

LRR Energy, L.P.
Form 4
February 17, 2015

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Lime Rock Resources B, L.P.

(Last) (First) (Middle)
274 RIVERSIDE AVENUE, 3RD FLOOR
(Street)

WESTPORT, CT 06880

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
LRR Energy, L.P. [LRE]

3. Date of Earliest Transaction (Month/Day/Year)
02/13/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

___ Director ___ 10% Owner
___ Officer (give title below) ___X___ Other (specify below)
Director by Deputization

6. Individual or Joint/Group Filing(Check Applicable Line)
X Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V	Amount	(D)	Price
Common units representing limited partner interests	02/13/2015		M		212,245	A	11 405,995

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)
Subordinated units representing limited partner interests	(1)	02/13/2015		M	212,245	(1) (2)	Common units representing limited partner interests 212,245

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Lime Rock Resources B, L.P. 274 RIVERSIDE AVENUE 3RD FLOOR WESTPORT, CT 06880			Director by Deputization	

Signatures

/s/ Kris Agarwal, as attorney-in-fact
Date: 02/17/2015

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 - ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- On February 13, 2015, pursuant to the terms of the First Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement") of LRR Energy, L.P. (the "Partnership"), 212,245 subordinated units representing limited partner interests in the Partnership ("Subordinated Units") acquired by the Reporting Person in the Partnership's initial public offering converted automatically into common units representing limited partnership interests in the Partnership ("Common Units") on a one-for-one basis for no additional consideration.
- (1) Partnership ("Subordinated Units") acquired by the Reporting Person in the Partnership's initial public offering converted automatically into common units representing limited partnership interests in the Partnership ("Common Units") on a one-for-one basis for no additional consideration.
 - (2) The Subordinated Units did not have an expiration date.

Remarks:

The Reporting Person is controlled indirectly by Jonathan C. Farber and John T. Reynolds. An affiliate of the Reporting Person

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Accounting Standards Board.**IFRS**

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; and

International Financial Reporting Standards and interpretations as issued by the IASB, collectively referred to as IFRS.

Implementation Deed the Implementation Deed entered into on or around the date of this document between BHP Billiton Limited, BHP Billiton Plc and South32 referred to in Section 14.4(a).**Independent Accountant** KPMG Financial Advisory Services (Australia) Pty Ltd.**Independent Accountant s Assurance Report** the report prepared by the Independent Accountant and included in Section 12.**Independent Audit Report** the audit report prepared by KPMG in respect of the historical combined financial information contained in Annexure 1.**Independent Competent Persons** each Independent Competent Person named as such in the relevant report set out in Annexure 6.**Independent Competent Person s Report** each of the reports prepared by an Independent Competent Person, which are set out in Annexure 6.**Indicated Resource** that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.**Inferred Resource** that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity.**Ineligible Overseas Shareholder** a BHP Billiton Shareholder who is not an Eligible Shareholder.**Internal Restructure** the restructuring of the BHP Billiton Group prior to, and in order to effect, the Demerger, as described in Section 14.2.**ISIN** an International Securities Identification Number.

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Term	Meaning
JORC Code	a set of minimum standards, recommendations and guidelines for public reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The guidelines are defined by the Australasian Joint Ore Reserves Committee (JORC), which is sponsored by the Australian mining industry and its professional organisations.
JSE	JSE Limited or the market conducted by it, as the context requires.
JSE Guarantee Fund	JSE Guarantee Fund Trust, with Master s reference number IT 9150/2003, a trust established and administered in accordance with guarantee fund rules of the JSE.
JSE Listing Rules	the listing rules of the JSE.
JSE Record Date	the date for determining entitlement of BHP Billiton Plc Dematerialised Shareholders to South32 Shares distributed to the Strate Nominee under the Demerger.
LBMA	London Bullion Market Association.
Limited Record Date	the date for determining entitlement to South32 Shares of BHP Billiton Limited Shareholders.
LME	The London Metal Exchange.
LSE	London Stock Exchange plc or the market conducted by it, as the context requires.
Manganese Business	South32 s interests in South Africa Manganese and Australia Manganese, which are co-owned with Anglo American Plc.
Manganese Business Entities	Samancor Holdings (Pty) Limited, Groote Eylandt Mining Company Pty Limited and Samancor AG, and their respective subsidiaries.
Marketable Coal Reserves	represents beneficiated or otherwise enhanced coal product where modifications due to mining, dilution and processing have been considered; must be publicly reported in conjunction with, but not instead of, reports of Coal Reserves. The basis of the predicted yield to achieve Marketable Coal Reserves must be stated (JORC Code, 2012).
Measured Resource	that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit.
Metalloids	has the meaning given in Section 1, B.3.
Mineral Resource	a concentration or occurrence of solid material of economic interest in or on the Earth s crust in such form, grade (quality) and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling (JORC Code, 2012).
Modifying Factors	considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic,

	marketing, legal, environmental, social and governmental factors.
MRN Mine	has the meaning given in Section 1, B.3.
MRRT	has the meaning given in Section 3.5.
Official List	the official list of securities listed in the United Kingdom maintained by the UKLA.
Operating unit cost	calculated as revenue less Underlying EBITDA divided by production.
Ore Reserve	the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.
Plc Record Date	the date for determining entitlement to South32 Shares of BHP Billiton Plc Shareholders under the Demerger.
Probable Ore Reserves	the economically mineable part of an Indicated and, in some circumstances, a Measured Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve. Consideration of the confidence level of the Modifying Factors is important in conversion of Mineral Resources to Ore Reserves. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit (JORC Code 2012).

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Term	Meaning
Proved Ore Reserve	a Proved Ore Reserve represents the highest confidence category of reserve estimate and implies a high degree of confidence in geological and grade continuity and the consideration of the Modifying Factors. The style of mineralisation or other factors could mean that Proved Ore Reserves are not achievable in some deposits (JORC Code 2012). Implies the highest degree of geological, technical and economic confidence in the estimate at the level of production increments used to support mine planning and production scheduling.
RBCT	has the meaning given in Section 5.1.
Record Date	the Plc Record Date, Limited Record Date or JSE Record Date (as applicable) or, in the case of BHP Billiton ADS Holders, the record date of the relevant underlying BHP Billiton Shares.
Register Election	the right described in Section 15.6(c) for BHP Billiton Shareholders (other than South African Shareholders) to elect to receive their South32 Shares in a manner other than that described in Section 15.6(a).
ROM	has the meaning given in Section 7.1(e)(1)
S&P	means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. (operating in Australia through Standard & Poor's (Australia) Pty Ltd (ABN 62 007 324 852)) or any successor to its rating business.
SA South32 Shareholder	a South32 Shareholder resident in South Africa.
Sale Agent	the nominee appointed by BHP Billiton to sell or facilitate the sale of the South32 Shares under the Sale Facility and South32 Shares to which Ineligible Overseas Shareholders would otherwise have been entitled.
Sale Facility	the facility available to certain BHP Billiton Shareholders, as described in Section 7.12 of the Shareholder Circular.
SARB	South African Reserve Bank.
SAST	South Africa Standard Time.
Section	a section of this document.
Selling Shareholders	BHP Billiton Shareholders who validly elect to have their South32 Shares sold pursuant to the Sale Facility.
Separation Deed	the Separation Deed entered into on or around the date of this document between BHP Billiton Limited, BHP Billiton Plc and South32 as summarised in Section 14.4(b).
Shareholder Circular	the Shareholder Circular relating to the Demerger dated 16 March 2015.
Shareholder Information Line	the information line set up for the purpose of answering enquiries from BHP Billiton Shareholders in relation to the Demerger, the details of which are set out in Section 3.9.
South32 or Company	South32 Limited and, where the context requires, its subsidiaries from time to time.
South32 ADSs	ADSs represented by South32 Shares.

South32 Board	the board of directors of South32.
South32 Businesses or Businesses	the businesses to be conducted by the South32 Group, as described in this document and, where applicable, any future operations in which South32 will have an interest.
South32 Constitution or South32 s Constitution	the constitution of South32 which is summarised in Section 15.4.
South32 Director	a director of South32 listed in Section 8.1 (including the proposed directors listed in that Section), or from time to time following the ASX Listing Date, as the context requires.
South32 DIs or South32 Depository Interests	South32 Depository Interests constituted by the Deed Poll, each representing one South32 Share as described in Section 15.6(d)(2).
South32 Group	South32 and its subsidiaries from time to time, and, as at the date of this document, refers to South32 and all entities that will be subsidiaries of South32 immediately following implementation of the Demerger and for purposes of Section 2, 5 and 7 includes the entities that hold the South32 Businesses.
South32 Marketing	South32 s marketing function.
South32 Share	a South32 ordinary share, which, in the case of South32 ordinary shares to be held in CREST will be represented by a South32 DI (and for the purposes of Section 15.4 includes shares of any class which may be issued by South32 in the future).
South32 Share Register	the register of South32 Shares.

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Term	Meaning
South32 South African branch register	the register of South African South32 Shareholders who hold their shares in certificated form maintained by South32.
South32 Shareholder	a registered holder of a South32 Share or South32 DI, as the context requires.
South African branch register	the register of South African Shareholders who hold their shares in certificated form maintained by BHP Billiton Plc pursuant to section 129 of the Companies Act 2006.
South African Shareholder	a holder of BHP Billiton Plc Shares in certificated form whose shareholding is registered on the South African branch register or a holder of Dematerialised BHP Billiton Plc Shares.
Strate	Strate Proprietary Limited (Registration Number 1998/022242/06), an electronic settlement environment for transactions to be settled and transfer of ownership to be recorded electronically in South Africa.
Strate Nominee	PLC Nominees Proprietary Limited, a company indirectly wholly owned by Strate, acting as nominee for the holders of Dematerialised BHP Billiton Plc Shares.
Strate Nominee Register	the register of BHP Billiton Plc Dematerialised Shareholders maintained by the Strate Nominee.
Subscription Agreement	has the meaning given in Section 14.2.
Tax Experts	Greenwoods & Herbert Smith Freehills Pty Ltd, Slaughter and May, Cleary Gottlieb Steen & Hamilton LLP, Ernst & Young Advisory Services (Pty) Ltd and Bell Gully.
Tax Experts Report	each of the reports prepared by a Tax Expert in respect of the descriptions of the tax implications of holding South32 Shares, set out in Section 13.
TEMCO	has the meaning given in Section 1, B.3.
TSR (Total Shareholder Return)	TSR measures the return delivered to shareholders over a certain period through the change in share price and any dividends paid.
Transitional Services Agreement	the Transitional Services Agreement entered into on or around the date of this document between a wholly-owned subsidiary of BHP Billiton Limited and South32 as summarised in Section 14.4(d).
Transnet	Transnet Freight Rail, the South African Government-owned rail freight and port provider.
United Kingdom Admission	the admission of the South32 Shares to the standard listing segment of the Official List and to trading for normal settlement on the LSE's main market for listed securities.
UK Depository	Computershare Investor Services PLC in its capacity as depository for holders of South32 DIs.
UKLA	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA.
UKLA Listing Rules	the listing rules made by the FCA pursuant to FSMA.
UKLA Disclosure and Transparency Rules	the disclosure and transparency rules made by the FCA pursuant to FSMA.

UKLA Prospectus Rules	the prospectus rules made by the FCA pursuant to FSMA.
UK Nominee	Computershare Company Nominees Limited in its capacity as nominee for CSN Participants.
Underlying Earnings	has the meaning given in Section 3.5.
Underlying EBIT	has the meaning given in Section 3.5.
Underlying EBITDA	has the meaning given in Section 3.5.
US	United States of America.
US\$	US dollar.
VWAP	volume weighted average price.
ZAR	South African rand.

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Bt	billion tonne
Boz	billion ounce
dmt	dry metric tonne
dmtu	dry metric tonne unit
g/t	grams per tonne
GWh	gigawatt hour
ha	hectare
kcal/kg	kilocalories per kilogram
kdmt	thousand dry metric tonne
km	kilometre
kwmt	thousand wet metric tonne
kt	thousand tonne
ktpa	thousand tonne per annum
Mdmt	million dry metric tonne
ML	megalitre
Moz	million ounces
Mt	million tonne
Mtpa	million tonne per annum
mtu	metric tonne unit
MW	megawatt
MWh	megawatt hour
MVA	megavolt ampere
ppm	parts per million

16.3 TERMS USED IN RELATION TO RESERVES AND RESOURCES

Ag	silver
Al₂O₃	alumina
A.Al₂O₃	available alumina
Fe	iron
FeMn	ferromanganese

HCFeMn	high-carbon ferromanganese
MCFeMn	medium-carbon ferromanganese
Met	metallurgical coal
Mn	manganese
Ni	nickel
Pb	lead
SiMn	silicomanganese
SiO₂	silica
VM	volatile matter
Zn	zinc

16.4 ROUNDING

Figures, amounts, percentages, prices, estimates, calculations of values and fractions in this document are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this document.

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The historical combined financial information has been prepared with the objective of presenting, in line with the basis of preparation set out in Section 1.6, the results, net assets and cash flows of the South32 Group (South32) in the form that will arise immediately following implementation of the Demerger, as if it had been operating on a combined basis throughout the financial periods covered.

1.1 COMBINED INCOME STATEMENT

	Notes	2014 US\$M	2013 US\$M	2012 US\$M
Revenue				
Group production	2	9,182	10,430	11,476
Third party products	2	1,262	1,663	2,359
Revenue	2	10,444	12,093	13,835
Other income	4	310	155	60
Expenses excluding net finance costs	5	(9,990)	(13,211)	(11,835)
Share of operating profit of equity accounted investments		10		
Profit/(loss) from operations		774	(963)	2,060
Comprising:				
Group production		745	(1,026)	1,966
Third party products		29	63	94
Financial income	6	41	130	155
Financial expenses	6	(393)	(263)	(197)
Net finance costs	6	(352)	(133)	(42)
Profit/(loss) before taxation		422	(1,096)	2,018
Income tax expense		(245)	(66)	(781)
Royalty-related taxation (net of income tax benefit)		40	(142)	196
Total taxation expense	7	(205)	(208)	(585)
Profit/(loss) after taxation		217	(1,304)	1,433
Attributable to non-controlling interests		85	163	32
Attributable to members of South32		132	(1,467)	1,401
Basic earnings/(loss) per ordinary share (US cents)	8	2.48	(27.55)	26.31

Diluted earnings/(loss) per ordinary share (US cents)	8	2.47	(27.46)	26.20
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The accompanying notes form part of the historical combined financial information.

Certain administrative costs, net finance costs, tax and pension amounts of South32 reflect the management and capital structure of South32 prior to the Demerger. Accordingly these amounts, together with respective earnings per share figures, may not be comparable with actual amounts that would have occurred had the Demerger been in effect during the periods presented. Refer to Section 1.6 (Basis of preparation of historical combined financial information) for details of assumptions made in preparing the historical combined financial information.

Table of Contents**1.2 COMBINED STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2014 US\$M	2013 US\$M	2012 US\$M
Profit/(loss) after taxation		217	(1,304)	1,433
Other comprehensive income				
Items that may be reclassified subsequently to the income statement:				
Available for sale investments:				
Net valuation losses taken to equity		(17)	(114)	(45)
Net valuation (gains)/losses transferred to the income statement		(4)	2	
Tax recognised within other comprehensive income	7	3	17	(15)
Total items that may be reclassified subsequently to the income statement		(18)	(95)	(60)
Items that will not be reclassified to the income statement:				
Actuarial (losses)/gains on pension and medical schemes		(2)	2	(12)
Tax recognised within other comprehensive income	7			6
Total items that will not be reclassified to the income statement		(2)	2	(6)
Total other comprehensive loss		(20)	(93)	(66)
Total comprehensive income/(loss)		197	(1,397)	1,367
Attributable to non-controlling interests		85	164	34
Attributable to members of South32		112	(1,561)	1,333

The accompanying notes form part of the historical combined financial information.

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	Notes	2014 US\$M	2013 US\$M	2012 US\$M
ASSETS				
Current assets				
Cash and cash equivalents	20	353	345	346
Trade and other receivables	9	911	1,249	1,709
Receivables from BHP Billiton	9	1,943	1,809	3,553
Other financial assets	10	13	65	73
Inventories	11	1,427	1,550	1,723
Current tax assets		320	192	110
Other		35	26	30
Total current assets		5,002	5,236	7,544
Non-current assets				
Trade and other receivables	9	178	182	218
Other financial assets	10	502	539	732
Investments accounted for using the equity method		10		
Inventories	11	58	77	87
Property, plant and equipment	12	12,616	12,101	14,462
Intangible assets	13	291	343	326
Deferred tax assets	7	1,013	1,041	613
Other		20	24	30
Total non-current assets		14,688	14,307	16,468
Total assets		19,690	19,543	24,012
LIABILITIES				
Current liabilities				
Trade and other payables	14	1,311	1,586	2,011
Payables to BHP Billiton	14	28	10	13
Interest bearing liabilities	15	47	93	204
Interest bearing liabilities payable to BHP Billiton	15		341	
Other financial liabilities	16	4		43
Current tax payable		199	128	254
Provisions	17	537	593	616
Deferred income		7	13	53
Total current liabilities		2,133	2,764	3,194
Non-current liabilities				
Trade and other payables	14	56	8	19
Interest bearing liabilities	15	1,253	281	314

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Interest bearing liabilities payable to BHP Billiton	15	3,728	4,000	4,071
Other financial liabilities	16	6	7	20
Deferred tax liabilities	7	523	580	547
Provisions	17	2,170	1,779	2,032
Deferred income		1	4	3
Total non-current liabilities		7,737	6,659	7,006
Total liabilities		9,870	9,423	10,200
Net assets		9,820	10,120	13,812
INVESTED CAPITAL				
Invested capital attributable to members of South32		8,953	9,213	13,010
Invested capital attributable to non-controlling interests		867	907	802
Total invested capital		9,820	10,120	13,812

The accompanying notes form part of the historical combined financial information.

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	Notes	2014 US\$M	2013 US\$M	2012 US\$M
Operating activities				
Profit/(loss) before taxation		422	(1,096)	2,018
Adjustments for:				
Depreciation and amortisation expense		985	964	905
Net (gain)/loss on sale of non-current assets		(22)	(29)	4
Impairments/(reversals) of property, plant and equipment, financial assets and intangibles		319	2,210	108
Net finance costs		352	133	42
Share of operating profit of equity accounted investments		(10)		
Other		(15)	(38)	9
Changes in assets and liabilities:				
Trade and other receivables		111	265	492
Inventories		112	183	160
Trade and other payables		(142)	(266)	(523)
Net other financial assets and liabilities		41	30	(117)
Provisions and other liabilities		(45)	(218)	(199)
Cash generated from operations		2,108	2,138	2,899
Dividends received		31	17	23
Interest received		24	42	48
Interest paid		(175)	(74)	(35)
Income tax refunded		4		
Income tax paid		(322)	(697)	(542)
Net operating cash flows		1,670	1,426	2,393
Investing activities				
Purchases of property, plant and equipment		(769)	(1,139)	(2,013)
Exploration expenditure		(24)	(29)	(51)
Exploration expenditure expensed and included in operating cash flows		17	21	41
Purchase of intangibles			(20)	
Investment in financial assets		(24)	(21)	(8)
Cash outflows from investing activities		(800)	(1,188)	(2,031)
Proceeds from sale of property, plant and equipment		48	64	
Proceeds from financial assets		52	19	8
Net investing cash flows		(700)	(1,105)	(2,023)
Financing activities				
Proceeds from interest bearing liabilities		251	2,274	74
Repayment of interest bearing liabilities		(456)	(112)	(366)
Proceeds from issue of shares			9	

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Other movements in invested capital	(116)	(107)	13
Dividends paid	(505)	(2,296)	(79)
Dividends paid to non-controlling interests	(133)	(59)	(56)
Net financing cash flows	(959)	(291)	(414)
Net increase/(decrease) in cash and cash equivalents	11	30	(44)
Cash and cash equivalents, net of overdrafts, at the beginning of the financial year	345	327	394
Foreign currency exchange rate changes on cash and cash equivalents	(3)	(12)	(23)
Cash and cash equivalents, net of overdrafts, at the end of the financial year	20	353	345
			327

The accompanying notes form part of the historical combined financial information.

Table of Contents**1.5 COMBINED STATEMENT OF CHANGES IN INVESTED CAPITAL**

	2014	2013	2012
	US\$M	US\$M	US\$M
Invested capital attributable to members of South32			
Balance as at 1 July	9,213	13,010	11,621
Profit/(loss) for the year	132	(1,467)	1,401
Other comprehensive income	(20)	(94)	(68)
Dividends paid	(505)	(2,296)	(79)
Equity transactions with BHP Billiton	133	60	135
Balance as at 30 June	8,953	9,213	13,010
Invested capital attributable to non-controlling interests			
Balance as at 1 July	907	802	824
Profit for the year attributable to non-controlling interests	85	163	32
Other comprehensive income		1	2
Distributions paid to non-controlling interests	(133)	(59)	(56)
Distribution to option holders	(2)		
Equity contributed	10		
Balance as at 30 June	867	907	802

The accompanying notes form part of the historical combined financial information.

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1.6 NOTES TO THE HISTORICAL COMBINED FINANCIAL INFORMATION

1 Accounting policies

General information

South32 Limited, formerly BHP Coal Holdings Proprietary Limited, is a public limited liability company registered in Australia and is proposed to be listed with a primary listing on the ASX, a secondary listing on the JSE and all the 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. The nature of the operations and principal activities of South32 and its subsidiaries and interests in joint operations (South32) are set out in Section 7.

The Basis of preparation of historical combined financial information section describes how the historical combined financial information has been prepared in accordance with:

Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the Australian Accounting Standards Board (collectively, AASBs);

International Financial Reporting Standards and interpretations as adopted by the European Union (EU); and

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.

Instances where a departure has occurred from these financial reporting standards have been described in the Basis of preparation of historical combined financial information section below. The directors are responsible for the preparation of the historical combined financial information and believe that the basis of preparation fairly presents South32's historical financial information in the circumstances set out below.

The historical combined financial information is prepared in accordance with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

Basis of preparation of historical combined financial information

The historical combined financial information has been prepared in accordance with the requirements of Sections 8.1 to 8.13 of the JSE Listing Requirements and the applicable UKLA Listing Rules and Prospectus Directive and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with IFRS, except as described below.

IFRS do not provide for the preparation of historical combined financial information, and accordingly in preparing the historical combined financial information certain accounting conventions commonly used for the preparation of historical combined financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information)

issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRS. In all other respects IFRS has been applied.

Historical combined financial information

South32 has not in the past constituted a separate legal group. The historical combined financial information for the years ended 30 June 2014, 2013 and 2012 and the half years ended 31 December 2014 and 2013 (the Reporting Period) have been prepared by aggregating historical financial information relating to the businesses that will be held by South32 at the date of Demerger including assets, liabilities and transactions directly attributable to South32. This historical combined financial information has previously been reported as part of the annual consolidated financial statements of BHP Billiton for the Reporting Period, and BHP Billiton's financial statements were prepared in accordance with IFRS and AASBs. All references to subsidiaries or joint operations include entities that will transfer to South32 at the date of Demerger.

The historical combined financial information has been prepared with the objective of presenting the results, net assets and cash flows of South32 for the periods identified. The entities which comprise South32 have been under common management and control of BHP Billiton throughout the periods presented in the historical combined financial information. Consequently, this historical combined financial information may not necessarily be indicative of the financial performance that would have been achieved if South32 had operated as an independent entity for the Reporting Period, nor may it be indicative of the results of operations of South32 for any future period.

The historical combined financial information combines only the financial information for those businesses that will be part of South32 at the date of the Demerger. The principal subsidiaries and interests in joint operations included within the historical combined financial information are shown in note 21 Subsidiaries and note 22 Interests in joint operations.

All trading balances between South32 Businesses and BHP Billiton which have historically been eliminated in the consolidated financial statements of BHP Billiton have now been presented as either receivable, payables or interest bearing liabilities as though they were with an external related party. These transactions and balances are presented in note 24 Related party balances and transactions.

Transactions and balances between South32 Businesses included within the historical combined financial information have been eliminated, consistent with the principles of IFRS 10 Consolidated Financial Statements .

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Share capital and reserves

As South32 has not in the past formed a separate legal group, and there will be a significant change in the composition of total equity (i.e. share capital and reserves) on Demerger, it is not meaningful to disclose historical share capital balances or an analysis of historical reserve balances. The total equity attributable to members of South32 as disclosed in the historical combined financial information represents the cumulative investment of BHP Billiton in the South32 Group Businesses (shown as invested capital). South32's investments in BHP Billiton entities, which do not form part of South32 after the Demerger, have been deducted from invested capital. Where South32's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in non-controlling interests.

Earnings per share, diluted earnings per share and headline earnings per share

Information on earnings per share as required to be presented under IAS 33 Earnings per Share has been calculated for South32 and its subsidiary group based on an assumed capital structure (number of shares) at the date of admission and applied historically. Consequently, the calculation is not in accordance with IAS 33, which requires the use of the weighted average number of ordinary shares of the South32 parent entity outstanding during the period.

The number of ordinary shares outstanding used to calculate earnings per share and headline earnings per share is based on the number of outstanding shares of BHP Billiton at the date of Demerger applied historically. Given the expected capital structure of South32 subsequent to the Demerger, and the fact that shares in South32 will be issued to BHP Billiton shareholders on a one for one basis, this is considered to be the most appropriate denominator on which to compute earnings per share for South32.

Information on Headline Earnings per Share as required by the JSE has been calculated for South32 in accordance with Circular 2/2013 as issued by The South African Institute of Chartered Accountants based on an assumed capital structure at the date of admission and applied historically (as described above). A reconciliation between basic and headline earnings is contained within note 8 Earnings, dividends and asset information per share.

Key management personnel (KMP)

Throughout the Reporting Period, those persons having the authority and responsibility for planning, directing and controlling the activities of South32 were represented by BHP Billiton's KMP as South32's operations and activities were managed as part of BHP Billiton. For this reason it is not relevant to disclose historical financial information relating to those individuals who will be the KMP of South32 post Demerger. With the exception of KMP disclosures, the disclosures made in note 24 Related party balances and transactions are consistent with the disclosures required by IAS 24 Related Party Disclosures and are also consistent with the treatment adopted in the historical financial information of BHP Billiton.

Employee share ownership plan (ESOP)

South32 has not historically existed as a standalone group of legal entities and as such, no share ownership plans existed over South32's securities. Amounts have been included in note 5 Expenses in this historical combined financial information reflective of amounts previously charged by BHP Billiton to South32 companies for employees which formed part of the BHP Billiton ESOP. The disclosures relating to BHP Billiton's share ownership plans is set out in the BHP Billiton financial statements.

Australian specific disclosures

AASB 1054 Australian Additional Disclosures includes additional disclosure requirements which are not needed for IFRS compliance. For the purpose of this historical combined financial information, these additional disclosures have been omitted.

Other principles applied

In addition, the following principles have been applied in preparing the historical combined financial information:

Throughout the Reporting Period, BHP Billiton has incurred costs within its central functions in Melbourne, London and Singapore. A portion of these costs has been deducted from the underlying trading results of the South32 Businesses in arriving at the results for South32 as a whole. These centrally incurred costs, and their treatment in the historical combined financial information, can be analysed as follows:

Unallocated central costs : headquarter costs (for example company secretarial costs) relating to BHP Billiton's operations as a public company. These costs have not been allocated to the South32 Group Businesses as any allocation would have been arbitrary in nature.

Allocated central costs : headquarter costs (for example information technology, tax and treasury functions) which relate to the management and oversight of the South32 Businesses. These costs have been allocated to the businesses on the basis of:

Project based allocation (such as time spent/project spend); or

Non project based allocation (such as head count/transaction volumes).

In preparing the historical combined financial information, unallocated central costs relating to BHP Billiton's central headquarters have been excluded from the historical combined financial information for South32. This is because any allocation would be arbitrary in nature and may not reflect properly the headquarter costs as would have been incurred by South32 had it been a standalone business throughout the Reporting Period. The historical combined financial information for South32 reflects the allocated central costs relating to BHP Billiton's central headquarters as these costs were historically allocated against and charged to the South32 Businesses and therefore form part of the historical combined financial information for South32.

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As a result of the above treatment, financial information for the Reporting Period relating to the remuneration of the South32 Directors excludes the remuneration of those South32 Directors who were also directors of BHP Billiton and whose remuneration cost is included in the unallocated central corporate costs of BHP Billiton.

BHP Billiton operates a centrally managed treasury function responsible for the provision of funding to operating businesses in conjunction with monitoring and maintaining BHP Billiton's cash balances. Cash is collected through cash accounts held by BHP Billiton or on their behalf through cash accounts managed by BHP Billiton. Net interest arising on the total cash balances held by BHP Billiton, including cash accounts held by South32 entities, is paid to or payable on a net basis from a BHP Billiton cash account. Therefore the net finance cost included in the historical combined financial statements may not necessarily represent what the net financing costs would have been, if South32 had historically obtained financing and managed its cash on a standalone basis.

All intra-group funding is provided under executed agreements between counterparties at arms-length interest rates with the corresponding interest income and expense reflected within the historical combined financial information of South32. Although the net finance costs (as historically incurred by the South32 Businesses) have been included in the historical combined financial information, these net financing costs may not be comparable with actual amounts which may have occurred had the Demerger been in effect during the Reporting Period and had South32 sourced its own funding under its own credit rating.

Dividends paid or payable from South32 to BHP Billiton are reported in the historical combined financial information for the Reporting Period as belonging entirely to BHP Billiton, with no dividends reported as paid or payable to the future owners of the South32 parent entity. Accordingly, the historical record of dividend payments may not be comparable with amounts which may have occurred had the Demerger been in effect during the Reporting Period. The Demerger also gives rise to dividend payments and receipts between South32 Businesses and BHP Billiton (related party dividends) which were previously eliminated upon the consolidation of BHP Billiton and which will not occur after the date of the Demerger.

Awards were made to BHP Billiton employees (who will become employees of South32 post Demerger) under BHP Billiton's Long Term Incentive Plan (LTIP), Group Incentive Scheme (GIS), Management Award Plan (MAP) and/or Group Short Term Incentive Plan (GSTIP). Awards were also made to employees under Shareplus, an all employee share purchase plan. These employee awards were offered in the underlying shares of BHP Billiton and as such there are no employee share ownership plans in South32. For the purpose of this combined financial information, transfers of BHP Billiton's equity instruments to employees of South32 have been reflected as equity settled share-based payment transactions in the income statement.

The policies for managing the financial risks to which South32's activities were exposed, including the market risk resulting from fluctuations in commodity prices, exchange rates and interest rates; and liquidity risk, being the risk that South32 had insufficient debt facilities to finance its operational cash flow requirements and any maturing financial liabilities, were historically managed by BHP Billiton. In managing these risks, where appropriate, BHP Billiton used derivative financial instruments, including forward foreign exchange contracts, interest rate swaps and swaptions to manage the financial risks of South32. These derivative financial instruments were generally

transacted by BHP Billiton's central treasury and risk management departments and were not allocated to or did not form part of the historical financial information of the South32 Businesses. Accordingly, the only derivative activity reported in the historical combined financial information relates to forward commodity and other derivative contract exposures entered into directly by South32 Businesses. Details of the risk mitigation policies as implemented by BHP Billiton are further highlighted in note 23 Financial risk management.

Provisions included in the historical combined financial information for employee benefits (including on costs, superannuation, pensions and other post-retirement obligations) and closure and rehabilitation obligations relate to the South32 Businesses and excludes any amounts which represent unallocated central costs. The pension and post-retirement schemes included defined contribution pension schemes, multi-employer pension schemes, defined benefit pension schemes and the defined benefit post-retirement medical schemes. These schemes provide benefits to current and past employees and therefore represent obligations of both South32 and BHP Billiton.

At or prior to Demerger, the assets, liabilities and period costs of the schemes relating to the South32 Group Businesses will be transferred to South32 and are consequently included within the historical combined financial information. This does not include an apportionment of schemes for employees included within central costs. Detailed disclosures relating to these schemes are provided in note 25 Pensions and other post retirement obligations.

Tax charges in the historical combined financial information have been determined based on the tax charges recorded by South32 Businesses in their underlying ledgers. The tax charges recorded in the income statement included in the historical combined financial information have been affected by the tax arrangements within BHP Billiton and are not necessarily representative of the tax charges that would have been reported had South32 been an independent group throughout the Reporting Period.

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Deferred tax assets recognised within the historical combined financial information have been recognised based on assessments of their recoverability whilst operating as part of the BHP Billiton Group. These deferred tax assets may not be fully reflective of balances that would have been recognised had South32 been operating independently during the Reporting Period.

Items identified as Significant and requiring individual disclosure are those items where their nature and amount is considered material to the financial information of South32. Additional details of significant items impacting South32's results for the Reporting Period can be found in note 3 Significant items.

Goodwill in South32 arose where the fair value of consideration paid for a business combination exceeded the fair value of South32's share of the identifiable net assets acquired. The goodwill balances have been attributed to the cash-generating units of the South32 Businesses consistent with the historical treatment of these balances within BHP Billiton.

In preparing the historical combined financial information for the Reporting Period, the following accounting standards or interpretations have been adopted for each period such that the financial impact of adopting each individual standard or interpretation has not been separately disclosed. Each of these standards and interpretations has been adopted by BHP Billiton in the preparation of its financial statements:

IFRS 10/AASB 10 Consolidated Financial Statements which is a replacement of IAS 27 Consolidated and Separate Financial Statements ;

IFRS 11 Joint Arrangements which is a replacement of IAS 31 Joint Ventures ;

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ;

IFRS 13 Fair Value Measurement (as issued at 1 January 2013); and

Amendments to IAS 19 Employee Benefits .

In addition, South32 has early-adopted amendments to IAS 36 Impairment of Assets . South32 has also changed its Exploration and Evaluation Expenditure policy from 1 July 2013 such that all acquisitions of exploration leases are classified as intangible exploration assets or tangible exploration assets based on the nature of the assets acquired.

Basis of measurement

The financial information is drawn up on the basis of historical cost principles, except for certain financial assets, which are carried at fair value.

Rounding of amounts

Amounts in the historical combined financial information have, unless otherwise indicated, been rounded to the nearest million dollars.

Currency of presentation

All amounts are expressed in millions of US dollars, unless otherwise stated, consistent with the functional currency of South32's operations.

Consistent application of accounting policies

The accounting policies applied are, except noted above in the Basis of preparation of historical combined financial information section, consistent with those applied in the BHP Billiton financial statements and have been consistently applied by all entities included in the South32 historical combined financial information for all periods presented.

Comparatives

Where applicable, comparatives have been adjusted to measure or present them on the same basis as current period figures.

Principles of consolidation

Except as noted above in the Basis of preparation of historical combined financial information section, the financial information of South32 includes the consolidation of the respective subsidiaries of South32. Subsidiaries are included in the historical combined financial information from the date control commences until the date control ceases. Where South32's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in non-controlling interests. The effects of all transactions between entities within South32 have been eliminated.

Joint arrangements

South32 undertakes a number of business activities through joint arrangements. Joint arrangements exist when two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. South32's joint arrangements are of two types:

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Joint operations

Joint operations are joint arrangements in which the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The activities of a joint operation are primarily designed for the provision of output to the parties to the arrangement, indicating that:

the parties have the rights to substantially all the economic benefits of the assets of the arrangement; and

all liabilities are satisfied by the joint participants through their purchases of that output. This indicates that, in substance, the joint participants have an obligation for the liabilities of the arrangement.

The financial information of South32 include its share of the assets in joint operations, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to South32's interest in the joint operation.

Joint ventures

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. A separate vehicle, not the parties, will have the rights to the assets and obligations to the liabilities, relating to the arrangement. More than an insignificant share of output from a joint venture is sold to third parties which indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement.

Joint ventures are accounted for using the equity method. Under the equity method the joint venture is recorded initially at cost to South32, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the joint venture is adjusted to reflect South32's share of its post-acquisition profit or loss and other comprehensive income. After application of the equity method, including recognising South32's share of the joint ventures' results, the value of the investment will be assessed for impairment if there is objective evidence that an impairment of the investment may have occurred. Where South32's investment in a joint venture is nil after having applied equity accounting principles (and South32 has no legal or constructive obligation to make further payments, nor has made payments on behalf of the joint venture), dividends received from the joint venture will be recognised in South32's results as a Share of operating profit of equity accounted investments .

Associates

Associates are entities in which South32 holds significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control. If South32 holds 20 per cent or more of the voting power of an entity, it is presumed that South32 has significant influence, unless it can be clearly demonstrated that this is not the case. Significant influence can also arise when South32 has less than 20 per cent of voting power but it can be demonstrated that South32 has the power to participate in the financial and operating policy decisions of the associate.

Investments in associates are accounted for using the equity method as described above. South32 uses the term equity accounted investments to refer to associates and joint ventures collectively.

Business combinations

Business combinations, other than restructures within the BHP Billiton Group that occurred between 1 July 2004 and 30 June 2009, were accounted for by applying the purchase method of accounting, whereby the purchase consideration of the combination is allocated to the identifiable net assets acquired. Business combinations prior to 1 July 2004 have been accounted for in accordance with South32's previous policies operating as part of BHP Billiton under Australian generally accepted accounting principles (GAAP) and UK GAAP and have not been restated.

Business combinations undertaken from 1 July 2010 are accounted for by applying the acquisition method of accounting, whereby the identifiable assets, liabilities and contingent liabilities (identifiable net assets) are measured on the basis of fair value at the date of acquisition.

Goodwill

Where the fair value of consideration paid for a business combination exceeds the fair value of South32's share of the identifiable net assets acquired, the difference is treated as purchased goodwill. Where the fair value of South32's share of the identifiable net assets acquired exceeds the cost of acquisition, the difference is immediately recognised in the income statement. The recognition and measurement of goodwill attributable to a non-controlling interest in a business combination is determined on a transaction by transaction basis. Goodwill is not amortised, however its carrying amount is assessed annually against its recoverable amount as explained below under Impairment of non-current assets . On the subsequent disposal or termination of a previously acquired business, any remaining balance of associated goodwill is included in the determination of the profit or loss on disposal or termination.

Intangible assets

Amounts paid for the acquisition of identifiable intangible assets, such as software and licences, are capitalised at the fair value of consideration paid and are recorded at cost less accumulated amortisation and impairment charges. Identifiable intangible assets with a finite life are amortised on a straight-line basis over their expected useful life, which is typically no greater than eight years. South32 has no identifiable intangible assets for which the expected useful life is indefinite.

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Foreign currencies

South32's reporting currency and the functional currency of its operations is the US dollar as this is assessed to be the principal currency of the economic environments in which it operates.

Transactions denominated in foreign currencies (currencies other than the functional currency of an operation) are recorded using the exchange rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange prevailing at year-end and the gains or losses on retranslation are included in the income statement, with the exception of foreign exchange gains or losses on foreign currency provisions for site closure and rehabilitation, which are capitalised in property, plant and equipment for operating sites.

Share-based payments

South32 has historically been charged by BHP Billiton for share awards granted to employees in the South32 Group. The fair value at grant date of equity-settled share awards is charged to the income statement over the period for which the benefits of employee services are expected to be derived. The fair value of awards is calculated using an option pricing model which considers the following factors:

exercise price;

expected life of the award;

current market price of the underlying shares;

expected volatility;

expected dividends;

risk-free interest rate;

market-based performance hurdles;

non-vesting conditions.

Sales revenue

Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence (usually in the form of an executed sales agreement) of an arrangement exists and:

there has been a transfer of risks and rewards to the customer;

no further work or processing is required by South32;

the quantity and quality of the goods has been determined with reasonable accuracy;

the price is fixed or determinable;

collectability is reasonably assured.

Revenue is therefore generally recognised when title passes. In the majority of sales for most commodities, sales agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent. For these sales, revenue is recognised on the bill of lading date. For certain sales (principally coal sales to adjoining power stations and diamond sales), title passes and revenue is recognised when the goods have been delivered.

In cases where the terms of the executed sales agreement allow for an adjustment to the sales price based on a survey of the goods by the customer (for instance an assay for mineral content), recognition of the sales revenue is based on the most recently determined estimate of product specifications.

For certain commodities, the sales price is determined on a provisional basis at the date of sale and adjustments to the sales price subsequently occurs based on movements in quoted market or contractual prices up to the date of final pricing. The period between provisional invoicing and final pricing is typically between 60 and 120 days. Revenue on provisionally priced sales is recognised based on the estimated fair value of the total consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the character of a commodity derivative. Accordingly, the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are recognised as an adjustment to revenue. In all cases, fair value is estimated by reference to forward market prices.

Revenue is not reduced for royalties and other taxes payable from South32's production.

South32 separately discloses sales of Group production from sales of third party products because of the significant difference in profit margin earned on these sales.

Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

researching and analysing historical exploration data;

gathering exploration data through topographical, geochemical and geophysical studies;

exploratory drilling, trenching and sampling;

determining and examining the volume and grade of the resource;

surveying transportation and infrastructure requirements;

conducting market and finance studies.

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Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Initial payments for the acquisition of intangible lease assets are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure (including amortisation of capitalised licence and lease costs) is charged to the income statement as incurred except in the following circumstances, in which case the expenditure may be capitalised:

The exploration and evaluation activity is within an area of interest which was previously acquired as an asset acquisition or in a business combination and measured at fair value on acquisition; or

The existence of a commercially viable mineral deposit has been established.

Capitalised exploration and evaluation expenditure considered to be a tangible asset is recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, it is recorded as an intangible asset (such as certain licence and lease arrangements). In determining whether the purchase of an exploration licence or lease is an intangible asset or a component of property, plant and equipment, consideration is given to the substance of the item acquired not its legal form. Licences or leases purchased which allow exploration over an extended period of time meet the definition of an intangible exploration lease asset where they cannot be reasonably associated with a known minerals resource. All capitalised exploration and evaluation expenditure is monitored for indications of impairment. When a potential impairment is indicated, assessment is performed for each area of interest in conjunction with South32 of operating assets (representing a cash-generating unit) to which the exploration is attributed. To the extent that capitalised expenditure is no longer expected to be recovered, it is charged to the income statement.

Development expenditure

When proved resources are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified as assets under construction, and is disclosed as a component of property, plant and equipment. All subsequent development expenditure is capitalised and classified as assets under construction, provided commercial viability conditions continue to be satisfied. Development expenditure is net of proceeds from the sale of ore extracted during the development phase. On completion of development, all assets included in assets under construction are reclassified as either plant and equipment or other mineral assets.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment charges. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and the estimated future cost of closure and rehabilitation of the facility.

Other mineral assets

Other mineral assets comprise:

capitalised exploration, evaluation and development expenditure (including development stripping) for properties now in production;

mineral rights acquired;

capitalised production stripping (as described below in Overburden removal costs).

Depreciation of property, plant and equipment

The carrying amounts of property, plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine, field or lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Depreciation commences on the date of commissioning. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis using estimated lives indicated below. However, where assets are dedicated to a mine, field or lease and are not readily transferable, the below useful lives are subject to the lesser of the asset category's useful life and the life of the mine, field or lease:

Buildings	25 to 50 years
Land	not depreciated
Plant and equipment	3 to 30 years straight-line
Mineral rights	based on reserves on a unit of production basis
Capitalised exploration, evaluation	based on reserves on a unit of production basis

and development expenditure

Leased assets

Assets held under lease, which result in South32 receiving substantially all the risks and rewards of ownership of the asset (finance leases), are capitalised at the lower of the fair value of the property, plant and equipment or the estimated present value of the minimum lease payments.

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The corresponding finance lease obligation is included within interest bearing liabilities. The interest component is charged to financial expenses over the lease term to reflect a constant rate of interest on the remaining balance of the obligation.

Operating lease assets are not capitalised and rental payments are included in the income statement on a straight-line basis over the lease term. Provision is made for the present value of future operating lease payments in relation to surplus lease space, when it is first determined that the space will be of no probable future benefit. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Impairment and reversal of impairment of non-current assets

Formal impairment tests are carried out annually for goodwill. In addition, formal impairment tests for all assets are performed when there is an indication of impairment. South32 conducts an internal review of asset values annually, which is used as a source of information to assess for any indications of impairment or reversal of previously recognised impairment losses. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment or reversal of previously recognised impairment losses. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs of disposal and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A reversal of a previously recognised impairment loss is limited to the lesser of the amount that would not cause the carrying amount to exceed (a) its recoverable amount; or (b) the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset or cash-generating unit.

Fair value is determined as the amount that would be obtained from the sale of the asset in an orderly transaction between market participants. Fair value for mineral assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted at an appropriate rate to arrive at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to South32's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash-generating units. Cash-generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The impairment assessments are based on a range of estimates and assumptions, including:

Estimates/assumptions:

Basis:

Future production	proved and probable reserves, resource estimates and, in certain cases, expansion projects
Commodity prices	forward market and contract prices, and longer-term price protocol estimates
Exchange rates	current (forward) market exchange rates
Discount rates	cost of capital risk-adjusted appropriate to the resource
Overburden removal costs	

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan and will often comprise a separate pushback or phase identified in the plan.

There are two types of stripping activity:

Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced.

Production stripping is the interburden removal during the normal course of production activity. Production stripping commences after the first saleable minerals have been extracted from the component. Development stripping costs are capitalised as a development stripping asset when:

It is probable that future economic benefits associated with the asset will flow to the entity; and

The costs can be measured reliably.

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Production stripping can give rise to two benefits, being the extraction of ore in the current period and improved access to the ore body component in future periods. To the extent that the benefit is the extraction of ore the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to future ore, the stripping costs are recognised as a production stripping asset if the following criteria are met:

It is probable that the future economic benefit (improved access to ore) will flow to the entity;

The component of the ore body for which access has been improved can be identified; and

The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the production stripping asset using a life-of-component waste to ore (or mineral contained) strip ratio. When the current strip ratio is greater than the life-of-component ratio a portion of the stripping costs is capitalised to the production stripping asset.

The development and production stripping assets are depreciated on a units of production basis based on the proven and probable reserves of the relevant components. Stripping assets are classified as other mineral assets in property, plant and equipment.

Inventories

Inventories, including work in progress, are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of average costs. For processed inventories, cost is derived on an absorption costing basis. Cost comprises cost of purchasing raw materials and cost of production, including attributable mining and manufacturing overheads. In respect of minerals inventory, quantities are assessed primarily through surveys and assays.

Finance costs

Finance costs are expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use, in which case finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance costs capitalised (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period, to the average amount of capitalised expenditure for the qualifying assets during the period.

Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at period end, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences. The tax effect of certain temporary differences is not recognised, principally with respect to: goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable profit); and temporary differences relating to investments in subsidiaries, joint ventures and associates to the extent that South32 is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner and timing of realisation or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and amended to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and South32 has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

Royalties and resource rent taxes are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

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Provision for employee benefits

Provision is made in the financial information for all employee benefits, including on costs. In relation to industry-based long service leave funds, South32's liability, including obligations for funding shortfalls, is determined after deducting the fair value of dedicated assets of such funds.

Liabilities for unpaid wages and salaries are recognised in sundry creditors. Current entitlements to annual leave and accumulating sick leave accrued for services up to the reporting date are recognised in provision for employee benefits and are measured at the amounts expected to be paid. Entitlements to non-accumulating sick leave are recognised when the leave is taken.

The current liability for long service leave (for which settlement within 12 months of the reporting date cannot be deferred) is recognised in the current provision for employee benefits and is measured in accordance with annual leave described above. The non-current liability for long service leave is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation, pensions and other post-retirement benefits

South32 operates or participates in a number of pension (including superannuation) schemes throughout the world. The funding of the schemes complies with local regulations. The assets of the schemes are generally held separately from those of South32 and are administered by trustees or management boards.

For defined contribution schemes or schemes operated on an industry-wide basis where it is not possible to identify assets attributable to the participation by South32's employees, the pension charge is calculated on the basis of contributions payable.

For defined benefit schemes, the cost of providing pensions is charged to the income statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of expected returns on plan assets. Actuarial gains and losses are recognised directly in equity. An asset or liability is consequently recognised in the balance sheet based on the present value of defined benefit obligations, less any unrecognised past service costs and the fair value of plan assets, except that any such asset cannot exceed the present value of expected refunds from and reductions in future contributions to the plan. Defined benefit obligations are estimated by discounting expected future payments using market yields at the reporting date on high-quality corporate bonds in countries that have developed corporate bond markets. However, where developed corporate bond markets do not exist, the discount rates are selected by reference to national government bonds. In both instances, the bonds are selected with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Certain South32 companies provide post-retirement medical benefits to qualifying retirees. In some cases the benefits are provided through medical care schemes to which South32, the employees, the retirees and covered family members contribute. In some schemes there is no funding of the benefits before retirement. These schemes are recognised on the same basis as described above for defined benefit pension schemes.

Closure and rehabilitation

The mining, extraction and processing activities of South32 normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and South32's environmental policies.

Provisions for the cost of each closure and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at or after the time of closure, for disturbance existing at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions, the principles of the BHP Billiton Charter and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements. The majority of the expenditure is expected to be paid over periods of up to 50 years with some payments into perpetuity.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the country in which the operation is located. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements or, if more stringent, South32 environmental policies which give rise to a constructive obligation.

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When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in financial expenses.

Closure and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the income statement. In the case of closed sites, changes to estimated costs are recognised immediately in the income statement. Changes to the capitalised cost result in an adjustment to future depreciation. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include:

revisions to estimated resources and lives of operations;

developments in technology;

regulatory requirements and environmental management strategies;

changes in the estimated extent and costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates;

movements in interest rates affecting the discount rate applied.

Financial instruments

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the income statement. Financial assets are designated as being held at fair value through profit or loss where this is necessary to reduce measurement inconsistencies for related assets and liabilities. All financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate (initial cost) and, with the exception of financial liabilities which have been designated in fair value hedging relationships, are subsequently carried at amortised cost.

Derivatives, including those embedded in other contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices. Where no price

information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on South32's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling, credit and other risks implicit in such estimates.

Derivatives embedded within other contractual arrangements and the majority of commodity-based transactions executed through derivative contracts do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Available for sale and trading investments

Available for sale and trading investments are measured at fair value. Gains and losses on the remeasurement of trading investments are recognised directly in the income statement. Gains and losses on the remeasurement of available for sale investments are recognised directly in equity and subsequently recognised in the income statement when realised by sale or redemption, or when a reduction in fair value is judged to represent an impairment.

Application of critical accounting policies and estimates

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

South32 has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial information.

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Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from South32's properties. In order to estimate reserves, estimates are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements to interpret the data.

South32 determines and reports Ore Reserves in Australia under the ASX Listing Rules 2012 for minerals.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect South32's financial results and financial position in a number of ways, including the following:

Asset recoverable amounts may be affected due to changes in estimated future cash flows;

Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change;

Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation;

Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities;

The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Exploration and evaluation expenditure

South32's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

Development expenditure

Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project is economically viable. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the income statement.

Property, plant and equipment and Intangible assets recoverable amount

In accordance with South32's accounting policy, each asset or cash-generating unit is evaluated every reporting period to determine whether there are any indications of impairment or reversal of previously recognised impairment losses. If any such indication exists, a formal estimate of recoverable amount is performed. Where carrying amount exceeds recoverable amount an impairment loss is recognised. A reversal of previously recognised impairment loss is limited to the lesser of the amount that would not cause the increased carrying amount to exceed (a) its recoverable amount; or (b) the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset or cash-generating unit. The recoverable amount of an asset or cash-generating group of assets is measured at the higher of fair value less costs of disposal and value in use.

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves (see Reserve estimates above), operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reduced with the impact recorded in the income statement.

Defined benefit pension schemes

South32's accounting policy for defined benefit pension schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity. Refer to note 25 Pension and other post-retirement obligations for details of the key assumptions.

Table of Contents**Provision for closure and rehabilitation**

South32's accounting policy for the recognition of closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting both the closure and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the income statement.

In addition to the uncertainties noted above, certain closure and rehabilitation activities are subject to legal disputes and depending on the ultimate resolution of these issues, the final liability for these matters could vary.

Taxation

South32's accounting policy for taxation, including royalty-related taxation, requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses, foreign tax credits and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation and its interaction with income tax accounting principles. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Exchange rates

The following exchange rates relative to the US dollar have been applied in the historical combined financial information:

Average year ended 30 June 2014	Average year ended 30 June 2013	Average year ended 30 June 2012	As at 30 June 2014	As at 30 June 2013	As at 30 June 2012
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Australian dollar ^(a)	0.92	1.03	1.03	0.94	0.92	1.00
Brazilian real	2.29	2.04	1.78	2.20	2.18	2.08
Colombian peso	1,935	1,814	1,825	1,881	1,923	1,807
South African rand	10.39	8.84	7.77	10.60	10.00	8.41
Mozambican metical	30.63	29.56	27.36	31.55	29.80	27.95

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

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Table of Contents**2 Segment reporting****Business segments**

South32 operates the Businesses set out below. The reporting of financial information by Business reflects the proposed structure that will be used by South32's management to assess the performance of South32.

Reportable segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia
South Africa Aluminium	Two aluminium smelters at Richards Bay
Mozal Aluminium	Aluminium smelter near Maputo in Mozambique
Brazil Aluminium	Alumina refinery and aluminium smelter in Brazil
South Africa Energy Coal	Open-cut and underground energy coal mines and processing operations in South Africa
Illawarra Metallurgical Coal	Underground metallurgical coal mines in southern New South Wales
Australia Manganese	Producer of manganese ore in the Northern Territory and manganese alloys in Tasmania
South Africa Manganese	Integrated producer of manganese ore and alloy in South Africa
Cerro Matoso	Integrated laterite ferronickel mining and smelting complex in northern Colombia
Cannington	Silver, lead and zinc mine located in northwest Queensland

All South32 Businesses are operated or jointly operated by South32 except Alumar (which forms part of Brazil Aluminium), which is operated by Alcoa.

Group and unallocated items represent Group centre functions and consolidation adjustments. Exploration and technology activities are recognised within relevant segments.

It is South32's policy that inter-segment sales are made on a commercial basis.

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US\$M	Worsle Alumina	South Africa Alumina	Mozal Alumina	Brazil Aluminium	South Africa Energy Coal	Barrowarra Metallurgical Coal	Alstria Manganese	South Africa Manganese	Cerro Matos	Cannington	Group and unallocated items/ eliminations	Total South32
Year ended 30 June 2014												
Revenue												
Group Production	570	1,614	574	529	1,247	878	1,308	788	595	1,079		9,182
Third party products ^(a)											1,262	1,262
Inter-segment revenue	659										(659)	
Total revenue	1,229	1,614	574	529	1,247	878	1,308	788	595	1,079	603	10,444
Underlying EBITDA^(b)	162	190	52	127	197	135	505	120	87	460	20	2,055
Depreciation and amortisation	(138)	(69)	(36)	(83)	(193)	(170)	(91)	(72)	(88)	(47)	2	(985)
Underlying EBIT^(b)	24	121	16	44	4	(35)	414	48	(1)	413	22	1,070
Comprising:												
Group Production	24	121	16	44	(6)	(35)	414	48	(1)	413	(7)	1,031
Third party products ^(a)											29	29
Share of operating profit of equity accounted investments						10						10
Underlying EBIT	24	121	16	44	4	(35)	414	48	(1)	413	22	1,070
Net finance costs ^(c)												(222)
Income tax expense												(234)
												614

Underlying Earnings

Earnings adjustments													(397)
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Profit/(Loss) after taxation

217

Capital expenditure

56	28	8	9	65	309	108	70	56	60				769
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Investments accounted for using the equity method

10

10

Total assets^(d)

3,894	1,543	726	1,105	2,158	1,768	1,374	1,121	1,105	435	4,461			19,690
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Total liabilities^(d)

476	348	99	137	1,169	384	549	331	245	201	5,931			9,870
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	Worsle	South Africa	Mozal	Brazil	South Africa	Energy	Barrow	Alstra	South Africa	Cerro	Group and unallocated items/ eliminations	Total South32
US\$M	Alumina	Alumina	Alumina	Aluminium	Coal	Coal	Coal	Manganese	Manganese	Matos Canning		
Year ended 30 June 2013												
Revenue												
Group Production	492	1,663	612	637	1,458	1,287	1,257	856	803	1,365		10,430
Third party products ^(a)											1,663	1,663
Inter-segment revenue	638										(638)	
Total revenue	1,130	1,663	612	637	1,458	1,287	1,257	856	803	1,365	1,025	12,093
Underlying EBITDA^(b)	60	73	31	44	115	302	499	111	234	651	(2)	2,118
Depreciation and amortisation	(175)	(72)	(34)	(84)	(211)	(148)	(63)	(53)	(79)	(40)	(5)	(964)
Underlying EBIT^(b)	(115)	1	(3)	(40)	(96)	154	436	58	155	611	(7)	1,154
Comprising:												
Group Production	(115)	1	(3)	(40)	(96)	154	436	58	155	611	(70)	1,091
Third party products ^(a)											63	63
Share of operating profit of equity accounted investments												
Underlying EBIT	(115)	1	(3)	(40)	(96)	154	436	58	155	611	(7)	1,154
Net finance costs ^(c)												(143)
Income tax expense												(256)
												755

**Underlying
Earnings**

Earnings adjustments													(2,059)
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**Profit/(Loss)
after
taxation**

(1,304)

Capital expenditure	154	17	7	6	133	357	271	104	50	39	1	1,139
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**Investments
accounted
for using the
equity
method**

Total assets^(d)	3,359	1,632	791	1,309	2,383	1,568	1,266	1,132	1,187	409	4,507	19,543
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Total liabilities^(d)	491	250	122	278	1,049	330	420	287	197	203	5,796	9,423
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US\$M	Worsle Alumina	South Africa Alumina	Mozal Alumina	Brazil Aluminium	South Africa Energy Coal	Barrowra Metallurgical Coal	Alustra Manganese	South Africa Manganese	Cerro Matos	Cannington	Group and unallocated items/ eliminations	Total South32
Year ended 30 June 2012												
Revenue												
Group Production	344	1,646	629	660	1,894	1,701	1,204	932	876	1,590		11,476
Third party products ^(a)											2,359	2,359
Inter-segment revenue	648										(648)	
Total revenue	992	1,646	629	660	1,894	1,701	1,204	932	876	1,590	1,711	13,835
Underlying EBITDA^(b)	(67)	(10)	51	3	416	818	335	(18)	417	893	(7)	2,831
Depreciation and amortisation	(127)	(73)	(33)	(83)	(190)	(159)	(53)	(33)	(80)	(53)	(21)	(905)
Underlying EBIT^(b)	(194)	(83)	18	(80)	226	659	282	(51)	337	840	(28)	1,926
Comprising:												
Group Production	(194)	(83)	18	(80)	226	659	282	(51)	337	840	(122)	1,832
Third party products ^(a)											94	94
Share of operating profit of equity accounted investments												
Underlying EBIT	(194)	(83)	18	(80)	226	659	282	(51)	337	840	(28)	1,926
Net finance costs ^(c)												(128)
Income tax expense												(540)
												1,258

**Underlying
Earnings**

Earnings adjustments													175
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**Profit/(Loss)
after
taxation**

1,433

**Capital
expenditure**

900	14	9	12	162	314	213	131	105	73	80	2,013
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**Investments
accounted
for using the
equity
method**

Total assets^(d)	5,668	1,782	860	1,402	2,712	1,412	1,112	1,072	1,231	437	6,324	24,012
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Total liabilities^(d)	563	254	83	258	1,287	354	491	286	228	243	6,153	10,200
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- (a) Third party products purchased and sold by South32 Marketing comprise US\$802 million for aluminium (2013: US\$1,024 million; 2012: US\$1,487 million), US\$456 million for coal (2013: US\$585 million; 2012: US\$856 million) and US\$4 million for manganese (2013: US\$54 million; 2012: US\$16 million). Underlying EBIT on third party products comprise US\$14 million for aluminium (2013: US\$19 million; 2012: US\$ nil), US\$18 million for coal (2013: US\$44 million; 2012: US\$90 million) and a loss of US\$3 million for manganese (2013: US\$ nil; 2012: US\$4 million).
- (b) Underlying EBIT is earnings before net finance costs, taxation and any earnings adjustment items. Underlying EBIT is reported net of South32's share of net finance costs and taxation of equity accounted investments. Underlying EBITDA is Underlying EBIT, before depreciation and amortisation.
- (c) Excludes interest income and interest expense on borrowings with BHP Billiton. Refer to note 6 Net finance costs.
- (d) Total segment assets and liabilities represent operating assets and liabilities including the carrying amount of equity accounted investments and predominantly excludes cash balances, interest bearing liabilities and deferred tax balances.

The carrying amount of investments accounted for using the equity method represents the balance of the Group's investment in equity accounted investments, with no adjustment for any cash balances, interest bearing liabilities and deferred tax balances of the equity accounted investment.

The following items are excluded from profit/(loss) from operations in arriving at Underlying EBIT each period irrespective of materiality:

Exchange gains/losses on restatement of monetary items

Impairment losses/reversals

Net gains/loss on disposal and consolidation of interests in businesses

Fair value gain/loss on derivative instruments

Major corporate restructures

In addition to these, items that do not reflect the underlying operations of South32 and are individually significant to the financial statements are excluded. Such items included within South32's profit or loss for the Reporting Period are detailed in note 3 Significant items.

In calculating Underlying Earnings, adjustments are also made to dividend income, net finance costs and taxation for amounts with BHP Billiton that will not continue post Demerger and are not reflective of the underlying operations.

The following table shows earnings adjustments in arriving at Underlying Earnings:

US\$M	2014	2013	2012
-------	------	------	------

Earnings adjustments to Underlying EBIT			
Exchange gains on restatement of monetary items	(68)	(97)	(100)
Impairment losses	327	2,225	108
Impairment reversals	(8)	(15)	
Fair value (gain)/loss on derivative instruments	2	16	(122)
Dividend income from BHP Billiton	(11)	(12)	(20)
Other:			
Bayside closure costs (excluding impairments)	138		
Gain on sale of Optimum coal rights	(84)		
Total earnings adjustments to Underlying EBIT	296	2,117	(134)
Earnings adjustments to net finance costs			
Exchange variations on net debt	40	(16)	(44)
Interest on borrowings from BHP Billiton	115	108	76
Interest income on loans to BHP Billiton	(25)	(102)	(118)
Total earnings adjustments to net finance costs	130	(10)	(86)
Earnings adjustments to income tax expense			
Tax effect of earnings adjustments to Underlying EBIT	(21)	(528)	48
Tax effect of earnings adjustments to net finance costs	(39)	3	26
Exchange rate movements	4	84	123
Remeasurement of deferred tax assets associated with the MRRT		142	(196)
Non-recognition of tax benefits where benefit remains with BHP Billiton	27	251	44
Total earnings adjustments to income tax expense	(29)	(48)	45
Total earnings adjustments	397	2,059	(175)

Table of Contents**Geographical information**

	Revenue by location of customer		
	2014	2013	2012
	US\$M	US\$M	US\$M
Australia	851	1,035	1,303
China	1,349	1,320	1,402
India	789	889	1,373
Japan	838	1,004	959
Middle East	482	638	803
Singapore	514	627	321
South Korea	691	733	893
Rest of Asia	386	567	594
United Kingdom	301	354	306
Europe	2,313	2,766	3,184
North America	542	526	750
Southern Africa	1,141	1,234	1,499
Rest of world	247	400	448
Total revenue	10,444	12,093	13,835

	Non-current assets by location of assets		
	2014	2013	2012
	US\$M	US\$M	US\$M
Australia	6,852	5,122	7,559
Africa	4,519	5,597	5,430
South America	1,871	2,008	2,134
Unallocated assets ^(a)	1,446	1,580	1,345
Total non-current assests	14,688	14,307	16,468

(a) Unallocated assets predominantly comprise deferred tax assets and other financial assets.

3 Significant items

Significant items are those items where their nature and amount were considered material to the South32 historical combined financial information. Such items included within South32's profit/(loss) for the year are detailed below.

	2014	2013	2012
	US\$M	US\$M	US\$M
Significant items by nature			
Impairment of South Africa Energy Coal assets	292		
Impairment of Worsley Alumina assets		2,190	
Impairment of Manganese assets			93
Bayside closure costs	167		
Gain on sale of Optimum coal rights	(84)		
Total significant items	375	2,190	93

30 June 2014*Impairment of South Africa Energy Coal assets comprise:*

As part of South32's accounting policy to evaluate assets and cash generating units every reporting period to determine whether there are any indications of impairment, impairments of property, plant and equipment of US\$244 million and of goodwill of US\$48 million were recognised at South Africa Energy Coal as a result of royalty legislation changes, a decline in export prices, a required five per cent rail allocation to Junior BBBEE miners and increased geologic loss.

Table of Contents*Bayside closure costs:*

As a result of the cessation of aluminium smelting activities at Bayside in June 2014, a charge of US\$167 million was recorded, representing an impairment of property, plant and equipment of US\$29 million in conjunction with other closure and cessation costs totalling US\$138 million.

Gain on sale of Optimum coal rights:

Following the Sale of the Optimum Colliery in FY2008, South32 retained the right to sell coal on behalf of the new owners, Optimum Coal Holdings (Pty) Ltd. This right has now been sold and generated a profit on disposal of US\$84 million.

30 June 2013*Impairment of Worsley Alumina assets:*

South32 recognised an impairment of assets at Worsley Alumina as a result of expected continued strength in the Australian dollar and weak alumina prices. A total impairment charge of US\$2,190 million was recognised.

30 June 2012*Impairment of Manganese assets:*

As part of the regular portfolio review, South32 temporarily suspended production at Australia Manganese, permanently closed the Metalloys South Plant at South Africa Manganese and terminated the Samancor Manganese Gabon project. As a result, impairment charges of US\$93 million were recognised.

4 Other income

	2014	2013	2012
	US\$M	US\$M	US\$M
External dividend income	17	12	3
Dividend income from BHP Billiton	11	12	20
Gains/(losses) on sale of property, plant and equipment	20	32	(4)
Gains/(losses) on sale of investments	2	(3)	
External other income	260	102	41
Total other income	310	155	60

5 Expenses

2014	2013	2012
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	US\$M	US\$M	US\$M
Changes in inventories of finished goods and work in progress	6	188	175
Raw materials and consumables used	3,302	3,396	3,321
Employee benefits expense	1,471	1,577	1,530
Employee share awards	25	26	28
External services (including transportation)	1,837	2,438	2,734
Third party commodity purchases	1,233	1,601	2,265
Net foreign exchange gains	(68)	(97)	(100)
Research and development costs before crediting related grants	16	18	19
Fair value change on derivatives	2	16	(122)
Government royalties paid and payable	348	383	413
Reversal of previously impaired financial assets	(8)		
Depreciation and amortisation expense	985	964	905
Exploration and evaluation expenditure incurred and expensed in the current period	17	21	41
Impairment of property, plant and equipment	279	2,225	108
Reversal of previously impaired property, plant and equipment		(15)	
Impairment of goodwill and intangible assets	48		
Operating lease rentals	94	97	96
All other operating expenses	403	373	422
Total expenses	9,990	13,211	11,835

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Table of Contents**6 Net finance costs**

	2014	2013	2012
	US\$M	US\$M	US\$M
Financial expenses			
Interest on bank loans and overdrafts ^(a)	3	1	3
Interest on all other borrowings ^(a)	51	11	61
Finance lease and hire purchase interest	36	4	29
Discounting on provisions and other liabilities	137	143	142
Net interest expense on post-retirement employee benefits	11	12	12
Interest capitalised ^(b)			(82)
Exchange variations on net debt	40	(16)	(44)
Financial expenses excluding BHP Billiton	278	155	121
Interest on borrowings from BHP Billiton ^(c)	115	108	76
Total financial expenses	393	263	197
Financial income			
Interest income ^(d)	(16)	(28)	(37)
Interest income on loans to BHP Billiton ^(c)	(25)	(102)	(118)
Total financial income	(41)	(130)	(155)
Net finance costs	352	133	42

- (a) Interest on bank loans and overdrafts, and other borrowings, relates to financial liabilities carried at amortised cost.
- (b) Interest has been capitalised at the rate of interest applicable to the specific borrowings financing the assets under construction or, where financed through general borrowings, at a capitalisation rate representing the average interest rate on such borrowings. For the year ended 30 June 2012, the capitalisation rate was 2.83 per cent.
- (c) Interest income and expense are based on historical funding which was provided to South32 under executed agreements between BHP Billiton and South32 at estimated arm's length interest rates. Refer to note 15 Interest bearing liabilities for details of outstanding debt balances with BHP Billiton.
- (d) Interest income relates to financial assets carried at amortised cost.

7 Income tax and deferred tax

	2014	2013	2012
	US\$M	US\$M	US\$M
Total taxation expense comprises:			
Current tax expense	233	579	579
Deferred tax (benefit)/expense	(28)	(371)	6

Total taxation expense	205	208	585
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	2014		2013		2012	
	%	US\$M	%	US\$M	%	US\$M
Factors affecting income tax expense for the period						
Income tax expense differs to the standard rate of corporation tax as follows:						
Profit/(loss) before taxation		422		(1,096)		2,018
Tax on profit/(loss) at standard rate of 30 per cent	30.0	127	30.0	(329)	30.0	605
Investment and development allowance	(0.7)	(3)	0.3	(3)	(0.1)	(2)
Amounts under/(over) provided in prior years	15.7	66	0.2	(2)	(0.8)	(16)
Initial recognition of tax assets			3.2	(35)	(5.5)	(110)
Non-deductible depreciation, amortisation and exploration expenditure	8.8	37	(9.6)	105	0.8	17
Tax rate differential on foreign income	(8.1)	(34)	2.2	(24)	(1.4)	(28)
Tax on remitted and unremitted foreign earnings			(0.6)	7		
Non-tax-effected operating losses and capital gains	4.5	19	(23.8)	261	7.4	152
Exchange variations and other translation adjustments	1.0	4	(7.7)	84	6.1	123
Tax rate changes			2.1	(23)		
Other	6.9	29	(2.3)	25	2.0	40
Income tax expense	58.1	245	(6.0)	66	38.7	781
Royalty-related taxation (net of income tax benefit)	(9.5)	(40)	(13.0)	142	(9.7)	(196)
Total taxation expense	48.6	205	(19.0)	208	29.0	585

Income tax recognised in other comprehensive income is as follows:

	2014	2013	2012
	US\$M	US\$M	US\$M
Income tax effect of:			
Items that may be reclassified subsequently to the income statement:			
Available for sale investments:			
Net valuation gains/(losses) taken to equity	2	17	(15)
Net valuation gains transferred to the income statement	1		
Income tax credit/(charge) relating to items that may be reclassified subsequently to the income statement	3	17	(15)
Items that will not be reclassified to the income statement:			
Actuarial gains on pension and medical schemes			5
Net accrued employee entitlement for share awards			1
			6

Income tax credit relating to items that will not be reclassified to the income statement

Total income tax credit/(charge) relating to components of other comprehensive income ^(a)	3	17	(9)
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(a) Included within total income tax relating to components of other comprehensive income is US\$3 million relating to deferred taxes (2013: US\$17 million; 2012: US\$(9) million).

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The movement for the year in South32's net deferred tax position is as follows:

	2014	2013	2012
	US\$M	US\$M	US\$M
Net deferred tax asset			
At the beginning of the financial year	461	66	116
Income tax credit/(charge) recorded in the income statement	28	371	(6)
Income tax credit/(charge) recorded directly in equity	3	17	(9)
Other movements	(2)	7	(35)
At the end of the financial year	490	461	66

The composition of South32's net deferred tax asset and liability recognised in the balance sheet and the deferred tax expense charged/(credited) to the income statement is as follows:

	Deferred tax assets			Deferred tax liabilities			Charged/(credited) to the income statement		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Type of temporary difference									
Depreciation	297	647	225	630	659	809	321	(571)	52
Exploration expenditure			10						8
Employee benefits	71	81	64	(65)	(46)	(66)	(9)	(1)	8
Closure and rehabilitation	232	240	145	(212)	(163)	(249)	(22)	(11)	36
Resource rent tax	137	41	196	43	(13)		(40)	142	(196)
Other provisions	260	13	3	(21)	(9)	(9)	(259)	(10)	(5)
Deferred income	(1)		1	(1)	(1)		1		
Deferred charges			(114)	163	142		20	28	18
Foreign exchange gains and losses		(1)	2	(1)	(3)	8	1	(9)	(10)
Non tax-depreciable fair value adjustments, revaluations and mineral rights		(1)		9	33	48	(25)	(14)	98
Tax-effected losses	53	87	101	(41)	(33)	(35)	4	15	142
Other	(36)	(66)	(20)	19	14	41	(20)	60	(145)
Total	1,013	1,041	613	523	580	547	(28)	(371)	6

The composition of South32's unrecognised deferred tax assets and liabilities is as follows:

2014	2013	2012
US\$M	US\$M	US\$M

Unrecognised deferred tax assets			
Tax losses and tax credits	17	38	15
Investments in subsidiaries	155	204	113
Deductible temporary differences relating to MRRT	1,008	1,000	760
Other deductible temporary differences	624	617	649
Total unrecognised deferred tax assets	1,804	1,859	1,537
Unrecognised deferred tax liabilities			
Taxable temporary differences relating to unrecognised deferred tax asset for MRRT	(302)	(300)	(228)
Investments in subsidiaries	(243)	(219)	(206)
Total unrecognised deferred tax liabilities	(545)	(519)	(434)

Table of Contents**Tax losses**

At 30 June 2014, South32 had income and capital tax losses with a tax benefit of US\$17 million (2013: US\$38 million, 2012: US\$15 million) which are not recognised as deferred tax assets. South32 has recognised the benefit of tax losses only to the extent BHP Billiton has anticipated sufficient future taxable income or gains in relevant jurisdictions. The gross amount of tax losses carried forward that have not been tax-effected expire as follows:

Year of expiry	2014 US\$M	2013 US\$M	2012 US\$M
Income tax losses			
Not later than one year		110	
Later than two years and not later than five years			43
Unlimited	61		
Gross amount of tax losses not recognised	61	110	43
Tax effect of total losses not recognised	17	38	15

Temporary differences relating to MRRT:

At 30 June 2014, South32 had US\$1,008 million of unrecognised deductible temporary differences (2013: US\$1,000 million, 2012: US\$760 million) relating to the Australian MRRT with a corresponding unrecognised deferred tax liability for income tax purposes of US\$302 million (2013: US\$300 million, 2012: US\$228 million). Recognition of a deferred tax asset for MRRT depends on benefits expected to be obtained from the deduction against MRRT liabilities.

Other deductible temporary differences:

At 30 June 2014, South32 had deductible temporary differences for which deferred tax assets of US\$624 million (2013: US\$617 million, 2012: US\$649 million) have not been recognised because it is not probable that future taxable profits will be available against which South32 can utilise the benefits. The deductible temporary differences do not expire under current tax legislation.

Temporary differences associated with investments in subsidiaries

At 30 June 2014, deferred tax liabilities of US\$243 million (2013: US\$219 million, 2012: US\$ 206 million) associated with undistributed earnings of subsidiaries have not been recognised because the South32 Group is able to control the timing of the reversal of the temporary differences and it is not probable that such differences will reverse in the foreseeable future.

8 Earnings, dividends and asset information per share

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	2014	2013	2012
Basic earnings/(loss) per share (US cents)	2.48	(27.55)	26.31
Diluted earnings/(loss) per share (US cents)	2.47	(27.46)	26.20
Basic earnings/(loss) (US\$M)	132	(1,467)	1,401
Diluted earnings/(loss) (US\$M)	132	(1,467)	1,401
Headline earnings per share (US cents)	7.48	3.32	28.32
Headline earnings (US\$M)	398	177	1,508
Net asset value per share (US cents) ^(a)	184	190	259
Tangible net asset value per share (US cents) ^(b)	179	184	253
Dividends paid per share (US cents) ^(c)	9	43	1

- (a) Net asset value per share is calculated by dividing South32's total net assets by the basic number of ordinary shares outstanding.
- (b) Tangible net asset value per share is calculated by dividing South32's total net assets less intangible assets by the basic number of ordinary shares outstanding.
- (c) Dividends per share are calculated by dividing South32's dividends paid by the basic number of ordinary shares outstanding.

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The number of shares used for the purpose of calculating amounts per share is based on the proposed capital structure of South32 at the time of Demerger being a one for one share issue as follows:

	2014	2013	2012
	Million	Million	Million
Weighted average number of ordinary shares			
Basic/headline earnings per share denominator	5,324	5,324	5,324
Shares and options contingently issuable under employee share ownership plans	17	18	23
Diluted earnings per share denominator	5,341	5,342	5,347

Headline earnings

Headline earnings per share has been calculated in accordance with the South African Circular 2/2013 entitled Headline Earnings which forms part of the listing requirements for the JSE. The adjustments made to arrive at headline earnings are as follows:

	2014		2013		2012	
	US\$M		US\$M		US\$M	
	Gross	Net	Gross	Net	Gross	Net
Profit/(loss) for the year attributable to members of South32		132		(1,467)		1,401
Headline earnings adjustments:						
Impairment of intangible assets ^(a)	48	48				
Impairment of property, plant and equipment ^(a)	279	225	2,210	1,666	108	102
Loss on cessation of operations ^(b)	8	8				
(Gain)/loss on disposal of property, plant and equipment	(20)	(14)	(32)	(22)	7	5
Net profit on disposal of business	(1)	(1)				
Headline earnings		398		177		1,508

(a) Refer to note 3 Significant items and note 5 Expenses.

(b) The aluminium smelting activities at Bayside ceased in June 2014.

9 Trade and other receivables

	2014	2013	2012
	US\$M	US\$M	US\$M
Current			
Trade receivables	623	706	921
Other receivables	288	543	788
Trade and other receivables	911	1,249	1,709

Trade receivables from BHP Billiton ^(a)	869	982	890
Interest bearing loans receivable from BHP Billiton ^(a)	1,074	827	2,663
Receivables from BHP Billiton	1,943	1,809	3,553
Total current receivables	2,854	3,058	5,262
Non-current			
Trade receivables		43	63
Interest bearing loans receivable	67	88	82
Other receivables	111	51	73
Total non-current receivables	178	182	218

(a) Disclosures relating to receivables due from BHP Billiton are set out in note 24 Related party balances and transactions.

Table of Contents**10 Other financial assets**

	2014 US\$M	2013 US\$M	2012 US\$M
Current			
At fair value			
Forward exchange contracts		1	5
Commodity contracts		19	61
Other derivative contracts	13	8	7
Shares available for sale		37	
Total current other financial assets	13	65	73
Non-current			
At fair value			
Commodity contracts			39
Other derivative contracts	41	44	55
Shares available for sale	317	358	493
Other investments available for sale ^(e)	144	137	145
Total non-current other financial assets	502	539	732

- (a) Represents investments held by BHP Billiton Energy Coal South Africa Rehabilitation Trust Fund. The future realisation of this investment is intended to fund environmental obligations relating to the closure of the South African coal operations, and consequently this investment, while under South32's control, is not available for the general purposes of South32.

Any income from this investment is reinvested or applied to meet these obligations. South32 retains responsibility for these environmental obligations until such time as the former mine sites have been rehabilitated in accordance with the relevant environmental legislation. These obligations are therefore included under non-current provisions. Refer to note 17 Provisions.

11 Inventories

		2014 US\$M	2013 US\$M	2012 US\$M
Current				
Raw materials and consumables	at net realisable value ^(e)	35	4	76
	at cost	514	650	567
		549	654	643
Work in progress	at net realisable value ^(e)	7	16	143
	at cost	400	343	216

		407	359	359
Finished goods	at net realisable value ^(a)	121	52	307
	at cost	350	485	414
		471	537	721
Total current inventories		1,427	1,550	1,723
Non-current				
Raw materials and consumables	at cost	20	77	87
		20	77	87
Work in progress	at cost	38		
		38		
Total non-current inventories		58	77	87

- (a) US\$26 million of inventory write-downs were recognised during the year (2013: US\$3 million; 2012: US\$18 million). Inventory write-downs of US\$7 million made in previous periods were reversed during the year (2013: US\$16 million; 2012: US\$ nil).

Table of Contents**12 Property, plant and equipment**

	Land and buildings US\$M	Plant and equipment US\$M	Other mineral assets US\$M	Assets under construction US\$M	Exploration and evaluation US\$M	Total US\$M
Year ended 30 June 2014						
Cost						
At the beginning of the financial year	2,706	15,492	2,718	1,300	33	22,249
Additions		979	145	652	6	1,782
Disposals	(24)	(104)	(68)			(196)
Transfers and other movements	207	735	12	(929)	(6)	19
At the end of the financial year	2,889	17,102	2,807	1,023	33	23,854
Accumulated depreciation and impairments						
At the beginning of the financial year	(1,098)	(7,704)	(1,346)			(10,148)
Charge for the year	(119)	(754)	(108)			(981)
Impairments for the year	(122)	(110)	(47)			(279)
Disposals	5	96	68			169
Transfers and other movements	(1)	2				1
At the end of the financial year	(1,335)	(8,470)	(1,433)			(11,238)
Net book value at 30 June 2014	1,554	8,632	1,374	1,023	33	12,616
Year ended 30 June 2013						
Cost						
At the beginning of the financial year	2,788	14,591	2,613	1,519	104	21,615
Additions			200	877	8	1,085
Amounts capitalised for closure provisions		(233)				(233)
Disposals	(6)	(138)	(27)			(171)
Transfers and other movements	(76)	1,272	(68)	(1,096)	(79)	(47)
At the end of the financial year	2,706	15,492	2,718	1,300	33	22,249
Accumulated depreciation and impairments						
At the beginning of the financial year	(889)	(5,276)	(988)			(7,153)
Charge for the year	(112)	(754)	(95)			(961)
Impairments for the year	(121)	(1,778)	(326)			(2,225)
Reversal of impairments		15				15
Disposals	4	114	21			139

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Transfers and other movements	20	(25)	42			37
At the end of the financial year	(1,098)	(7,704)	(1,346)			(10,148)
Net book value at 30 June 2013	1,608	7,788	1,372	1,300	33	12,101

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Year ended 30 June 2012	Land and buildings US\$M	Plant and equipment US\$M	Other mineral assets US\$M	Assets under construction US\$M	Exploration and evaluation US\$M	Total US\$M
Cost						
At the beginning of the financial year	2,397	11,241	2,708	3,665	93	20,104
Additions	1	26	138	1,881	11	2,057
Disposals	(6)	(338)	(222)			(566)
Transfers and other movements	396	3,662	(11)	(4,027)		20
At the end of the financial year	2,788	14,591	2,613	1,519	104	21,615
Accumulated depreciation and impairments						
At the beginning of the financial year	(727)	(4,854)	(1,107)			(6,688)
Charge for the year	(110)	(677)	(115)			(902)
Impairments for the year	(3)	(105)				(108)
Disposals	6	333	222			561
Transfers and other movements	(55)	27	12			(16)
At the end of the financial year	(889)	(5,276)	(988)			(7,153)
Net book value at 30 June 2012	1,899	9,315	1,625	1,519	104	14,462

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Table of Contents**13 Intangible assets**

	2014			2013			2012		
	Goodwill	Intangibles	Total	Goodwill	Intangibles	Total	Goodwill	Intangibles	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Cost									
At the beginning of the financial year	267	119	386	267	101	368	266	102	368
Additions					20	20	1		1
Disposals					(2)	(2)		(1)	(1)
Impairments for the year ^(a)	(48)		(48)						
At the end of the financial year	219	119	338	267	119	386	267	101	368
Accumulated amortisation and impairments									
At the beginning of the financial year		(43)	(43)		(42)	(42)		(40)	(40)
Disposals					2	2		1	1
Charge for the year		(4)	(4)		(3)	(3)		(3)	(3)
At the end of the financial year		(47)	(47)		(43)	(43)		(42)	(42)
Total intangible assets	219	72	291	267	76	343	267	59	326

(a) In FY2014 an impairment of goodwill of US\$48 million was recognised at Energy Coal South Africa as part of the annual assessment for impairment of the carrying amount of assets and cash generating units.

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The carrying amount of goodwill has been allocated to the South32 Businesses as follows:

South32 Business	2014 US\$M	2013 US\$M	2012 US\$M
Aluminium South Africa	139	139	139
Manganese South Africa	74	74	74
Energy Coal South Africa	6	54	54
Total goodwill	219	267	267

Impairment testing of goodwill

For the purpose of impairment testing, goodwill has been allocated to cash generating units (CGUs), or groups of CGUs that are expected to benefit from the synergies of the business combination and which represent the level at which management will monitor and manage the goodwill.

Impairment of non-financial assets

South32 recognised an impairment of assets at its Wolvekrans Middelburg Complex CGU (WMC CGU) of US\$292 million in the year ended 30 June 2014, as a result of royalty legislation changes, a decline in export prices, a required five per cent rail allocation to Junior BBBEE miners and increased geologic loss. The WMC CGU consists of the Wolvekrans and Middelburg open cast collieries and South Africa Energy Coal. South32's determination of CGUs remains unchanged from prior periods.

The recoverable amount of the WMC CGU was determined as US\$735 million based on its fair value less cost of disposal. The value is based on South32's annual business valuation model using a discounted cash flow model with a discount rate of 9.5 per cent. The key assumptions used for export coal prices and exchange rates are comparable to the market consensus forecasts.

14 Trade and other payables

	2014 US\$M	2013 US\$M	2012 US\$M
Current			
Trade creditors	931	957	1,129
Other creditors	380	629	882
Trade and other payables	1,311	1,586	2,011
Payable to BHP Billiton ^(a)	28	10	13
Total current payables	1,339	1,596	2,024

Non-current			
Other creditors	56	8	19
Total non-current payables	56	8	19

- (a) Disclosures relating to payables owing to BHP Billiton are set out in note 24 Related party balances and transactions.

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Table of Contents**15 Interest bearing liabilities**

	2014	2013	2012
	US\$M	US\$M	US\$M
Current			
Unsecured bank loans	30	14	73
Secured bank loans ^(a)		20	20
Finance leases	15	1	3
Unsecured other	2	58	89
Unsecured bank overdrafts and short-term borrowings			19
Interest bearing liabilities	47	93	204
Interest bearing liabilities payable to BHP Billiton ^(b)		341	
Total current interest bearing liabilities	47	434	204
Non-current			
Unsecured bank loans	250	30	
Secured bank loans			20
Finance leases	788	32	35
Unsecured other ^(c)	215	219	259
Interest bearing liabilities	1,253	281	314
Interest bearing liabilities payable to BHP Billiton ^(b)	3,728	4,000	4,071
Total non-current interest bearing liabilities	4,981	4,281	4,385

- (a) Secured bank loans for 2013 include US\$20 million secured by pledge over the assets of Mozal SARL joint operation. The bank loan was repaid during the 2014 financial year. As at 30 June 2014, the pledge over the assets has not yet been released.
- (b) All interest bearing balances owed to BHP Billiton were historically provided under executed agreements between counterparties at arms-length interest rates. Refer to Note 24 Related party balances and transactions.
- (c) Includes US\$60 million (2013: US\$66 million; 2012: US\$ nil) share of bank loans and other borrowings arranged by joint operations to fund the financing of joint operations. While South32 chose to finance the joint operations directly and not to participate in the external borrowing programs arranged by the joint operations, it recognises its share of those borrowings in accordance with the terms of each arrangement, which are usually in proportion to South32's interest in the joint operation. A corresponding amount is recognised in interest bearing loans receivables. Refer to note 9 Trade and other receivables, reflecting the direct funding of South32's contribution to each joint operation.

16 Other financial liabilities

	2014	2013	2012
	US\$M	US\$M	US\$M
Current			
Commodity contracts			42
Other derivative contracts	4		1
Total current other financial liabilities	4		43
Non-current			
Commodity contracts			11
Other derivative contracts	6	7	9
Total non-current other financial liabilities	6	7	20

Table of Contents**17 Provisions**

	2014	2013	2012
	US\$M	US\$M	US\$M
Current			
Employee benefits ^(a)	302	307	292
Restructuring ^(b)	16		13
Closure and rehabilitation ^(c)	156	198	213
Post-retirement employee benefits ^(d)	8	8	9
Other	55	80	89
Total current provisions	537	593	616
Non-current			
Employee benefits ^(a)	5	3	4
Closure and rehabilitation ^(c)	2,036	1,635	1,853
Post-retirement employee benefits ^(d)	125	130	165
Other	4	11	10
Total non-current provisions	2,170	1,779	2,032

- (a) The expenditure associated with total employee benefits will occur in a pattern consistent with when employees choose to exercise their entitlement to benefits.
- (b) Total restructuring provisions include provisions for business terminations and office closures.
- (c) Total closure and rehabilitation provisions include provision for closed sites of US\$381 million (2013: US\$186 million; 2012: US\$189 million).
- (d) The provision for post-retirement employee benefits includes pension assets of US\$30 million (2013: US\$21 million; 2012: liability US\$3 million) and post-retirement medical benefit liabilities of US\$163 million (2013: US\$159 million; 2012: US\$171 million) refer to note 25 Pension and other post-retirement obligations.

	Employee	Restructuring	Closure	Post-	Other	Total
	benefits	and	and	retirement	benefits	US\$M
Year ended 30 June 2014	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
At the beginning of the financial year	310		1,833	138	91	2,372
Amounts capitalised			224			224
Charge/(credit) for the year:						
Underlying	266	7	94	5	34	406
Discounting			137			137
Net interest expense				11		11
Exchange variations	(1)		(11)	(7)	(4)	(23)
Released during the year					(26)	(26)
Actuarial loss taken to retained earnings				2		2

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Utilisation	(248)	(8)	(92)	(14)	(30)	(392)
Transfers and other movements	(20)	17	7	(2)	(6)	(4)
At the end of the financial year	307	16	2,192	133	59	2,707

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	Employee benefits	Restructuring	Closure and rehabilitation	Post- retirement employee benefits	Other	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Year ended 30 June 2013						
At the beginning of the financial year	296	13	2,066	174	99	2,648
Amounts capitalised			(251)			(251)
Charge/(credit) for the year:						
Underlying	294	4	24	7	100	429
Discounting			143			143
Net interest expense				12		12
Exchange variations	(36)		(30)	(24)	(9)	(99)
Released during the year	(2)		(29)		(19)	(50)
Actuarial gain taken to retained earnings				(2)		(2)
Utilisation	(240)	(7)	(112)	(30)	(70)	(459)
Transfers and other movements	(2)	(10)	22	1	(10)	1
At the end of the financial year	310		1,833	138	91	2,372

	Employee benefits	Restructuring	Closure and rehabilitation	Post- retirement employee benefits	Other	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Year ended 30 June 2012						
At the beginning of the financial year	315		2,081	200	103	2,699
Amounts capitalised			28			28
Charge/(credit) for the year:						
Underlying	187	15	3	7	35	247
Discounting			142			142
Net interest expense				12		12
Exchange variations	(22)		(43)	(38)	(17)	(120)
Released during the year	(18)		(10)			(28)
Actuarial loss taken to retained earnings				12		12
Utilisation	(161)	(2)	(134)	(19)	(23)	(339)
Transfers and other movements	(5)		(1)		1	(5)
At the end of the financial year	296	13	2,066	174	99	2,648

Table of Contents**18 Contingent liabilities**

Contingent liabilities at balance date, not otherwise provided for in the financial statements, are categorised as arising from:

	2014 US\$M	2013 US\$M	2012 US\$M
Subsidiaries and joint operations			
Bank guarantees	4	4	29
Actual or potential litigation ^(a)	587	622	643
Other	13	12	31
Total contingent liabilities	604	638	703

- (a) Actual or potential litigation amounts relate to a number of actions against South32, some of which relate to commercially confidential information, none of which were individually significant to BHP Billiton and where BHP Billiton has historically assessed that the liability is not probable and therefore South32 has not provided for such amounts in the historical combined financial statements. The actual or potential litigation relates primarily to numerous tax assessments or matters arising from tax audits relating to transactions in prior years in Brazil, Colombia and South Africa. Additionally, there are a number of legal claims or potential claims against South32, the outcome of which cannot be foreseen at present, and for which no amounts have been included in the table above.

19 Commitments

	2014 US\$M	2013 US\$M	2012 US\$M
Capital expenditure commitments	149	229	366
Lease expenditure commitments			
Finance leases^(a)			
Due not later than one year	84	4	5
Due later than one year and not later than two years	84	4	5
Due later than two years and not later than three years	84	5	5
Due later than three years and not later than four years	82	4	5
Due later than four years and not later than five years	91	4	30
Due later than five years	1,447	37	17
Total commitments under finance leases	1,872	58	67
Future financing charges	(1,069)	(25)	(29)
Finance lease liability	803	33	38
Operating leases^(b)			

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Due not later than one year	25	59	64
Due later than one year and not later than two years	21	47	52
Due later than two years and not later than three years	11	35	49
Due later than three years and not later than four years	8	10	35
Due later than four years and not later than five years	5	9	12
Due later than five years	14	30	41
Total commitments under operating leases	84	190	253

- (a) Finance leases include leases of power generation and transmission assets. Lease payments are subject to inflation escalation clauses on which contingent rentals are determined. The leases contain extension and renewal options.
- (b) Operating leases include property, plant and equipment. Rental payments are generally fixed, but with inflation escalation clauses on which contingent rentals are determined. Certain leases contain extension and renewal options.

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Table of Contents**20 Notes to the combined cash flow statement****Cash and cash equivalents**

For the purpose of the combined cash flow statement, cash equivalents include highly liquid investments that are readily convertible to cash and with a maturity of less than 90 days, bank overdrafts and interest bearing liabilities at call.

	2014	2013	2012
	US\$M	US\$M	US\$M
Cash and cash equivalents comprise:			
Cash	344	336	337
Short-term deposits	9	9	9
Total cash and cash equivalents^(a)	353	345	346
Bank overdrafts and short-term borrowings refer to note 15			
Interest bearing liabilities			(19)
Total cash and cash equivalents, net of overdrafts	353	345	327

(a) Cash and cash equivalents include US\$28 million (2013: US\$36 million; 2012: US\$41 million) which is restricted by legal or contractual arrangements.

Significant non-cash investing and financing transactions

Property, plant and equipment of US\$768 million (2013: US\$ nil; 2012: US\$28 million) was acquired under finance leases.

Property, plant and equipment of US\$ nil (2013: US\$49 million; 2012: US\$ nil) was acquired under vendor financing arrangements.

21 Subsidiaries

Significant subsidiaries of South32, which are those with the most significant contribution to South32's net profit or net assets, including entities which will become subsidiaries on the effective date of the Demerger are as follows:

Name	Country of incorporation	Principal activity	Effective interest		
			2014 %	2013 %	2012 %
BHP Billiton Aluminium (RAA) Pty Ltd	Australia	Bauxite mining and alumina refining	100	100	100
	Australia	Bauxite mining and alumina refining	100	100	100

BHP Billiton Aluminium (Worsley) Pty Ltd					
BHP Billiton Australia Investment 3 Pty Ltd	Australia	Holding company	100	100	100
BHP Billiton Energy Coal South Africa Proprietary Limited ^(a)	South Africa	Coal mining	100	100	100
BHP Billiton Metais SA	Brazil	Alumina refining and aluminium smelting	100	100	100
BHP Billiton SA Holdings Limited	South Africa	Holding company	100	100	100
BHP Billiton SA Limited	South Africa	Holding and service company	100	100	100
Billiton Aluminium SA (Pty) Ltd	South Africa	Aluminium smelting	100	100	100
Billiton Coal SA Ltd	South Africa	Finance	100	100	100
Cerro Matoso SA	Colombia	Nickel mining and ferro-nickel smelting	99.9	99.9	99.9
Dendrobium Coal Pty Ltd	Australia	Coal mining	100	100	100
Endeavour Coal Pty Ltd	Australia	Coal mining	100	100	100
Groote Eylandt Mining Company Pty Ltd	Australia	Manganese mining	60	60	60
Hillside Aluminium (Pty) Ltd	South Africa	Aluminium smelting	100	100	100
Hotazel Manganese Mines (Proprietary) Limited ^(a)	South Africa	Manganese ore mining and processing	54.6	54.6	54.6
Illawarra Coal Holdings Pty Ltd	Australia	Coal mining	100	100	100

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Name	Country of incorporation	Principal activity	Effective interest		
			2014 %	2013 %	2012 %
Illawarra Services Pty Ltd	Australia	Coal mining	100	100	100
Samancor AG	Switzerland	Marketing	60	60	60
Samancor Holdings (Proprietary) Limited	South Africa	Holding company	60	60	60
Samancor Manganese (Proprietary) Limited	South Africa	Manganese mining and manganese alloys	60	60	60
Tasmanian Electro Metallurgical Company Pty Ltd	Australia	Manganese alloys	60	60	60

- (a) South32's effective interest in BHP Billiton Energy Coal South Africa Proprietary Limited will reduce to 90 per cent and effective interest in Hotazel Manganese Mines (Proprietary) Limited will reduce to 44.4 per cent pursuant to BBBEE transactions in South Africa.

22 Interests in joint operations

Significant joint operations of South32, which are those with the most significant contributions to South32's net profit or net assets, are as follows:

Name	Country of operation	Principal activity	Effective interest		
			2014 %	2013 %	2012 %
Alumar	Brazil	Alumina refining	36	36	36
		Aluminium smelting	40	40	40
Mozal SARL ^(a)	Mozambique	Aluminium smelting	47.1	47.1	47.1
Phola Coal Processing Plant (Pty) Ltd ^(a)	South Africa	Coal handling and processing plant	50	50	50
Worsley Alumina ^(b)	Australia	Bauxite mining and alumina refining	86	86	86

- (a) These joint arrangements are separate vehicles however they are classified as joint operations as the participants to the arrangements are entitled to receive output, not dividends, from the arrangements.
- (b) Whilst South32 holds a greater than 50 per cent interest in this joint operation, all the participants in the joint operation approve the operating and capital budgets and therefore South32 has joint control over the relevant activities of this arrangement.

Assets held in joint operations subject to significant restrictions are as follows:

	2014 US\$M	2013 US\$M	2012 US\$M
Current assets	657	860	786
Non-current assets	5,421	5,743	7,752

Total assets (South32 share)^(a)	6,078	6,603	8,538
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- (a) Whilst South32 is unrestricted in its ability to sell a share of its interest in these joint operations, it does not have the right to sell individual assets which are used in these joint operations without the unanimous consent of the other participants. The assets in these joint operations are also restricted to the extent that they are only available to be used by the joint operation itself and not by other operations of South32.

23 Financial risk management

Financial risk management strategy

Historically, risk management strategies have been adopted by BHP Billiton to reduce the BHP Billiton Group's exposure, which included exposures resulting from South32's operations, to the risks which arise in the normal course of business.

During the Reporting Periods, South32's risk management strategy (as a component of the BHP Billiton Group) was managed on the basis of policies and authorities approved by the BHP Billiton Board. These policies and authorities have been used to prepare the historical combined financial information and relevant disclosures of South32. These policies are expected to be adopted by South32 in substantially the same form post Demerger.

The financial risks arising from South32's operations comprise market, liquidity and credit risk. These risks arise in the normal course of business, and South32's exposure to these risks has been managed in accordance with BHP Billiton's portfolio risk management strategy. The objective of BHP Billiton's strategy has been to support the delivery of BHP Billiton's financial targets while protecting its future financial security and flexibility by taking advantage of the natural diversification provided by the scale, diversity and flexibility of BHP Billiton's operations and activities.

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A Cash Flow at Risk (CFaR) framework has been used by BHP Billiton to measure the aggregate and diversified impact of financial risks upon BHP Billiton's financial targets. The principal measurement of risk is CFaR measured on a portfolio basis, which is defined as the worst expected loss relative to projected business plan cash flows over a one-year horizon under normal market conditions at a confidence level of 95 per cent.

Market risk

South32's activities expose it to market risks associated with movements in foreign currencies, commodity prices and interest rates. Operating under the BHP Billiton risk management strategy outlined above, BHP Billiton has sought to achieve financing costs, currency impacts, input costs and commodity prices on a floating or index basis. This strategy gives rise to a risk of variability in earnings which is measured under the CFaR framework.

In executing the strategy, financial instruments have been potentially employed in three distinct but related activities. The following table summarises these activities and the key risk management processes.

Activity
1 Risk mitigation

On an exception basis, hedging for the purposes of mitigating risk related to specific and significant expenditure on investments or capital projects will be executed if necessary to support BHP Billiton's strategic objectives.

2 Economic hedging of commodity sales, operating costs and debt instruments

Where South32 commodity production is sold to customers on pricing terms that deviate from the relevant index target, and where a relevant derivatives market exists, financial instruments may be executed as an economic hedge to align the revenue price exposure with the index target.

Where debt is issued in a currency other than the US dollar and/or at a fixed interest rate, fair value and cash flow hedges may be executed to align the debt exposure with South32's functional currency of US dollars and/or to swap to a floating interest rate. As part of this strategy swaptions may also be used.

3 Strategic financial transactions

Opportunistic transactions may be executed with financial instruments to capture value from perceived market over/under valuations.

Key risk management processes

Execution of transactions within approved mandates.

Measuring and reporting the exposure in customer commodity contracts and issued debt instruments.

Executing hedging derivatives to align the total group exposure to the index target.

Exposures managed within value at risk and stop loss limits.

Historically, primary responsibility for identification and control of financial risks, including authorising and

monitoring the use of financial instruments for the above activities and stipulating policy thereon, has rested with the BHP Billiton Financial Risk Management Committee under authority delegated by the BHP Billiton Group Management Committee.

Currency risk

The US dollar is the functional currency of the operations within South32 and as a result currency exposures arise from transactions and balances in currencies other than the US dollar. South32's potential currency exposures comprise:

translational exposure in respect of non-US dollar monetary items; and

transactional exposure in respect of non-US dollar expenditure and revenues.

South32's foreign currency risk was historically managed as part of the portfolio risk management strategies enacted by BHP Billiton.

Translational exposure in respect of non-US dollar monetary items

Non-US dollar monetary items are periodically restated to US dollar equivalents, and the associated gain or loss is taken to the income statement. The exception is foreign exchange gains or losses on foreign currency denominated provisions for closure and rehabilitation at operating sites, which are capitalised in property, plant and equipment.

The principal non-US dollar currencies to which South32 is exposed are the Australian dollar, South African rand, Brazilian real and Colombian peso.

The following table shows the foreign currency risk arising from financial assets and liabilities, which are denominated in currencies other than the US dollar.

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	2014	2013	2012
Net financial (liabilities)/assets by currency of denomination	US\$M	US\$M	US\$M
Australian dollars	(1,356)	(501)	(591)
South African rand	47	34	398
Brazilian real	4	146	246
Colombian peso	(36)	(39)	
Other	10	12	(96)
Total	(1,331)	(348)	(43)

Based on South32's net financial assets and liabilities as at 30 June 2014, a weakening of the US dollar against non-US dollar currencies, with all other variables held constant, would (decrease)/increase profit after taxation and equity as follows:

	2014		2013		2012	
	US\$M		US\$M		US\$M	
	Profit	Equity	Profit	Equity	Profit	Equity
Currency movement	after	taxation	after	taxation	after	Equity
1 cent movement in Australian dollar	(9)	(9)	(3)	(3)	(4)	(3)
0.2 rand movement in South African rand	(3)	1	(4)		(1)	7
0.05 real movement in Brazilian real			1		2	4
50 peso movement in Colombian peso	(1)		(1)	(1)		

South32's financial asset and liability profile may not remain constant, and therefore these sensitivities should be used with care.

Transactional exposure in respect of non-US dollar expenditure and revenues

Certain operating and capital expenditure is incurred by some operations in currencies other than US dollars. To a lesser extent, certain sales revenue is earned in currencies other than US dollars, and certain exchange control restrictions may require that funds be maintained in currencies other than US dollars. These currency risks are managed as part of the portfolio risk management strategy. When required under this strategy South32 enters into forward exchange contracts.

The following table shows the fair value of forward exchange contracts outstanding to manage short-term foreign currency cash flows relating to operating activities:

	2014	2013	2012
Currency movement	US\$M	US\$M	US\$M
Fair value of asset		1	5
Fair value of liability			

Commodity price risk

The risk associated with commodity prices has been managed as part of BHP Billiton's portfolio risk management strategy. Contracts for the sale and physical delivery of commodities are executed whenever possible on a pricing basis intended to achieve a relevant index target. Where pricing terms deviate from the index, derivative commodity contracts may be used when available to return realised prices to the index. Contracts for the physical delivery of commodities are not typically financial instruments and are carried in the balance sheet at cost (typically at nil); they are therefore excluded from the fair value and sensitivity tables below. Accordingly, the financial instrument exposures set out in the tables below do not represent all of the commodity price risks managed according to BHP Billiton's objectives. Movements in the fair value of contracts included in the tables below are offset by movements in the fair value of the physical contracts, however only the former movement is recognised in South32's income statement prior to settlement.

Financial instruments with commodity price risk included in the following tables are those entered into for the following activities:

economic hedging of prices realised on commodity contracts as described above;

purchases and sales of physical contracts that can be cash-settled; and

derivatives embedded in other supply contracts.

All such instruments are carried in the balance sheet at fair value.

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Forward commodity and other derivative contracts

	2014		2013		2012	
	Fair value of asset US\$M	Fair value of liability US\$M	Fair value of asset US\$M	Fair value of liability US\$M	Fair value of asset US\$M	Fair value of liability US\$M
Aluminium	54	7	71	6	160	62
Lead, Silver and Zinc		2			7	
Energy coal		1		1		1
Nickel			1			
Total	54	10	72	7	167	63

Comprising:

Current	13	4	28		73	43
Non-current	41	6	44	7	94	20

South32's exposure at 30 June 2014 to the impact of movements in commodity prices upon the financial instruments, other than those designated as embedded derivatives, is set out in the following table:

	Units of exposure	2014		2013		2012	
		Net exposure receive/ (deliver) ^(a) US\$M	Impact on equity and profit after taxation of 10% increase in market price US\$M	Net exposure receive/ (deliver) US\$M	Impact on equity and profit after taxation of 10% increase in market price US\$M	Net exposure receive/ (deliver) US\$M	Impact on equity and profit after taxation of 10% increase in market price US\$M
Aluminium	Tonnes (000s)			2		(73)	15
Lead	Tonnes (000s)			(2)		(8)	2
Silver	Ounces (millions)						3
Nickel	Tonnes (000s)			(1)	1	2	(4)

(a) Exposures on volumes are nil for 30 June 2014 as long and short positions are equal.

Provisionally priced commodity sales contracts

Not included in the above tables are provisionally priced sales volumes for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part

of trade receivables. South32's exposure at 30 June 2014 to the impact of movements in commodity prices upon provisionally invoiced sales volumes is set out in the following table:

		2014		2013		2012	
		Impact on equity and profit after taxation of 10%		Impact on equity and profit after taxation of 10%		Impact on equity and profit after taxation of 10%	
		Net increase in exposure	market price	Net increase in exposure	market price	Net increase in exposure	market price
	Units of exposure	receive/ (deliver)	US\$M	receive/ (deliver)	US\$M	receive/ (deliver)	US\$M
Zinc	Tonnes (000s)	(11)	2	(7)	1		
Lead	Tonnes (000s)	(29)	6	(59)	12		
Silver	Ounces (000s)	(3,426)	7	(7,788)	14		
Nickel	Tonnes (000s)	(1)	1	(2)	3		
Coal	Tonnes (000s)						

Table of Contents**Interest rate risk**

During the Reporting Period, the majority of BHP Billiton's debt was raised under central borrowing programs, and BHP Billiton has funded its businesses through intercompany investments and loans. Interest rate risk for South32 has been managed as part of the portfolio risk management strategy of BHP Billiton's central treasury function.

Liquidity risk

South32's liquidity risk arises from the possibility that it may not be able to settle or meet its obligations as they fall due. This has been managed as part of BHP Billiton's centralised portfolio risk management strategy. Operational, capital and regulatory requirements are considered in the management of liquidity risk, in conjunction with short-term and long-term forecast information.

During the Reporting Period, BHP Billiton's portfolio risk management strategy has essentially had a strong credit profile, diversified funding sources and committed credit facilities which ensured that sufficient liquid funds were maintained by the central treasury function to meet its daily cash requirements. BHP Billiton's policy on counterparty credit exposure also ensures that only counterparties of a high credit standing are used for the investment of any excess cash.

Maturity profile of financial liabilities

The maturity profile of South32's financial liabilities, other than amounts owing to BHP Billiton, based on the contractual amounts and taking into account the derivatives related to debt, is as follows:

	Bank loans, debentures and other loans US\$M	Expected future interest payments US\$M	Other derivatives US\$M	Obligations under finance leases US\$M	Other financial liabilities US\$M	Total US\$M
2014						
Due for payment:						
In one year or less or on demand	32	7	4	81	1,241	1,365
In more than one year but not more than two years	271	14	1	81	53	420
In more than two years but not more than three years	5	17	1	81		104
In more than three years but not more than four years	5	19	1	80		105
In more than four years but not more than five years	4	20	1	90		115
In more than five years	180	70	2	1,447	2	1,701
Total due for payment	497	147	10	1,860	1,296	3,810
Carrying amount	497		10	803	1,296	2,606

2013	Bank loans, debentures and other loans US\$M	Expected future interest payments US\$M	Other derivatives US\$M	Obligations under finance leases US\$M	Other financial liabilities US\$M	Total US\$M
Due for payment:						
In one year or less or on demand	91	6	2	3	1,310	1,412
In more than one year but not more than two years	36	6	1	15	11	69
In more than two years but not more than three years	7	5	1	2		15
In more than three years but not more than four years	6	5	1	2		14
In more than four years but not more than five years	5	4	1	2		12
In more than five years	196	26	3	25	204	454
Total due for payment	341	52	9	49	1,525	1,976
Carrying amount	341		7	33	1,525	1,906

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2012	Bank loans, debentures and other loans US\$M	Expected future interest payments US\$M	Other derivatives US\$M	Obligations under finance leases US\$M	Other financial liabilities US\$M	Total US\$M
Due for payment:						
In one year or less or on demand	208	25	44	5	1,581	1,863
In more than one year but not more than two years	29	22	12	4	17	84
In more than two years but not more than three years	7	21	1	3		32
In more than three years but not more than four years	7	20	1	3		31
In more than four years but not more than five years	6	18	5	28		57
In more than five years	223	48		19	231	521
Total due for payment	480	154	63	62	1,829	2,588
Carrying amount	480		63	38	1,829	2,410

The amounts presented in the tables above comprise the contractual undiscounted cash flows, and therefore will not always agree with the amounts presented in the balance sheet. South32 holds derivatives related to commodities and currencies that are classified as other financial assets when they are expected to generate cash inflows – refer to note 10 Other financial assets.

Credit risk

Credit risk arises from the non-performance by counterparties of their contractual financial obligations towards South32. Historically, BHP Billiton has maintained group-wide procedures covering the application for credit approvals, granting and renewal of counterparty limits and daily monitoring of exposures against these limits. As part of these processes, the financial viability of all counterparties is regularly monitored and assessed. The maximum exposure to credit risk is limited to the total carrying amount of relevant financial assets on the balance sheet as at the reporting date.

South32's credit exposures are categorised under the following headings:

Counterparties

South32 has conducted transactions with the following major types of counterparties:

Receivables counterparties

Approximately 60 per cent of sales to South32's customers are made on open terms.

Payment guarantee counterparties

Approximately half of sales to South32's customers occur via secured payment mechanisms.

Derivative counterparties

Counterparties to derivative contracts consist of a diverse number of financial institutions and industrial counterparties in the relevant markets.

South32 has no significant concentration of credit risk with any single counterparty or group of counterparties.

Geographic

South32 trades in all major geographic regions. Countries in which South32 has a significant credit risk exposure include South Africa, Australia, the United States, Japan and China. Where appropriate, secured payment mechanisms and other risk mitigation instruments are used to protect revenues from credit risk losses.

Industry

In line with South32's asset portfolio, South32 sells into a diverse range of industries and customer sectors. This diversity means that South32 is not materially exposed to any individual industry or customer.

The following table shows South32's receivables at the reporting date that are exposed to credit risk and the ageing and impairment profile thereon:

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	Receivables past due but not impaired					
	Gross amount	Receivables neither past due nor impaired	Less than 30 days			
			31 to 60 days	61 to 90 days	Over 90 days	
US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
2014						
Trade receivables	623	618	4			1
Trade receivables from BHP Billiton	869	869				
Other receivables	466	392	10	1	2	61
Other receivables from BHP Billiton	1,074	1,074				
Total	3,032	2,953	14	1	2	62

	Receivables past due but not impaired					
	Gross amount	Receivables neither past due nor impaired	Less than 30 days			
			31 to 60 days	61 to 90 days	Over 90 days	
US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
2013						
Trade receivables	749	746	2			1
Trade receivables from BHP Billiton	982	982				
Other receivables	682	596	11	4	3	68
Other receivables from BHP Billiton	827	827				
Total	3,240	3,151	13	4	3	69

	Receivables past due but not impaired					
	Gross amount	Receivables neither past due nor impaired	Less than 30 days			
			31 to 60 days	61 to 90 days	Over 90 days	
US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
2012						
Trade receivables	984	980	3			1
Trade receivables from BHP Billiton	890	890				
Other receivables	943	814	43	2	2	82

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Other receivables from BHP Billiton	2,663	2,663				
Total	5,480	5,347	46	2	2	83

Receivables are deemed to be past due or impaired with reference to South32's normal terms and conditions of business. These terms and conditions are determined on a case-by-case basis with reference to the customer's credit quality and prevailing market conditions. Receivables that are classified as "past due" in the above tables are those that have not been settled within the terms and conditions that have been agreed with that customer.

The credit quality of South32's customers is monitored on an ongoing basis and assessed for impairment where indicators of such impairment exist. The solvency of each debtor and their ability to repay the receivable is considered in assessing receivables for impairment. In certain circumstances, South32 may seek collateral as security for the receivable. Where receivables have been impaired, South32 actively seeks to recover the amounts in question and enforce compliance with credit terms.

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All financial assets and financial liabilities, other than derivatives, are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost, as indicated in the tables below. Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value.

The financial assets and liabilities are presented by class in the tables below at their carrying values, which generally approximate to the fair values.

Financial assets and liabilities

		Loans and receivables	Available for sale securities	Held at fair value through profit or loss	Other financial assets and liabilities at amortised cost	Total
	Note	US\$M	US\$M	US\$M	US\$M	US\$M
2014						
Financial assets						
Cash and cash equivalents	20	353				353
Trade and other receivables ^(a)	9	836		8		844
Trade receivables from BHP Billiton	9	869				869
Other derivative contracts	10			54		54
Interest bearing loans receivable	9	67				67
Interest bearing loans receivable from BHP Billiton	9	1,074				1,074
Shares - available for sale	10		317			317
Other investments - available for sale	10		144			144
Total financial assets		3,199	461	62		3,722
Non-financial assets						15,968
Total assets						19,690
Financial liabilities						
Trade and other payables ^(b)	14			3	1,359	1,362
Payables to BHP Billiton	14				28	28
Other derivative contracts	16			10		10
Unsecured bank loans	15				280	280
Finance leases	15				803	803
Unsecured other	15				217	217
Interest bearing liabilities payable to BHP Billiton	15				3,728	3,728

Total financial liabilities	13	6,415	6,428
Non-financial liabilities			3,442
Total liabilities			9,870

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2013	Note	Loans and receivables US\$M	Available for sale securities US\$M	Held at fair value through profit or loss US\$M	Other financial assets and liabilities at amortised cost US\$M	Total US\$M
Financial assets						
Cash and cash equivalents	20	345				345
Trade and other receivables ^(a)	9	1,080		9		1,089
Receivables from BHP Billiton	9	982				982
Forward exchange contracts	10			1		1
Commodity contracts	10			19		19
Other derivative contracts	10			52		52
Interest bearing loans receivable	9	88				88
Interest bearing loans receivable from BHP Billiton	9	827				827
Shares - available for sale	10		395			395
Other investments - available for sale	10		137			137
Total financial assets		3,322	532	81		3,935
Non-financial assets						15,608
Total assets						19,543
Financial liabilities						
Trade and other payables ^(b)	14				1,491	1,491
Payables to BHP Billiton	14				10	10
Other derivative contracts	16			7		7
Unsecured bank loans	15				44	44
Secured bank and other loans	15				20	20
Finance leases	15				33	33
Unsecured other	15				277	277
Interest bearing liabilities payable to BHP Billiton	15				4,341	4,341
Total financial liabilities				7	6,216	6,223
Non-financial liabilities						3,200
Total liabilities						9,423

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			Available	Held at fair value through	Other financial assets and liabilities at	Total
	Note	Loans and receivables US\$M	for sale securities US\$M	profit or loss US\$M	amortised cost US\$M	US\$M
2012						
Financial assets						
Cash and cash equivalents	20	346				346
Trade and other receivables ^(a)	9	1,221		2		1,223
Receivables from BHP Billiton	9	890				890
Forward exchange contracts	10			5		5
Commodity contracts	10			100		100
Other derivative contracts	10			62		62
Interest bearing loans receivable	9	82				82
Interest bearing loans receivable from BHP Billiton	9	2,663				2,663
Shares - available for sale	10		493			493
Other investments available for sale	10		145			145
Total financial assets		5,202	638	169		6,009
Non-financial assets						18,003
Total assets						24,012
Financial liabilities						
Trade and other payables ^(b)	14				1,964	1,964
Payables to BHP Billiton	14				13	13
Commodity contracts	16			53		53
Other derivative contracts	16			10		10
Unsecured bank overdrafts and short-term borrowings	15				19	19
Unsecured bank loans	15				73	73
Secured bank and other loans	15				40	40
Finance leases	15				38	38
Unsecured other	15				348	348
Interest bearing liabilities payable to BHP Billiton	15				4,071	4,071
Total financial liabilities				63	6,566	6,629
Non-financial liabilities						3,571
Total liabilities						10,200

- (a) Excludes input taxes of US\$178 million (2013: US\$254 million; 2012: US\$623 million) included in other receivables. Refer to note 9 Trade and other receivables.
- (b) Excludes input taxes of US\$5 million (2013: US\$103 million; 2012: US\$66 million) included in other payables. Refer to note 14 Trade and other payables.

Valuation hierarchy

The carrying amount of financial assets and liabilities measured at fair value is principally calculated with reference to quoted prices in active markets for identical assets or liabilities. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on South32's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. The inputs used in fair value calculations are determined by the relevant BHP Billiton Group function. BHP Billiton's Group Functions support the businesses and operate under a defined set of accountabilities authorised by the BHP Billiton Group Management Committee. Movements in the fair value of financial assets and liabilities may be recognised through the income statement or in other comprehensive income. The following table shows South32's financial assets and liabilities carried at fair value with reference to the nature of valuation inputs used:

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	Level 1^(a) US\$M	Level 2^(b) US\$M	Level 3^(c) US\$M	Total US\$M
2014				
Financial assets and liabilities				
Trade and other receivables		8		8
Trade and other payables		(3)		(3)
Other derivative contracts		(4)	48	44
Investments available for sale		144	317	461
Total		145	365	510

	Level 1^(a) US\$M	Level 2^(b) US\$M	Level 3^(c) US\$M	Total US\$M
2013				
Financial assets and liabilities				
Trade and other receivables		9		9
Forward exchange contracts		1		1
Commodity contracts		19		19
Other derivative contracts			45	45
Investments available for sale		137	395	532
Total		166	440	606

	Level 1^(a) US\$M	Level 2^(b) US\$M	Level 3^(c) US\$M	Total US\$M
2012				
Financial assets and liabilities				
Trade and other receivables		2		2
Forward exchange contracts		5		5
Commodity contracts		47		47
Other derivative contracts			52	52
Investments available for sale		145	493	638
Total		199	545	744

- (a) Valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
- (b) Valuation is based on inputs (other than quoted prices included in Level 1) that are observable for the financial asset or liability, either directly (i.e. as unquoted prices) or indirectly (i.e. derived from prices).
- (c) Valuation is based on inputs that are not based on observable market data.

Level 3 financial assets and liabilities

The following table shows the movements in South32's level 3 financial assets and liabilities:

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	2014	2013	2012
	US\$M	US\$M	US\$M
At the beginning of the financial year	440	545	487
Additions	3		
Disposals	(38)		
Realised gains recognised in the income statement ^(a)			3
Unrealised gains/(losses) recognised in the income statement ^(a)	1	(5)	60
Unrealised losses recognised in other comprehensive income ^(b)	(22)	(100)	(5)
Transfers	(19)		
At the end of the financial year	365	440	545

- (a) Realised and unrealised gains and losses recognised in the income statement are recorded in expenses refer to note 5 Expenses.
- (b) Unrealised gains and losses recognised in other comprehensive income are recorded in invested capital.

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

	Carrying value US\$M	Profit after taxation		Equity	
		10% increase in input US\$M	10% decrease in input US\$M	10% increase in input US\$M	10% decrease in input US\$M
2014					
Financial assets and liabilities					
Other derivative contracts	48	22	(22)	22	(22)
Investments available for sale	317			70	(38)
Total	365	22	(22)	92	(60)

	Carrying value US\$M	Profit after taxation		Equity	
		10% increase in input US\$M	10% decrease in input US\$M	10% increase in input US\$M	10% decrease in input US\$M
2013					
Financial assets and liabilities					
Other derivative contracts	45	(5)	6	(5)	6
Investments available for sale	395			71	(67)
Total	440	(5)	6	66	(61)

	Carrying value US\$M	Profit after taxation		Equity	
		10% increase in input US\$M	10% decrease in input US\$M	10% increase in input US\$M	10% decrease in input US\$M
2012					
Financial assets and liabilities					
Other derivative contracts	52	(8)	10	(8)	10
Investments available for sale	493			33	(46)

Total 545 (8) 10 25 (36)

Capital management

During the Reporting Period South32 has operated under BHP Billiton's Capital Management strategy. Capital is monitored using a gearing ratio, being the ratio of net debt to net debt plus net assets.

	2014	2013	2012
	US\$M	US\$M	US\$M
Cash and cash equivalents	(353)	(345)	(346)
Current debt	47	434	204
Non-current debt	4,981	4,281	4,385
Net debt	4,675	4,370	4,243
Net assets	9,820	10,120	13,812
Gearing	32%	30%	24%

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Subsidiaries

The percentage of ordinary shares held in significant subsidiaries is disclosed in note 21 Subsidiaries.

Joint operations

The percentage interest held in significant joint operations is disclosed in note 22 Interests in joint operations

Key management personnel

Throughout the Reporting Period, South32 did not have its own key management personnel. These were represented by members of BHP Billiton's key management personnel and it is therefore not meaningful to disclose these balances or transactions.

Balances and transactions with related parties

	BHP Billiton			Joint Ventures		
	2014	2013	2012	2014	2013	2012
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Outstanding balances with related parties						
Trade amounts owing to related parties ^(a)	28	10	13	14	24	5
Other amounts owing to related parties ^(b)	3,728	4,341	4,071			
Trade amounts owing from related parties ^(a)	869	982	890	15	34	101
Other amounts owing from related parties ^(b)	1,074	827	2,663	92	66	

	BHP Billiton			Joint Ventures		
	2014	2013	2012	2014	2013	2012
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Transactions with related parties						
Sales of goods/services		5	13	257	260	269
Purchase of goods/services	264	341	122	80	293	48
Interest income	25	102	118			
Interest expense	115	108	76			
Dividends paid ^(c)	505	2,296	79			
Dividends received ^(d)	11	12	20			
Loans made to related parties	861	(2,106)	(1,408)	(27)	(66)	
Equity transactions with BHP Billiton	133	60	135			

- (a) Trade amounts due to and from BHP Billiton and its subsidiaries under business operations are unsecured, interest-free and intended to be settled in the ordinary course of business.
- (b) Loans due to and from BHP Billiton and its subsidiaries represent group funding arrangements managed through a centralised treasury and cash management function which will be settled at the date of Demerger.
- (c) Dividends paid represent payments made by a South32 entity to a BHP Billiton entity. These dividend payments will not occur after Demerger.
- (d) Dividends received represent receipts by a South32 entity from a BHP Billiton entity. These dividend receipts will not occur after Demerger.

Terms and conditions

Sales to and purchases from related parties of goods and services are made in arm's length transactions at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured.

Other amounts owing from related parties represent secured loans made to joint ventures under co-funding arrangements. Such loans are made on an arm's length basis with interest charged at market rates and are due to be repaid between 31 July 2014 and 31 August 2031.

No guarantees are provided or received for any related party receivables or payables.

No provision for doubtful debts has been recognised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Transactions with key management personnel

During the financial year, there were no purchases from South32 (2013: US\$ nil; 2012 US\$ nil).

Loans with key management personnel

There are no loans (2013: US\$ nil; 2012: US\$ nil) with key management personnel.

Transactions with personally related entities

A number of Directors of South32 hold or have held positions in other companies, where it is considered they control or significantly influence the financial or operating policies of those entities. There have been no transactions with those entities and no amounts were owed by South32 to personally related entities (2013: US\$ nil; 2012: US\$ nil).

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25 Pension and other post-retirement obligations

South32 operates the following pension and post-retirement medical schemes:

Defined contribution pension schemes and multi-employer pension schemes

South32 contributed US\$115 million (2013: US\$124 million; 2012: US\$87 million) to defined contribution plans and multi-employer defined contribution plans. These contributions are expensed as incurred.

Defined benefit pension schemes

South32 has closed all defined benefit schemes to new entrants. Defined benefit pension schemes remain operating for existing members in South Africa and Brazil and, as part of BHP Billiton's pension schemes, in Australia. Full actuarial valuations are prepared and updated annually to 30 June by local actuaries for all schemes. The Projected Unit Credit valuation method is used. South32 operates final salary schemes that provide final salary benefits only, non-salary related schemes that provide flat dollar benefits and mixed benefit schemes that consist of a final salary defined benefit portion and a defined contribution portion.

Defined benefit post-retirement medical schemes

South32 operates a number of post-retirement medical schemes in South Africa. Full actuarial valuations are prepared by local actuaries for all schemes. All of the post-retirement medical schemes in South32 are unfunded. South32's defined benefit pension schemes and post-retirement medical schemes expose South32 to a number of risks:

Risk	Description
Volatility in asset values	South32 is exposed to changes in the value of assets held in funded pension schemes to meet future benefit payments.
Uncertainty in benefit payments	The cost to South32 of meeting future benefit obligations will depend on the value of the benefits paid in the future. To the extent these payments are dependent on future experience, there is some uncertainty. Some of the schemes' benefit obligations are linked to inflation or to salaries, and some schemes provide benefits that are paid for the life of the member. If future experience varies from the assumptions used to value these obligations, the cost of meeting the obligations will vary.
Uncertainty in future funding requirements	Movement in the value of benefit obligations and scheme assets will impact the contributions that South32 will be required to make to the schemes in the future. In many cases, pension schemes are managed under trust, and South32 does not have full control over the rate of funding or investment policy for scheme assets. In addition, South32 is exposed to changes in the regulations applicable to benefit schemes.

Recognising this, South32 has adopted an approach of moving away from providing defined benefit pensions. The majority of South32 sponsored defined benefit pension schemes have been closed to new entrants for many years. Existing benefit schemes, and the terms of employee participation in these schemes, are reviewed on a regular basis.

South32 follows a coordinated strategy for the funding and investment of its defined benefit pension schemes (subject to meeting all local requirements). South32's aim is for the value of defined benefit scheme assets to be maintained at close to the value of the corresponding benefit obligations, allowing for some short term volatility.

The following tables set out details of South32's defined benefit pension and post-retirement medical schemes.

Balance sheet disclosures

The amounts recognised in the combined balance sheet are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US\$M	2013 US\$M	2012 US\$M	2014 US\$M	2013 US\$M	2012 US\$M
Present value of funded defined benefit obligation	287	314	351			
Present value of unfunded defined benefit obligation				163	159	171
Fair value of defined benefit scheme assets	(317)	(335)	(348)			
Scheme (surplus)/deficit	(30)	(21)	3	163	159	171
Unrecognised surplus						
Unrecognised past service credits						
Net (asset)/liability recognised in the combined balance sheet	(30)	(21)	3	163	159	171

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South32 has no legal obligation to settle these liabilities with any immediate contributions or additional one-off contributions. South32 intends to continue to contribute to each defined benefit pension and post-retirement medical scheme in accordance with the latest recommendations of each scheme actuary.

Income statement disclosures

The amounts recognised in the combined income statement are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014	2013	2012	2014	2013	2012
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Current service cost	5	7	7			
Net interest expense/(income) on net defined benefit liability/(asset)	(2)	(3)	(3)	13	15	15
Total expense	3	4	4	13	15	15
Recognised in employee benefits expense	5	7	7			
Recognised in net finance costs	(2)	(3)	(3)	13	15	15

Statement of comprehensive income (SOCİ) disclosures

The amounts recognised in the combined statement of comprehensive income are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014	2013	2012	2014	2013	2012
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Actuarial (gains)/losses	(6)	(12)	21	8	10	4
Limit on net assets and other adjustments			(13)			
Total amount recognised in the SOCİ	(6)	(12)	8	8	10	4
Total cumulative amount recognised in the SOCİ^(a)	(10)	(4)	8	22	14	4

(a) Cumulative amounts are calculated from the transition to IFRS on 1 July 2004. The change in the net defined benefit liability is as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US\$M	2013 US\$M	2012 US\$M	2014 US\$M	2013 US\$M	2012 US\$M
Net defined benefit (asset)/liability at the beginning of the financial year	(21)	3		159	171	200
Amount recognised in the income statement	3	4	4	13	15	15
Remeasurement (gain)/loss recognised in other comprehensive income	(6)	(12)	8	8	10	4
Disbursements and settlements paid directly by employer				(8)	(9)	(9)
Employer contributions	(6)	(21)	(10)			
Foreign exchange losses/(gains)	2	4	1	(9)	(28)	(39)
Other adjustments	(2)	1				
Net defined benefit (asset)/liability at the end of the financial year	(30)	(21)	3	163	159	171

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The changes in the present value of defined benefit obligations are as follows:

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014 US\$M	2013 US\$M	2012 US\$M	2014 US\$M	2013 US\$M	2012 US\$M
Defined benefit (asset)/obligation at the beginning of the financial year	(21)	3		159	171	200
Current service cost	5	7	7			
Interest cost	(2)	(3)	(3)	13	15	15
Contributions by scheme participants	(6)	(21)	(10)	(8)	(9)	(9)
Actuarial (gains)/losses on benefit obligation	(6)	(12)	8	8	10	4
Foreign exchange losses/(gains)	2	4	1	(9)	(28)	(39)
Other adjustments	(2)	1				
Defined benefit (asset)/obligation at the end of the financial year	(30)	(21)	3	163	159	171

The change in the fair value of scheme assets for defined benefit pension schemes is as follows:

	Defined benefit pension schemes		
	2014 US\$M	2013 US\$M	2012 US\$M
Fair value of scheme assets at the beginning of the financial year	335	348	396
Interest income on scheme assets	24	26	28
Return on scheme assets greater than the discount rate	(13)	22	11
Employer contributions	6	21	10
Contributions by scheme participants			1
Benefits paid to participants	(23)	(35)	(32)
Foreign exchange losses	(9)	(47)	(66)
Settlements	(3)		
Fair value of scheme assets at the end of the financial year	317	335	348

The fair values of defined benefit pension scheme assets segregated by major asset class are as follows:

Asset class	Fair value		
	2014 US\$M	2013 US\$M	2012 US\$M

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Bonds ^(a)	104	117	108
Equities	42	47	54
Property ^(b)	5	6	8
Cash and net current assets	31	15	22
Insured annuities	135	146	155
Other ^(c)		4	1
Total	317	335	348

- (a) The bonds asset class as at 30 June 2014 includes Fixed Interest Government Bonds of US\$50 million, and Index linked Government Bonds of US\$54 million.
- (b) Property is the only asset class that does not have a quoted market price in an active market.
- (c) Scheme assets classified as Other as at 30 June 2014 primarily comprise private equity investments and alternate assets in Australia.

The fair value of scheme assets includes no amounts relating to any of South32's own financial instruments or any of the property occupied by or other assets used by South32.

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Scheme assets are invested in a diversified range of asset classes, predominantly comprising bonds and insured annuities in South Africa. In some locations, scheme trustees and other bodies have legal responsibility for the investment of scheme assets, and decisions on investment strategy are taken in consultation with South32.

South32 monitors its exposure to changes in equity markets, interest rates and inflation, and measures its balance sheet pension risk using a risk-based approach. Asset-liability studies are carried out periodically for the major pension schemes and the suitability of investment strategies for all defined benefit pension schemes are also reviewed periodically.

South32's aim is to progressively shift defined benefit pension scheme assets towards investments that match the anticipated profile of the benefit obligations, as funding levels improve, and as benefit obligations mature. Over time, this is expected to result in a further reduction in the total exposure of pension scheme assets to equity markets. For pension schemes that pay lifetime benefits, South32 may consider and support the purchase of annuities to back these benefit obligations if it is commercially sensible to do so.

Weighted average maturity profile of defined benefit obligation

	Defined benefit pension schemes			Post-retirement medical schemes		
	2014	2013	2012	2014	2013	2012
Weighted average duration of defined benefit obligation (years)	4.1	4.7	6.0	14.8	13.9	13.6

Actuarial assumptions

The principal actuarial assumptions at the reporting date (expressed as weighted averages) for defined benefit pension schemes are as follows:

	Australia			Brazil			South Africa		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Discount rate	3.3	3.1	2.7	11.7	10.4	9.2	9.4	8.6	8.7
Future salary increases	3.9	4.0	4.3	7.5	7.3	6.6	9.0	8.3	8.0

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

	South Africa		
	2014	2013	2012
Discount rate	9.2	8.7	9.0
Medical cost trend rate (ultimate)	8.7	7.9	8.0

Assumptions regarding future mortality can be material depending upon the size and nature of the plan liabilities. Post-retirement mortality assumptions in South Africa are based on standard post-retirement mortality tables.

These tables imply the following expected future lifetimes (in years) for employees aged 65 as at 30 June 2014: South African males 19.2 (2013: 19.0; 2012: 18.8), South African females 23.6 (2013: 23.4; 2012: 23.3).

Estimated contributions for the defined benefit pension and post-retirement medical schemes are as follows:

	Defined benefit pension schemes US\$M	Post-retirement medical schemes US\$M
Estimated employer contributions for the year ending 30 June 2015	5	
Estimated benefits paid to participants directly by employer for the year ending 30 June 2015		8

Sensitivity to assumptions

South32's defined benefit obligation at 30 June 2014 has been determined using actuarial calculations that require assumptions about future events. The estimated sensitivity of the defined benefit obligation to each significant assumption shown below has been determined at an individual scheme level if each assumption were changed in isolation. In practice, the schemes are subject to multiple external experience items which may vary the defined benefit obligation over time. The methods and assumptions used in preparing these sensitivity results remain consistent with those used in previous Reporting Periods.

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The estimated effects of variations in the principal actuarial assumptions on South32's defined benefit obligation at 30 June 2014 are as follows:

	Increase/(decrease) in defined benefit obligation	
	Defined benefit pension schemes	Post-retirement medical schemes
	US\$M	US\$M
Discount rate		
Increase of 1%	(11)	(20)
Decrease of 1%	15	25
Future salary increases		
Increase of 1%	5	n/a
Decrease of 1%	(4)	n/a
Mortality		
Increase in the life expectancy at age 65 of 1 year	1	7
Decrease in the life expectancy at age 65 of 1 year	(1)	(7)
Medical cost trend rate (initial and ultimate)		
Increase of 1%	n/a	25
Decrease of 1%	n/a	(20)

26 Subsequent events**30 June 2014****Proposed Demerger of assets**

In contemplation of the proposed Demerger, BHP Billiton and Anglo American agreed to make certain changes to the agreement which governs their interests in the Manganese Business. South32 will acquire BHP Billiton's interest and following implementation of the Demerger, South32 will manage and own 60 per cent of the Manganese Business with Anglo American owning the remaining 40 per cent.

Following receipt on 2 March 2015 of the last of the approvals required for the agreement, the changes result in South32 and Anglo American agreeing to share joint control of the Manganese Business. With effect from this date South32 will discontinue consolidation of the Manganese Business and account for its 60 per cent interest as an equity accounted joint venture. South32 will therefore derecognise the existing carrying amounts of all assets, liabilities and the non-controlling interest in the Manganese Business attributed to Anglo American and initially record its retained 60 per cent interest at fair value. The remeasurement at fair value gives rise to a gain of approximately US\$2 billion. There are no tax consequences arising from the remeasurement of the Manganese Business.

Following the move to equity accounting, South32 received a dividend from Australia Manganese that decreased the carrying value of the investment in the Manganese Business by US\$342 million.

Repeal of Minerals Resource Rent Tax (MRRT)

On 2 September 2014, legislation to repeal the MRRT in Australia received the support of both Houses of Parliament. The MRRT continued to apply until 30 September 2014. At 30 June 2014, South32 carried an MRRT deferred tax asset (net of income tax consequences) of US\$66 million. An income tax charge of US\$111 million was recognised in the first half of the 2015 financial year due to the derecognition of deferred tax assets (as of the date of repeal of the legislation) relating to the MRRT.

Other than the matters outlined above, no matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of South32 in subsequent accounting periods.

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1.7 INDEPENDENT AUDITOR REPORT

Independent Auditor Report of KPMG (KPMG Australia) and KPMG Inc (KPMG South Africa) to the Directors of South32 Limited

We have audited the accompanying historical combined financial information of the South32 Limited Group (as defined in this Document, the Group), being special purpose financial information as at and for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 prepared for the purpose of the Group s listing on the Johannesburg Stock Exchange (JSE) and admission to the Official List of the Financial Conduct Authority (FCA) of the United Kingdom. The historical combined financial information comprises, for each of the years described above: the combined balance sheet and combined statement of invested capital as at the year end; the combined income statement, combined statement of comprehensive income and combined cash flow statement for the year then ended; and notes comprising a summary of significant accounting policies and other explanatory information. The historical combined financial information has been prepared by the Directors using the basis of preparation set out in Note 1 to the historical combined financial information and in compliance with the respective listing requirements of the JSE and of the FCA.

Directors responsibility for the historical combined financial information

The Directors of the Group are responsible for the preparation and fair presentation of the historical combined financial information in accordance with the basis of preparation described in Note 1 to the historical combined financial information and the respective listing requirements of the JSE and of the FCA. The Directors responsibility also includes determining the acceptability of the basis of preparation in the circumstances and for such internal controls as the Directors determine are necessary to enable the preparation and presentation of the historical combined financial information that is free from material misstatement, whether due to fraud or error.

Auditor s responsibility

Our responsibility is to express an audit opinion on the historical combined financial information based on our audit.

KPMG Australia conducted an audit of the historical combined financial information in accordance with Australian Auditing Standards and International Standards on Auditing (UK and Ireland).

KPMG South Africa conducted an audit of the historical combined financial information in accordance with International Standards on Auditing.

These standards require that we comply with relevant ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the historical combined financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the historical combined financial information. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the historical combined financial information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the historical combined financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the historical combined financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership, and KPMG Inc, a South African company incorporated under the South African Companies Act, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

KPMG Australia's liability limited by a scheme approved under Professional Standards Legislation

KPMG Inc's Policy Board:

Chief Executive: RM Kgosana

Executive Directors: T Fubu, A Hari, E Magondo, JS McIntosh, CAT Smit, D van Heerden

Other Directors: DC Duffield, LP Fourie, N Fubu, TH Hoole, A Jaffer, M Letsitsi, A Masemola, M Mokgabudi, Y Suleman (Chairman of the Board), A Thunström

KPMG Inc's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

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Independence

In conducting our audit, KPMG Australia has complied with the independence requirements of the Australian Accounting Professional and Ethical Standards Board.

Audit opinion

In our opinion, the historical combined financial information of the Group as at and for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 is presented fairly, in all material respects, in accordance with the basis of preparation described in Note 1 of the historical combined financial information and the respective listing requirements of the JSE and of the FCA.

Basis of preparation

Without modifying our audit opinion, we draw attention to Note 1 to the historical combined financial information which describes the basis of preparation of the historical combined financial information, including the approach to and the purpose for preparing the information and that the preparation involves complex allocations of certain items. Consequently, the historical combined financial information may not necessarily be indicative of the financial performance that would have been achieved if the South32 Group had operated as an independent group, nor may it be indicative of the results of operations of the South32 Group for any future period.

The historical combined financial information has been prepared solely for the purpose of fulfilling the Directors financial reporting responsibilities in order to comply with the respective listing requirements of the JSE and of the FCA. As a result, the historical combined financial information may not be suitable for another purpose.

Declaration for the purposes of the Prospectus Directive Regulation as required by the FCA

This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

KPMG

Chris Sargent

KPMG Inc.

Partner

Per Jacques Erasmus

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Melbourne, Australia

16 March 2015

KPMG, an Australian partnership, and KPMG Inc, a South African company incorporated under the South African Companies Act, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity.

KPMG Australia's liability limited by a scheme approved under Professional Standards Legislation

Chartered Accountant (SA), Registered Auditor, Director
Johannesburg, South Africa

16 March 2015

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

KPMG Inc's Policy Board:

Chief Executive: RM Kgosana

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KPMG Inc's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

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Table of Contents**ANNEXURE 2****HALF YEAR HISTORICAL COMBINED FINANCIAL INFORMATION FOR THE HALF YEAR PERIODS ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013 FOR SOUTH32****2.1 COMBINED INCOME STATEMENT**

	Notes	H1 FY2015 US\$M	H1 FY2014 US\$M
Revenue			
Group production	2	4,636	4,572
Third party products	2	404	776
Revenue	2	5,040	5,348
Other income	4	521	105
Expenses excluding net finance costs		(4,313)	(4,906)
Share of operating profit of equity accounted investments		3	7
Profit from operations		1,251	554
Comprising:			
Group production		1,221	526
Third party products		30	28
Financial income	5	44	28
Financial expenses	5	(81)	(136)
Net finance costs	5	(37)	(108)
Profit before taxation		1,214	446
Income tax expense		(380)	(113)
Royalty-related taxation (net of income tax benefit)		(96)	25
Total taxation expense	6	(476)	(88)
Profit after taxation		738	358
Attributable to non-controlling interests		50	41
Attributable to members of South32		688	317
Basic earnings per ordinary share (US cents)	7	12.92	5.95
Diluted earnings per ordinary share (US cents)	7	12.88	5.94

The accompanying notes form part of the historical combined financial information.

Certain administration costs, net finance costs, tax and pension amounts of South32 reflect the management and capital structure of South32 prior to the Demerger. Accordingly these amounts, together with respective earnings per

share figure, may not be comparable with actual amounts that would have occurred had the Demerger been in effect during the periods presented. Refer to Section 1.6 (Basis of preparation of historical combined financial information) in Annexure 1 for details of assumptions made in preparing the historical combined financial information.

Table of Contents**2.2 COMBINED STATEMENT OF COMPREHENSIVE INCOME**

	H1 FY2015	H1 FY2014
	US\$M	US\$M
Profit after taxation	738	358
Other comprehensive income		
Items that may be reclassified subsequently to the income statement:		
Available for sale investments:		
Net valuation losses taken to equity	(18)	(7)
Net valuation gains transferred to the income statement		(2)
Tax recognised within other comprehensive income	1	
Total items that may be reclassified subsequently to the income statement	(17)	(9)
Items that will not be reclassified to the income statement:		
Actuarial (losses)/gains on pension and medical schemes	(9)	12
Tax recognised within other comprehensive income	3	(3)
Total items that will not be reclassified to the income statement	(6)	9
Total other comprehensive loss	(23)	
Total comprehensive income	715	358
Attributable to non-controlling interests	55	41
Attributable to members of South32	660	317
The accompanying notes form part of the historical combined financial information.		

Table of Contents**2.3 COMBINED BALANCE SHEET**

	Note	31 December 2014 US\$M	31 December 2013 US\$M
ASSETS			
Current assets			
Cash and cash equivalents		459	196
Trade and other receivables		1,098	1,320
Receivables from BHP Billiton		9,508	1,764
Other financial assets		15	13
Inventories		1,406	1,626
Current tax assets		107	305
Other		37	137
Total current assets		12,630	5,361
Non-current assets			
Trade and other receivables		185	382
Other financial assets		508	501
Investments accounted for using the equity method		13	7
Inventories		60	78
Property, plant and equipment		12,220	11,990
Intangible assets		290	343
Deferred tax assets		801	970
Other		16	51
Total non-current assets		14,093	14,322
Total assets		26,723	19,683
LIABILITIES			
Current liabilities			
Trade and other payables		1,232	1,593
Payables to BHP Billiton		41	136
Interest bearing liabilities		136	69
Interest bearing liabilities payable to BHP Billiton			78
Other financial liabilities		6	7
Current tax payable		104	108
Provisions		413	533
Deferred income		4	77
Total current liabilities		1,936	2,601
Non-current liabilities			
Trade and other payables		34	258
Interest bearing liabilities		877	484
Interest bearing liabilities payable to BHP Billiton		3,728	3,730

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Other financial liabilities		18	6
Deferred tax liabilities		569	533
Provisions		2,010	1,779
Deferred income		4	3
Total non-current liabilities		7,240	6,793
Total liabilities		9,176	9,394
Net assets		17,547	10,289
INVESTED CAPITAL			
Invested capital attributable to members of South32	8	16,710	9,396
Invested capital attributable to non-controlling interests		837	893
Total invested capital		17,547	10,289

The accompanying notes form part of the historical combined financial information.

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Table of Contents**2.4 COMBINED CASH FLOW STATEMENT**

	Note	H1 FY2015 US\$M	H1 FY2014 US\$M
Operating activities			
Profit before taxation		1,214	446
Adjustments for:			
Depreciation and amortisation expense		506	466
Net gain on sale of non-current assets		(1)	
Net finance costs		37	108
Share of operating profit of equity accounted investments		(3)	(7)
Other		(327)	(11)
Changes in assets and liabilities:			
Trade and other receivables		93	(254)
Inventories		(4)	(106)
Trade and other payables		(193)	130
Net other financial assets and liabilities		(10)	52
Provisions and other liabilities		(181)	(43)
Cash generated from operations		1,131	781
Dividends received		368	18
Interest received		25	92
Interest paid		(141)	(147)
Income tax refunded			3
Income tax paid		(134)	(254)
Net operating cash flows		1,249	493
Investing activities			
Purchases of property, plant and equipment		(411)	(394)
Exploration expenditure		(13)	(14)
Exploration expenditure expensed and included in operating cash flows		9	11
Purchase of intangibles			(1)
Investment in financial assets		(13)	(12)
Cash outflows from investing activities		(428)	(410)
Proceeds from sale of property, plant and equipment		6	11
Proceeds from financial assets		7	46
Net investing cash flows		(415)	(353)
Financing activities			
Proceeds from interest bearing liabilities		7	235
Repayment of interest bearing liabilities		(103)	(463)
Proceeds from issue of shares	8	8,000	

Deposit with BHP Billiton	(7,565)	
Other movements in invested capital	(327)	298
Dividends paid	(661)	(343)
Dividends paid to non-controlling interests	(85)	(52)
Net financing cash flows	(734)	(325)
Net increase/(decrease) in cash and cash equivalents	100	(185)
Cash and cash equivalents, net of overdrafts, at the beginning of the period	353	345
Foreign currency exchange rate changes on cash and cash equivalents	(4)	(2)
Cash and cash equivalents, net of overdrafts, at the end of the period	449	158

The accompanying notes form part of the historical combined financial information.

Table of Contents**2.5 COMBINED STATEMENT OF CHANGES IN INVESTED CAPITAL**

	Note	H1 FY2015 US\$M	H1 FY2014 US\$M
Invested capital attributable to members of South32			
Balance as at 1 July		8,953	9,213
Profit for the period		688	317
Other comprehensive income		(28)	
Dividends paid		(661)	(343)
Equity transactions with BHP Billiton	8	7,758	209
Balance as at 31 December		16,710	9,396
Invested capital attributable to non-controlling interests			
Balance as at 1 July		867	907
Profit for the period attributable to non-controlling interests		50	41
Other comprehensive income		5	
Distributions paid to non-controlling interests		(85)	(52)
Equity contributed			(3)
Balance as at 31 December		837	893

The accompanying notes form part of the historical combined financial information.

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2.6 NOTES TO THE HALF YEAR HISTORICAL COMBINED FINANCIAL INFORMATION

1 Accounting policies

The historical combined financial information for the half year ended 31 December 2014 and the comparative period ended 31 December 2013 (Half Year Reporting Period) is unaudited and has been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) in conjunction with the basis of preparation contained in Annexure 1. The comparative balance sheets as at 30 June 2014 and 30 June 2013 as required by IAS 34 have been included as part of the annual historical combined financial information as set out in Annexure 1.

The directors are responsible for the preparation of the historical combined financial information and believe that the basis of preparation fairly presents South32's historical financial information in the circumstances set out in Annexure 1 and below.

The half year historical combined financial information is prepared in accordance with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The historical financial information has been extracted from the consolidation schedules which supported the unaudited financial statements of the BHP Billiton Group for the Half Year Reporting Period.

The half year historical combined financial information represents a combined condensed set of historical financial information. Accordingly, they do not include all of the information required for a full annual report and are to be read in conjunction with the annual historical combined financial information contained within Annexure 1.

The half year historical combined financial information has been prepared on the basis of accounting policies and methods of computation consistent with those applied in the annual historical combined financial information contained within Annexure 1, and with those anticipated to be applied by South32, with the exception of the following new accounting standards and interpretations which became effective from 1 July 2014:

Amendments to IAS 32 Financial Instruments: Presentation clarify the criteria for offsetting financial assets and liabilities.

IFRIC 21 Levies confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs.

Rounding of amounts

Amounts in this half year historical combined financial information have, unless otherwise indicated, been rounded to the nearest million dollars.

Comparatives

Where applicable, comparatives have been restated to disclose them on the same basis as current period figures.

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South32 operates the Businesses set out below. The reporting of financial information by Business reflects the proposed structure that will be used by South32's management to assess the performance of South32.

Reportable segment	Principal activities
Worsley Alumina	Integrated bauxite mine and alumina refinery in Western Australia
South Africa Aluminium	Aluminium smelter at Richards Bay
Mozal Aluminium	Aluminium smelter near Maputo in Mozambique
Brazil Aluminium	Alumina refinery and aluminium smelter in Brazil
South Africa Energy Coal	Open-cut and underground energy coal mines and processing operations in South Africa
Illawarra Metallurgical Coal	Underground metallurgical coal mines in southern New South Wales
Australia Manganese	Producer of manganese ore in the Northern Territory and manganese alloys in Tasmania
South Africa Manganese	Integrated producer of manganese ore and alloy in South Africa
Cerro Matoso	Integrated laterite ferronickel mining and smelting complex in northern Colombia
Cannington	Silver, lead and zinc mine located in northwest Queensland

All South32 Businesses are operated or jointly operated by South32 except Alumar (which forms part of Brazil Aluminium), which is operated by Alcoa.

Group and unallocated items represent Group centre functions and consolidation adjustments. Exploration and technology activities are recognised within relevant segments.

It is South32's policy that inter-segment sales are made on a commercial basis.

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US\$M	South Worsley Alumina	South Africa Alumina	Mozal Alumina	Brazil Aluminium	South Africa Energy Coal	Illawarra Metallurgical Coal	Australia Manganese	South Africa Manganese	Cerro Matoso	Gannings	Group and unallocated items / eliminations	Total South32
Half year ended 31 December 2014												
Revenue												
Group Production	319	823	340	268	683	425	566	386	340	486		4,636
Third party products ^(a)											404	404
Inter-segment revenue	332										(332)	
Total revenue	651	823	340	268	683	425	566	386	340	486	72	5,040
Underlying EBITDA^(b)	143	201	88	140	83	120	215	63	113	183	(43)	1,306
Depreciation and amortisation	(76)	(34)	(18)	(39)	(92)	(100)	(53)	(37)	(27)	(29)	(1)	(506)
Underlying EBIT^(b)	67	167	70	101	(9)	20	162	26	86	154	(44)	800
Comprising:												
Group Production	67	167	70	101	(12)	20	162	26	86	154	(74)	767
Third party products ^(a)											30	30
Share of operating profit of equity accounted investments						3						3
Underlying EBIT	67	167	70	101	(9)	20	162	26	86	154	(44)	800
Net finance costs ^(c)												(103)
Income tax expense												(163)
												534

Underlying Earnings												
Earnings adjustments												204
Profit after tax												738
Capital expenditure	27	10	5	5	58	180	57	37	18	14		411
Investments accounted for using the equity method												
					13							13
Total assets^(d)	3,793	1,502	719	1,078	2,051	1,770	1,343	1,100	1,082	402	11,883	26,723
Total liabilities^(d)	380	307	91	140	1,037	236	453	298	228	210	5,796	9,176