium metal supply agreement with Midal Cables International to supply 50,000 tonnes of aluminium ingots per year. Deliveries have recently commenced.

Projects and developments The AP3XLE project technology referred to in Section 7.1(b) is also currently in selection phase for Mozal Aluminium.

(2) Summary historical financial and operating information

A summary of operating metrics and financial information for the integrated operations is set out below:

Table 7.8: Mozal Aluminium operating metrics

	6 months ended December			12 months ended June	
South32 s share	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Aluminium production (kt)	135	134	266	264	264
Aluminium sales (kt)[(a)]	137	142	276	264	265
Realised sales price (US$/t)[(a)]	2,482	2,049	2,080	2,318	2,374
Operating unit cost (US$/t produced)	1,867	2,045	1,962	2,201	2,189

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

Table of Contents

Table 7.9: Mozal Aluminium financial summary

South32 s share	6 months ended December		12 months ended June		
US$M	H1 FY2015	H1 FY2014	FY2014	FY2013	FY2012
Sales revenue	340	291	574	612	629
Underlying EBITDA	88	17	52	31	51
Underlying EBIT	70	(1)	16	(3)	18
Net operating assets	628	634	627	669	777
Minor and maintenance capital expenditure	5	3	8	7	9
Major projects capital expenditure					
Exploration expenditure					
Exploration expensed					

During FY2014, raw materials and consumables, energy (including fuel) and labour-related costs comprised 55 per cent, 29 per cent and 13 per cent of Mozal Aluminium s operating cash costs respectively. The remaining cash costs included freight, secondary taxes and royalties, among other things.

(d) Brazil Aluminium

(1) Overview

The Brazil Aluminium business comprises South32 s interests in:

- MRN Mine (14.8 per cent owned by South32);
- Alumar consortium, which is comprised of an alumina refinery (36 per cent owned by South32) and aluminium smelter (40 per cent owned by South32) (together with certain interests in ancillary facilities and lands).

South32 s Brazilian Aluminium business interests are held through its wholly-owned subsidiary, BMSA.

Mineração Rio do Norte S.A. (**MRN**) is a Brazilian corporation, which owns the MRN Mine, a bauxite mine located in the Trombetas region in the state of Pará, Brazil. The mine is an open-cut operation with a capacity of 18 Mtpa of washed bauxite (100 per cent basis). The MRN Mine s FY2014 production was 17.7 Mt of bauxite (100 per cent basis) and the MRN Mine has a reserve life of six years. The majority of the bauxite produced from the MRN Mine is sold to shareholders in MRN and their related parties under long-term contracts. South32 is currently entitled to a total annual base volume of 2.4 Mtpa and a maximum of 2.7 Mtpa of bauxite under its contracts with MRN, which South32 currently supplies to the Alumar refinery.

Alumar comprises an alumina refinery with a nominal capacity of 3.5 Mtpa (100 per cent basis) and aluminium smelter with a nominal capacity of 440 ktpa (100 per cent basis). These operations and their integrated port facilities are located at São Luís, in the state of Maranhão, Brazil. FY2014 saleable production was 1,262 kt of alumina (South32 s share) and 104 kt of aluminium (South32 s share). During FY2014, approximately 16 per cent of Alumar s alumina production was used to feed the Alumar smelter, while the remainder was exported.

South32 sources electricity for Alumar under two long-term supply agreements with Eletronorte (a Brazilian power generation concessionaire). Since FY2013, South32 has generated revenue through the sale of surplus electricity into the transmission grid with a total of 1,188 GWh sold in FY2014.

Table of Contents

(2) MRN Mine description

The location of the MRN Mine is set out below:

Diagram 7.4: Location of the MRN Mine s operations

An overview of the MRN Mine is set out below:

Table 7.10: MRN Mine overview

Location	The MRN Mine is located approximately 40 km from Porto Trombetas, which is 880 km from Belém, the capital of Pará, Brazil.
Ownership	The MRN Mine is owned by MRN, which is a Brazilian corporation in which South32 holds a 14.8 per cent interest, Alcoa and its affiliates[(a)] hold 18.2 per cent, Vale S.A. (**Vale**) holds 40 per cent, Alcan Alumina Ltda (**Rio Tinto Alcan**) holds 12 per cent, Companhia Brasileira de Aluminio S.A. holds 10 per cent, and Norsk Hydro Brasil Ltda holds five per cent.
Operatorship	Independent joint venture company.
Workforce	MRN had on average approximately 3,400 FTE employees and contractors in FY2014.
History	MRN was incorporated in 1967 by Rio Tinto Alcan and established in 1974 as a joint venture involving Rio Tinto Alcan, Vale and other shareholders. Mine operations commenced in 1979 and the first shipment from the MRN Mine was in 1979.
	The adjacent Cruz Alta Project, initially associated with Alcoa and Billiton Group companies, was consolidated with the Trombetas Project in 1992 to form the MRN Mine.
	In 2003 and 2007, expansions of the operation increased production capacity to 18 Mtpa of washed bauxite (100 per cent basis).
Title, leases or options	MRN holds 44 mining leases, all of which are mining concessions issued under the Brazilian Mining Code. The mining leases are grouped into a single mining unit (Grupamento Mineiro/Mining Group), under no. 950.000/1997. These leases cover an area of 143,000 ha.
	With respect to the environmental licensing process, MRN has already applied for environmental licences for new exploration of areas surrounding the MRN Mine, which requires authorisation for environmental studies. However, there is a civil investigation in respect of certain of these environmental licence applications which has resulted in delays in the environmental permitting

of some of MRN s exploration activities until consultation with potentially affected local traditional communities is undertaken. MRN has engaged in negotiations with the communities who filed the initial complaint to resolve this issue.

Table of Contents

Resources and reserves

As at 30 June 2014, in 100 per cent terms, the MRN Mine s total Mineral Resources (washed) were 527 Mdmt at 50.2 per cent of available alumina and 4.2 per cent of reactive silica grades. Total Ore Reserves (washed) were 98 Mdmt (100 per cent basis) at 49.4 per cent of available alumina and 4.6 per cent of reactive silica grades.[b]

Mining and processing

The MRN Mine is an open-cut strip mining operation that has an 18 Mtpa installed bauxite capacity. Mined ore is hauled to primary crushers and then transported by conveyor belt to the beneficiation plant, where it is washed and classified by granulometry. Bauxite fines are recovered by cyclone and filtering.

On-site power is provided by two thermoelectric power plants, with installed power rating of 60.6 MW.

Logistics and marketing

Bauxite is transported to Porto Trombetas, a river port, via a 28 km rail line that connects the mine area to the port.

All bauxite is transported from the port via ship to customers, including the Alumar members share.

Overview of significant contracts

MRN currently sells the majority of its production to its shareholders and their related parties, with sales primarily governed by long-term contracts that establish annual quantities and similar sales terms for each shareholder. The quantities are confirmed annually and may vary slightly. From the current bauxite production, 70 per cent is shipped to Alunorte and Alumar, two of the main Brazilian refineries, and the remainder is exported, mainly to refineries located in the North Atlantic Ocean seaboard.

In recent times, price reductions have applied under these sale agreements due to the quality of bauxite grades supplied. However, for South32, the sale price achieved by MRN becomes an input cost into the operations at Alumar, such that variations in the price of bauxite supplied by MRN have a limited net financial impact on South32.

Projects and developments

The MRN Mine s current reserve base supports mining until 2021. MRN is currently considering extending the mine s life to approximately 2043.

This extension will require MRN s shareholders to agree on the optimal expansion configuration and to potentially contribute to the substantial capital expenditure.

(a) Alcoa Alumínio S.A., Alcoa World Alumina LLC and Alcoa World Alumina Brasil Ltda.
(b) Mineral Resources and Ore Reserves above are based on the information in Section 7.2.

(3) Alumar description

The location of Alumar s operations is set out below:

Diagram 7.5: Location of Alumar s operations

Table of Contents

An overview of Alumar is set out below:

Table 7.11: Alumar overview

Location	Alumar is located at São Luís, Maranhão, Brazil.
Ownership	The Alumar alumina refinery is an unincorporated joint venture with South32 holding 36 per cent, Alcoa and its affiliates holding 54 per cent and Rio Tinto Alcan holding 10 per cent. The Alumar aluminium smelter is an unincorporated joint venture with South32 holding 40 per cent and Alcoa holding 60 per cent.
Operatorship	Alcoa operates both the refinery and smelter.
Workforce	Alumar had on average approximately 2,750 FTE employees and contractors in FY2014.
History	Alumar commenced operations in 1984 with refining capacity (on a 100 per cent basis) of 0.9 Mtpa and smelter capacity of 110 ktpa. Since then, several expansions have been implemented, including (on a 100 per cent basis): in 1986, smelter capacity was increased from 110 to 250 ktpa as Line II of the smelter commenced operations; in 2006, smelting capacity was increased to 440 ktpa as Line III of the smelter commenced operations; in 2009, the refinery was substantially expanded, increasing capacity to 3.5 Mtpa.
Title, leases or options	All assets are held on land owned by Alumar or occupied by Alumar pursuant to public deeds of right of easement executed in 1982 and 1983 for undetermined terms with the State of Maranhão, Brazil. The creation of an environmental conservation area adjoining the Alumar site has been considered by federal and state governments, which may lead to changes in permitting procedures in respect of the area, as well as to delays in the permitting procedures already in progress. However, at this stage there is no official proposal regarding the creation of the conservation area.
Mining and processing	**Alumar refinery**

Bauxite ore is refined using the Bayer refining process in which bauxite is mixed with a caustic soda solution and transferred to a digestion vessel, where it is heated under pressure. The resultant solution is clarified before aluminium hydrate is precipitated. The filter cake is subsequently fed into calciners where it is roasted to produce alumina.

Alumar smelter

The smelting process involves the electrolytic reduction of alumina that has been dissolved in a molten electrolyte bath to produce liquid aluminium in reaction pots. The molten aluminium, which collects at the bottom of the pots, is then tapped out and transferred for casting into aluminium ingots.

Production from potlines II and III is currently suspended due to market conditions reducing overall annual capacity to 124 ktpa (100 per cent basis), and potline I operations are subject to ongoing review having regard to market conditions.

Logistics and marketing

Alumar refinery

Alumar s port facilities provide the primary entry point for raw materials and also serve as an export facility for alumina. The majority of alumina produced at the Alumar refinery is exported via the port to customers.

The port includes two terminals at São Marcos Bay, which have capacity to receive 76 kt (gross tonne) ships.

Alumar smelter

South32 s share of aluminium produced at Alumar is largely sold in the Brazilian domestic market on a Free Carrier basis where the customer is responsible for contracting and paying for transportation.

Table of Contents

Overview of significant contracts

South32 acquires bauxite to feed the Alumar refinery under six long-term bauxite off-take agreements with MRN, each with an expiry and contracted base supply amount as follows:

Expiry date	Bauxite to be supplied (ktpa)
1 January 2018	800
1 January 2020	115
1 January 2020	700
1 January 2023	500
1 January 2032	86
1 January 2033	200

MRN has agreed to negotiate in good faith during the final year of each agreement with a view to entering into new off-take arrangements for the supply of similar volumes of bauxite. If bauxite cannot be sourced from the MRN Mine (noting the current reserve base at the MRN Mine supports mining until 2021, although expansion options may exist), alternative supply of bauxite may need to be sourced for Alumar, which may be under different terms than under South32 s current contracts with MRN.

South32 acquires electricity for Alumar from Eletronorte (a Brazilian power generation concessionaire) under two long-term contracts (one for the smelter and the other for the refinery) which will expire in 2024. As noted in Section 2.2(c) the risk of electricity rationing occurring has increased recently in Brazil. The bauxite is transported from the MRN Mine to Alumar under arrangements with specialised freight companies, including Empresa de Navegacão Elcano S.A.

Projects and developments

A preliminary concept study has been prepared with a view to debottlenecking the refinery (improving supply chain and processing efficiency and increasing the capacity of the refinery) to increase capacity.

(4) Summary historical financial and operating information

A summary of operating metrics and financial information for South32 s combined Brazil Aluminium businesses is set out below:

Table 7.12: Brazil Aluminium operating metrics

	6 months ended December		12 months ended June		
South32 s share	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Alumina production (kt)	680	633	1,262	1,205	1,235
Aluminium production (kt)	26	63	104	154	170
Alumina sales (kt)	694	598	1,248	1,275	1,201

Aluminium sales (kt)	25	62	104	164	163
Realised alumina sales price (US$/t)[a]	323	293	300	296	324
Realised aluminium sales price (US$/t)[a]	2,360	1,968	2,000	2,061	2,252
Alumina operating unit cost (US$/t produced)[b]	203	254	239	275	258
Aluminium operating unit cost (US$/t produced)[c]	4,692	2,462	2,644	2,416	2,576

(a) Realised sales price is calculated as sales revenue divided by sales volume.

(b) Includes cost of acquiring bauxite from MRN.

(c) Includes cost of alumina transferred from Alumar refinery to the Alumar smelter at the alumina production cost. Excludes revenue from sales of surplus electricity into the transmission grid, which is included in Other Income in Table 7.13.

Table of Contents

Table 7.13: Brazil Aluminium financial summary

South32 s share	6 months ended December		12 months ended June		
US$M	**H1 FY2015**	**H1 FY2014**	**FY2014**	**FY2013**	**FY2012**
Sales Revenue	268	266	529	637	660
Alumina	*224*	*175*	*374*	*378*	*389*
Aluminium	*59*	*122*	*208*		