



**2017**  
**TAX TRANSPARENCY  
AND PAYMENTS  
TO GOVERNMENTS  
REPORT**



# WHO WE ARE



## Our purpose

Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources.



## Our strategy

Our business strategy is to invest in high-quality metals and mining operations that allow our distinctive capabilities and regional model to stretch performance in a sustainable way.

We will continue to:

- Optimise the performance of our existing operations
- Unlock their potential by converting high value resource into reserve
- Identify new opportunities to compete for capital

By maintaining financial discipline, we will deliver sector leading total shareholder returns.



## Our values

### Care

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

### Trust

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

### Togetherness

We value difference and we openly listen and share, knowing that together we are better.

### Excellence

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

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## INTRODUCTION

South32 cares about the communities in which it operates and delivers on its commitments. Publishing an annual Tax Transparency and Payments to Governments Report allows us to demonstrate that our tax affairs are conducted in accordance with our corporate values and commitment to ethical business practices.

We believe that tax transparency helps build community confidence about the value created from resource development. We support initiatives that require companies to publicly share their data, including payments made to governments and communities.

In the year ended 30 June 2017, we paid US\$515.2M in taxes, royalties and other payments. This US\$188.9M increase on the payments made in the prior year is a reflection of increased profitability. Our underlying effective tax rate was 30.7% and once royalties of \$175.5M are included, the rate increases to 39.6%.

This report outlines our approach to tax governance, details our tax payments to governments on a country by country and project by project basis, explains our accounting income tax expense and provides a summary of our international related party dealings.

Our report meets the requirements of the following tax transparency measures:

- United Kingdom's (UK) Report on Payments to Governments Regulations 2014 (UK Regulations), including the tax strategy reporting requirement
- Chapter 10 of the European Union (EU) Accounting Directive
- Global Reporting Initiative Sustainability Reporting Guidelines
- Australian Board of Tax Voluntary Tax Transparency Code

Providing information which meets the requirements of these disclosure initiatives, some of which are voluntary, ensures that we are providing tax transparency beyond the mandatory legislative requirements applicable to our operations.

We support the Extractive Industries Transparency Initiative (EITI) and provides a financial contribution to the EITI through our membership of the International Council on Mining and Metals (ICMM). This membership supports the EITI's ongoing activities of promoting open and accountable management of mineral resource wealth.

A description of technical terms used in this report and information regarding the approach adopted in compiling the data presented can be found in the Basis of Preparation and the Glossary.

An independent assurance report which provides assurance on the Total Payments Made by Country and Level of Government and Total Payments to Government by Project has been provided by KPMG (refer to page 13).



## ABOUT SOUTH32

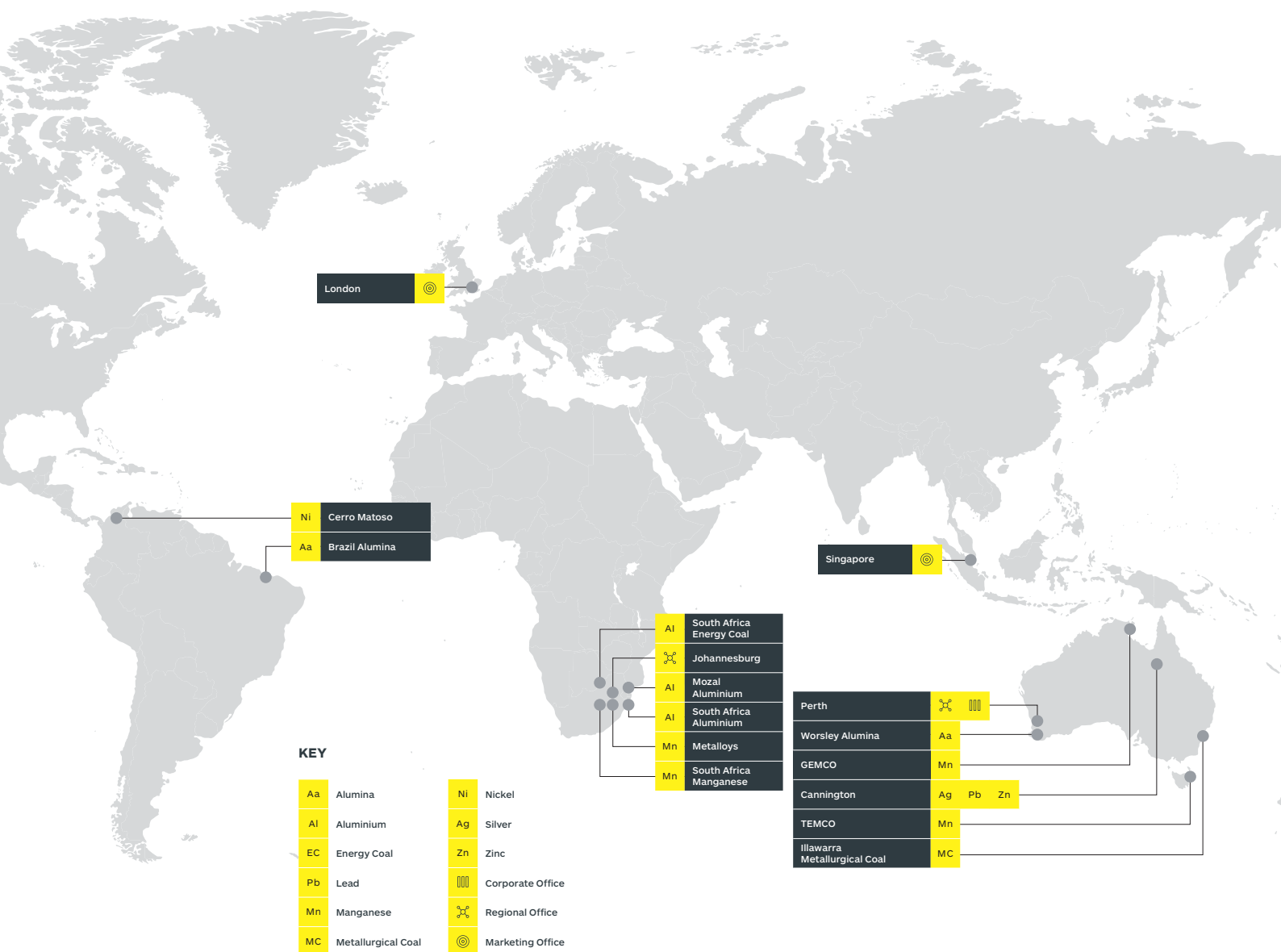
South32 is a globally diversified metals and mining company that produces bauxite, alumina, aluminium, thermal and metallurgical coal, manganese, nickel, silver, lead and zinc in our operations located in Australia, Brazil<sup>(1)</sup>, Colombia, Mozambique and South Africa.

We also have companies that hold investments in operational entities or provide services to the Group that are incorporated in other countries.

Our business strategy is to invest in high-quality metals and mining operations that allow our distinctive capabilities and regional model to stretch performance in a sustainable way. In practice, this means that we will continue to:

- Optimise the performance of our existing operations
- Unlock their potential by converting high value resource into reserve
- Identify new opportunities to compete for capital

By maintaining financial discipline, we will deliver sector leading total shareholder returns. Further information about our strategy and operations can be found at [www.south32.net](http://www.south32.net).



(1) Our Brazilian operations are undertaken through a non-operated joint venture agreement.

## OUR APPROACH TO TAX GOVERNANCE

South32's approach to tax governance ensures tax related decisions are made consistently across all jurisdictions. All tax related decisions are made in accordance with the South32 values and the agreed, consistent risk tolerance levels applied to all other decisions in our business.

The following guiding principles underpin all tax related matters:

- Compliance with all applicable laws, regulations, disclosure requirements, payment of taxes and lodgement of returns
- Building and maintaining constructive relationships with revenue authorities, government bodies and all other relevant parties
- All decisions are taken at an executive or Board level and supported by comprehensive documentation
- Filing positions include robust risk assessments with appropriate risk mitigation activities (for example professional opinions, appropriate disclosure)
- All tax positions taken are supported by evidence so they can be substantiated if reviewed by a revenue authority
- Immediate reporting of any detected errors/omissions to all relevant revenue authorities

Our Board and Chief Executive Officer (CEO) have affirmed these principals as part of an annual review of tax governance. To ensure proactive engagement of the Board on tax matters and tax affairs, tax is a regular agenda item for Board Risk and Audit Committee meetings.

The Board, CEO, Chief Financial Officer and Vice President Tax are the only people permitted to make tax decisions for our company. Clear, consistent authority levels are in place for all tax decisions.

Our Tax personnel are appropriately qualified and experienced ensuring our tax affairs are identified, assessed, documented, controlled and reported in a timely manner. External advisors are utilised to support our team on technical filing positions or in the interpretation of specific points of law.

Our approach to tax governance and the systems and controls we have in place to manage our tax risk have been designed considering best practice and are in line with the Australian Taxation Office (ATO) Tax Risk Management and Governance Review Guide, UK Senior Accounting Officer guidance and the UK Regulations tax strategy reporting requirements.





## TOTAL PAYMENTS MADE BY COUNTRY AND LEVEL OF GOVERNMENT

Table 1 - Total payments made by country and level of government for year ended 30 June 2017

US\$M <sup>2</sup>	Corporate income tax	Royalty related taxes	Royalties	License fees
<b>Australia</b>				
Government of Australia	81.0	-	6.7	0.1
Government of Northern Territory	-	22.3	-	-
Municipality of George Town	-	-	-	-
State of New South Wales	-	-	69.8	-
State of Queensland	-	-	35.1	-
State of Tasmania	-	-	-	-
State of Western Australia	-	-	18.8	-
Townsville City Council	-	-	-	-
<b>Australia: Total</b>	<b>81.0</b>	<b>22.3</b>	<b>130.4</b>	<b>0.1</b>
<b>Brazil</b>				
Government of Brazil <sup>4</sup>	33.4	-	-	-
<b>Brazil: Total</b>	<b>33.4</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Colombia</b>				
Government of Colombia	5.1	-	25.4	1.0
Municipality of Montelibano	-	-	-	-
<b>Colombia: Total</b>	<b>5.1</b>	<b>-</b>	<b>25.4</b>	<b>1.0</b>
<b>Mozambique</b>				
Government of Mozambique	-	-	4.3	-
<b>Mozambique: Total</b>	<b>-</b>	<b>-</b>	<b>4.3</b>	<b>-</b>
<b>South Africa</b>				
Government of South Africa	119.8	-	36.4	-
<b>South Africa: Total</b>	<b>119.8</b>	<b>-</b>	<b>36.4</b>	<b>-</b>
<b>Singapore</b>				
Government of Singapore	3.4	-	-	-
<b>Singapore: Total</b>	<b>3.4</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Switzerland</b>				
Government of Switzerland <sup>5</sup>	1.4	-	-	-
<b>Switzerland: Total</b>	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>United Kingdom</b>				
Government of United Kingdom	-	-	-	-
<b>United Kingdom: Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total taxes paid<sup>6</sup></b>	<b>244.1</b>	<b>22.3</b>	<b>196.5</b>	<b>1.1</b>

(2) Payments reported are the portion of the total payment that relates to South32's ownership.

(3) These taxes are deducted by the company from employee's remuneration and remitted to revenue authorities on the employee's behalf.

(4) Includes non-cash corporate income tax payments of US\$29.9M offset against net taxes refunded.

(5) Jointly controlled Swiss company which ceased performing manganese marketing activities during the 2017 financial year.

## TOTAL PAYMENTS TO GOVERNMENT BY PROJECT

Table 2 - Total payments to government by project for year ended 30 June 2017

US\$M <sup>7</sup>	Corporate income tax	Royalty related taxes	Royalties	License fees
<b>Extractive project related payments - Subsidiaries</b>				
Cannington - Australia	-	-	35.1	-
Illawarra Metallurgical Coal - Australia	-	-	69.8	-
Worsley Alumina - Australia	-	-	18.8	-
Cerro Matoso - Colombia	5.1	-	25.4	1.0
South Africa Energy Coal - South Africa	42.0	-	22.1	-
<b>Total extractive project related payments - Subsidiaries</b>	<b>47.1</b>	<b>-</b>	<b>171.2</b>	<b>1.0</b>
<b>Equity accounted investments (EAIs)</b>				
Australia Manganese - Australia	81.0	22.3	6.7	0.1
South Africa Manganese - South Africa	-	-	14.3	-
<b>Total extractive project related payments including EAIs</b>	<b>128.1</b>	<b>22.3</b>	<b>192.2</b>	<b>1.1</b>
Non-extractive project related payments	116.0	-	4.3	-
<b>Total taxes paid<sup>8</sup></b>	<b>244.1</b>	<b>22.3</b>	<b>196.5</b>	<b>1.1</b>

(7) Payments reported are the portion of the total payment that relates to South32's ownership.

(8) These taxes are deducted by the company from employee's remuneration and remitted to revenue authorities on the employee's behalf.

	Payments to governments for UK Regulations purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne) <sup>3</sup>	Net taxes refunded
	87.8	-	6.7	94.5	156.6	(85.5)
	22.3	2.9	-	25.2	-	-
	-	-	0.1	0.1	-	-
	69.8	9.8	4.4	84.0	-	-
	35.1	3.1	0.6	38.8	-	-
	-	0.8	-	0.8	-	-
	18.8	15.2	1.3	35.3	-	-
	-	-	0.1	0.1	-	-
	<b>233.8</b>	<b>31.8</b>	<b>13.2</b>	<b>278.8</b>	<b>156.6</b>	<b>(85.5)</b>
	33.4	-	0.8	34.2	0.5	(29.9)
	<b>33.4</b>	<b>-</b>	<b>0.8</b>	<b>34.2</b>	<b>0.5</b>	<b>(29.9)</b>
	31.5	-	4.3	35.8	4.5	0.7
	-	-	0.8	0.8	-	0.3
	<b>31.5</b>	<b>-</b>	<b>5.1</b>	<b>36.6</b>	<b>4.5</b>	<b>1.0</b>
	4.3	-	-	4.3	1.9	(0.7)
	<b>4.3</b>	<b>-</b>	<b>-</b>	<b>4.3</b>	<b>1.9</b>	<b>(0.7)</b>
	156.2	-	0.2	156.4	91.6	(129.8)
	<b>156.2</b>	<b>-</b>	<b>0.2</b>	<b>156.4</b>	<b>91.6</b>	<b>(129.8)</b>
	3.4	-	-	3.4	1.1	-
	<b>3.4</b>	<b>-</b>	<b>-</b>	<b>3.4</b>	<b>1.1</b>	<b>-</b>
	1.4	-	-	1.4	-	-
	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>1.4</b>	<b>-</b>	<b>-</b>
	-	-	0.1	0.1	2.4	(0.8)
	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>2.4</b>	<b>(0.8)</b>
	<b>464.0</b>	<b>31.8</b>	<b>19.4</b>	<b>515.2</b>	<b>258.6</b>	<b>(245.7)</b>

(6) Refer to page 8 for a reconciliation of corporate income tax paid (US\$244.1M) to the the income tax paid as shown in the Consolidated Cash Flow Statement of our 2017 Annual Report.

	Payments to governments for UK Regulations purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne) <sup>8</sup>	Net taxes refunded
	35.1	3.1	0.7	38.9	17.9	-
	69.8	9.8	4.5	84.1	46.8	-
	18.8	10.3	6.5	35.6	46.2	(61.0)
	31.5	-	5.1	36.6	4.5	1.0
	64.1	-	-	64.1	51.2	(51.1)
	<b>219.3</b>	<b>23.2</b>	<b>16.8</b>	<b>259.3</b>	<b>166.6</b>	<b>(111.1)</b>
	110.1	2.9	0.9	113.9	14.6	(10.9)
	14.3	-	0.2	14.5	5.0	(10.1)
	<b>343.7</b>	<b>26.1</b>	<b>17.9</b>	<b>387.7</b>	<b>186.2</b>	<b>(132.1)</b>
	120.3	5.7	1.5	127.5	72.4	(113.6)
	<b>464.0</b>	<b>31.8</b>	<b>19.4</b>	<b>515.2</b>	<b>258.6</b>	<b>(245.7)</b>

(9) Refer to page 9 for a reconciliation of corporate income tax payments (US\$244.1M) to the Income tax (paid)/received as shown in the Consolidated Cash Flow Statement of our 2017 Annual Report.

## OUR UNDERLYING EFFECTIVE TAX RATE

South32 uses Underlying earnings as a key measure in assessing the performance of its business. Underlying earnings excludes revenue and expense items that do not reflect the performance or outcome of the underlying operations of South32<sup>10</sup>. Underlying earnings is calculated as Underlying earnings before interest and tax (EBIT) less Underlying net financing costs less Underlying tax expense.

The table below shows the Underlying tax expense and Underlying effective tax rate (ETR) of our Group.

**Table 3 - Underlying tax expense and Underlying ETR for the year ended 30 June 2017**

	<b>SOUTH32<sup>11</sup></b>	Australia	Brazil	Colombia	Mozambique	South Africa	Other
	<b>US\$M</b>	30%	34%	40%	0%	28%	Various
Underlying EBIT (profit)/loss	<b>(1,648)</b>	(982)	(60)	20	(45)	(479)	(102)
Less: Underlying net financing (revenue)/costs	<b>136</b>	55	(8)	11	3	80	(5)
Remove: Equity accounted investments profit <sup>12</sup>	<b>320</b>	(243)	-	-	-	(48)	(29)
<b>Underlying (profit)/loss before taxation</b>	<b>(1,192)</b>	<b>(684)</b>	<b>(68)</b>	<b>31</b>	<b>(42)</b>	<b>(351)</b>	<b>(78)</b>
Tax on (profit)/loss at country tax rate	<b>325</b>	205	23	(12)	-	98	11
Marketing income attributable	<b>14</b>	14	-	-	-	-	-
Dividend withholding tax	<b>16</b>	-	-	-	-	-	16
Permanent differences	<b>11</b>	4	(3)	(1)	-	10	1
<b>Underlying income tax (benefit)/expense</b>	<b>366</b>	<b>223</b>	<b>20</b>	<b>(13)</b>	<b>-</b>	<b>108</b>	<b>28</b>
<b>Underlying effective tax rate<sup>13</sup></b>	<b>30.7%</b>	<b>32.6%</b>	<b>29.4%</b>	<b>41.9%</b>	<b>0.0%<sup>14</sup></b>	<b>30.8%</b>	<b>35.9%</b>

Underlying profit before taxation	(1,192)
Underlying income tax expense	366
<b>Underlying profit after taxation</b>	<b>(826)</b>
Add: Equity accounted investments profit	(320)
<b>Underlying Earnings</b>	<b>(1,146)</b>

(10) Refer to the Glossary for a list of these items.

(11) We have disclosed our tax information on the following pages using a column of data for each of the countries where we have an operational presence. Countries where we only have investments or provide services are grouped together into an "Other" column and are disclosed on a collective basis.

(12) Refer to page 9 for information regarding our equity accounted investments.

(13) Underlying income tax (benefit)/expense divided by Underlying profit/(loss) before taxation.

(14) The Mozambique operations are subject to a royalty on revenues instead of income tax.

As the countries we operate in have varying tax rates our Underlying ETR is largely influenced by the geographic distribution of the Group's profit. The Underlying ETR will increase to the extent profits are derived in high tax rate jurisdictions (e.g. Brazil and Colombia) and decrease when profits are derived mostly in lower rate jurisdictions (e.g. South Africa or Mozambique).

When commodity prices and profit margins are compressed, permanent differences make our Underlying ETR more volatile than in favourable trading conditions. Permanent differences are items which are treated differently for tax and accounting purposes (e.g. they are an expense for accounting purposes but not deductible for income tax purposes).

Our aluminium smelting operations in Mozambique pay a royalty on revenues instead of income tax. In the year ended 30 June 2017, we paid US\$9.1M of royalties and dividends to the Mozambique government.



## OUR INCOME TAX EXPENSE

The table below presents a reconciliation of South32's statutory profit and income tax expense for the year ended 30 June 2017.

The country effective tax rates are different from the country statutory tax rates due to non-deductible expenses, non-creditable withholding taxes and the impact of foreign exchange movements on tax balances.

**Table 4 - Reconciliation of statutory profit to income tax expense and current tax payable for the year ended 30 June 2017**

	<b>SOUTH32</b>	Australia	Brazil	Colombia	Mozambique	South Africa	Other
	<b>US\$M</b>	30%	34%	40%	0%	28%	Various
(Profit)/loss before taxation from continued operations	<b>(1,624)</b>	(895)	(65)	30	(42)	(553)	(99)
Remove: Profit on equity accounted investments	<b>312</b>	(238)	-	-	-	(46)	(28)
<b>(Profit)/loss subject to taxation</b>	<b>(1,312)</b>	<b>(657)</b>	<b>(65)</b>	<b>30</b>	<b>(42)</b>	<b>(507)</b>	<b>(71)</b>
Tax on (profit)/loss at standard rate of 30 percent	<b>396</b>	197	20	(9)	13	152	23
Tax rate differential on non-Australian income	<b>(50)</b>	-	2	(3)	(13)	(10)	(26)
Exchange variations and other translation adjustments	<b>(6)</b>	3	5	10	-	(24)	-
Withholding tax on distributed earnings	<b>16</b>	-	-	-	-	-	16
Non-recognition of future tax benefits	<b>15</b>	-	-	-	-	10	5
Tax on income attributable to Australian operations	<b>14</b>	14	-	-	-	-	-
Other	<b>8</b>	6	(1)	(1)	-	1	3
<b>Income tax (benefit)/expense</b>	<b>393</b>	<b>220</b>	<b>26</b>	<b>(3)</b>	<b>-</b>	<b>129</b>	<b>21</b>
Temporary differences							
Depreciation	<b>(49)</b>	(55)	(2)	4	-	4	-
Closure and rehabilitation	<b>10</b>	7	(5)	4	-	4	-
Non tax-depreciable fair value adjustments, revaluations and mineral rights	<b>(46)</b>	2	3	-	-	(51)	-
Finance leases	<b>4</b>	4	-	-	-	-	-
Income tax losses recouped	<b>(40)</b>	(38)	(2)	-	-	-	-
Brazil tax deferral incentives	<b>(10)</b>	-	(10)	-	-	-	-
Other	<b>7</b>	6	(9)	3	-	7	-
<b>Current income tax payable</b>	<b>269</b>	<b>146</b>	<b>1</b>	<b>8</b>	<b>-</b>	<b>93</b>	<b>21</b>
<b>Effective tax rate<sup>15</sup></b>	<b>30.0%</b>	<b>33.5%</b>	<b>40.0%</b>	<b>10.0%</b>	<b>0.0%</b>	<b>25.4%</b>	<b>29.6%</b>
<b>Cash effective tax rate<sup>16</sup></b>	<b>20.5%</b>	<b>22.2%<sup>17</sup></b>	<b>1.5%<sup>18</sup></b>	<b>0.0%<sup>19</sup></b>	<b>0.0%</b>	<b>18.3%<sup>20</sup></b>	<b>29.6%</b>

(15) Income tax expense/(benefit) divided by (profit)/loss subject to taxation.

(16) Current tax payable/(refundable) divided by (profit)/loss subject to taxation.

(17) Australian cash effective tax rate is lower than the country effective tax rate as prior year tax losses were utilised to reduce current year tax liabilities.

(18) Brazilian cash effective tax rate is lower than the country effective tax rate due to government incentives which defer the payment of tax until profits are repatriated (SUDENE) and the utilisation of prior year tax losses.

(19) Colombian effective tax rate is lower than the country statutory rate due to trading losses. Colombian cash effective tax rate is nil as all tax instalments are fully refundable.

(20) South African cash effective tax rate is lower than the country effective tax rate due to income tax deductions relating to prior year accounting charges.

## OUR INCOME TAX PAYABLE

The table below reconciles the current tax balances in the Consolidated Financial Statements of our 2017 Annual Report. It shows payments made during the year, other movements and any outstanding income tax owing or receivables pending as at 30 June 2017.

Despite making profits, no income tax was paid in Australia due to sufficient prior year tax losses being available to offset any amounts payable. Tax instalments were made in South Africa and Brazil and dividend withholding tax was paid by holding companies in other jurisdictions.

In Colombia we have paid mandatory instalments of income tax however, having made an income tax loss for the year, we expect these to be refunded during the 2018 financial year.

**Table 5 - Reconciliation of current tax balances for the year ended 30 June 2017**

	<b>SOUTH32</b>	Australia	Brazil	Colombia	Mozambique	South Africa	Other
	<b>US\$M</b>	30%	34%	40%	0%	28%	Various
<b>Opening current tax payable/(receivable)</b>	<b>(21)</b>	-	(5)	(8)	-	(9)	1
<b>Opening current tax asset</b>	<b>(34)</b>	(34)	-	-	-	-	-
<b>Net opening current tax position</b>	<b>(55)</b>	<b>(34)</b>	<b>(5)</b>	<b>(8)</b>	-	<b>(9)</b>	<b>1</b>
Current income tax payable	269	146	1	8	-	93	21
Payments relating to current income year <sup>21</sup>	(124)	-	(3)	(6)	-	(99)	(16)
Payments relating to prior income years	(9)	-	-	-	-	(6)	(3)
Other movements	8	-	2	-	-	6	-
<b>Current income tax payable/(receivable)</b>	<b>89</b>	<b>112</b>	<b>(5)</b>	<b>(6)</b>	-	<b>(15)</b>	<b>3</b>
<b>Current tax liability/(asset)</b>	-	-	-	-	-	-	-
<b>Net closing current tax position</b>	<b>89</b>	<b>112</b>	<b>(5)</b>	<b>(6)</b>	-	<b>(15)</b>	<b>3</b>

(21) Payments of US\$16m in the Other column relate to dividend withholding tax payable in South Africa incurred by the holding company located in the UK.

A reconciliation of the tax payments disclosed in the 2017 Annual Report<sup>22</sup>, to those in the above table and to the amount captured in the Total Payments Made by Country and Level of Government and Total Payments to Government by Project tables previously included in this report is below<sup>23</sup>.

	<b>US\$M</b>
<b>Income tax paid per 2017 Annual Report<sup>22</sup></b>	<b>(126.8)</b>
Include: Payments to the South African government relating to prior year disputes	(5.6)
<b>Total payments per Table 5 of this report<sup>24</sup></b>	<b>(132.4)</b>
Include: Our share of payments related to Equity Accounted Investments	(82.9)
Include: Income tax payments offset against other tax receivables in Brazil	(29.9)
Remove: Foreign exchange movements on withholding taxes payable	(1.1)
<b>Corporate Income Taxes paid per Table 1 and Table 2 of this report<sup>23</sup></b>	<b>(244.1)</b>

(22) Refer to the Consolidated Cash Flow Statement in the 2017 Annual Report.

(23) Refer to page 4 and 5.

(24) Total income tax payments for the year of US\$133M (rounded) is calculated as Payments relating to current income years (US\$124M) plus Payments relating to prior income years (US\$9M).

## OUR EQUITY ACCOUNTED INVESTMENTS TAX EXPENSE

South32's 2017 Annual Report treats our Manganese operations as equity accounted investments. This means the post-tax (profit)/loss from each operation is recorded in the Group's overall (profit)/loss and the value of the investment in each operation is held as an asset on the balance sheet at its cost plus post-acquisition accumulated (profit)/loss after tax.

As post-tax balances are included in the Group's results, the tax balances disclosed in our 2017 Annual Report do not include balances relating to the Manganese operations.

The Manganese tax balances and tax payments are included in the tables below. All Manganese balances are presented on a 100% ownership basis<sup>25</sup>.

The table below provides a reconciliation between the Manganese statutory profit and income tax expense for the year ended 30 June 2017.

**Table 6 - Reconciliation of Manganese statutory profit to income tax expense and current tax payable for the year ended 30 June 2017**

	Manganese	Australia	South Africa	Other
	US\$M	30%	28%	Various
<b>Profit before taxation from continued operations</b>	<b>(912)</b>	(718)	(140)	(54)
Tax on profit at standard rate of 30 percent	<b>273</b>	215	42	16
Tax rate differential on foreign income	<b>(14)</b>	-	(3)	(11)
Exchange variations and other translation adjustments	<b>(1)</b>	8	(9)	-
Other	<b>15</b>	8	7	-
<b>Income tax expense</b>	<b>273</b>	<b>231</b>	<b>37</b>	<b>5</b>
Royalty related tax	<b>88</b>	88	-	-
<b>Total tax expense</b>	<b>361</b>	<b>319</b>	<b>37</b>	<b>5</b>
<i>Temporary Differences</i>				
Depreciation	<b>(64)</b>	(18)	(46)	-
Closure and rehabilitation	<b>8</b>	(3)	11	-
Royalty tax	<b>(22)</b>	(22)	-	-
Other	<b>5</b>	7	(2)	-
<b>Current income tax payable</b>	<b>288</b>	<b>283</b>	<b>-</b>	<b>5</b>
<b>Effective tax rate excluding royalties<sup>26</sup></b>	<b>29.9%</b>	<b>32.2%</b>	<b>26.4%</b>	<b>9.3%</b>
<b>Cash effective tax rate excluding royalty related taxes<sup>27</sup></b>	<b>24.3%</b>	<b>30.2%</b>	<b>0.0%</b>	<b>9.3%</b>

(25) South32 has a 60% ownership interest in all its equity accounted Manganese operations, except for South Africa Manganese Ore in which we hold a 54.6% effective interest.

(26) Total tax expense/(benefit) less royalty tax divided by (profit)/loss before taxation.

(27) Current income tax payable/(refundable) less royalty tax divided by (profit)/loss subject to taxation.



**OUR EQUITY ACCOUNTED INVESTMENTS TAX PAYABLE**

The table below presents a reconciliation of the Manganese current tax balances as at 30 June 2017. It shows payments made during the year, other movements and any outstanding income tax/royalty tax owing or receivables pending as at 30 June 2017. As noted previously, all Manganese balances are presented on a 100% ownership basis<sup>25</sup>.

**Table 7 - Reconciliation of Manganese current tax balances for the year ended 30 June 2017**

	<b>Manganese</b>	Australia	South Africa	Other
<b>Income Tax</b>	<b>US\$M</b>	30%	28%	Various
<b>Opening current tax payable</b>	<b>4</b>	1	-	3
Current income tax payable	<b>164</b>	159	-	5
Payments relating to current income year	<b>(137)</b>	(135)	-	(2)
<b>Closing income tax payable</b>	<b>31</b>	<b>25</b>	<b>-</b>	<b>6</b>
<b>Royalty Related Income Tax</b>				
<b>Opening royalty tax payable</b>	<b>8</b>	<b>8</b>	<b>-</b>	<b>-</b>
Current royalty tax payable	<b>124</b>	124	-	-
Payments relating to current income year	<b>(36)</b>	(36)	-	-
<b>Closing royalty tax payable</b>	<b>96</b>	<b>96</b>	<b>-</b>	<b>-</b>

## INTERNATIONAL RELATED PARTY DEALINGS

South32 has operations and support functions located in a number of countries across the globe.

This operating model leads to cross border intercompany transactions including dividends, sales and purchases of commodities, and financing and service arrangements.

We have non-operating offshore companies incorporated in the British Virgin Islands and Jersey. These entities only hold investments, they do not trade and they do not make any trading profit. These entities provide no tax benefit to South32 as they are Australian or UK tax residents. This ensures any taxable income of the companies is subject to tax in accordance with the tax legislation of Australia or the UK. South32 continues to hold these non-operating offshore companies as the commercial costs required to rationalise these entities is prohibitive.

The table below summarises the country of incorporation and tax residence for all South32 group companies<sup>28</sup>.

**Table 8 - Subsidiaries incorporation and tax residency by country**

Country	Number of Subsidiaries Incorporated	Number of Subsidiaries Tax Resident
Australia <sup>29 and 30</sup>	18	22
Brazil	1	1
British Virgin Islands <sup>29</sup>	4	0
Canada	1	1
Colombia	4	4
Jersey <sup>30</sup>	1	0
Mozambique	1	1
Netherlands <sup>31</sup>	3	2
Singapore	2	2
South Africa <sup>31</sup>	25	26
United Kingdom	1	2
United States	1	1
<b>Total</b>	<b>62</b>	<b>62</b>

(28) During the financial year, four new companies were incorporated and four companies were wound-up and deregistered. The new companies are incorporated in and tax residents of Canada, the United States and Colombia and hold our interests in new exploration opportunities. All the companies which were deregistered were previously incorporated in and tax residents of South Africa.

(29) Three subsidiaries incorporated in the British Virgin Islands are residents of Australia for tax purposes. The remaining subsidiary is a resident of the UK for tax purposes.

(30) The subsidiary incorporated in Jersey is a resident of Australia for tax purposes.

(31) One subsidiary incorporated in the Netherlands is a resident of South Africa for tax purposes.

A full list of South32 subsidiaries, their country of incorporation, tax residency and South32's ownership interest can be found on our website [www.south32.net](http://www.south32.net).

## SALES AND PURCHASES OF COMMODITIES

Singapore is a commercial hub with proximity to the markets that we trade and do business with. Due to this, it is the base from which we conduct our sales and purchasing activities including marketing, logistics (shipping and freight movement) and customer credit risk management. The Singapore marketing headquarters are supported by staff in our London office.

We ensure Organisation for Economic Cooperation and Development (OECD) guidelines and local laws are complied with when pricing all sales and purchase transactions between our operations and marketing office. We obtain independent expert advice confirming our transactions are compliant with legal and local tax requirements and ensure that they are completed on an arm's length basis. We also prepare significant documentation to support the transactions we undertake and the rationale supporting their pricing.

All profits from our marketing headquarters relating to Australian sourced commodities are included in full in our Australian tax return and subject to tax in Australia.

Our jointly controlled Manganese operations have historically conducted their marketing activities through a Swiss company which was subject to Swiss tax on all its activities. During the financial year, the Swiss company was replaced by a Singaporean company. The new company is subject to tax in Singapore on all its activities.

## FINANCING AND SERVICE ARRANGEMENTS

Some South32 entities provide financing services to other South32 operations. In undertaking these financing services, we ensure all financing arrangements, both deposits and loans, are provided at relevant market rates. Income from financing services is assessed and where required, tax is paid in the jurisdiction in which the financing entity is a tax resident (i.e. Australia, UK or South Africa).

We also charge service fees for Group management activities and other intra-Group services. These intra-Group charges are subject to tax in both the service provider's and service receiver's tax jurisdictions.

We prepare significant documentation to support the intra-Group service transactions that we undertake and have independent expert advice confirming the transactions are compliant with legal and local tax requirements and are completed on an arm's length basis.

## BASIS OF PREPARATION

Our report discloses information that satisfies the requirements of the following transparency initiatives:

- UK Reports on Payments to Governments Regulations 2014 (SI 2014/3209)
- Chapter 10 of the EU Accounting Directive (2013/34/EU)
- Global Reporting Initiative on payments to government by country
- Australian Board of Taxation Voluntary Tax Transparency Code

Our report includes payments to governments made by South32 Limited and its subsidiaries. We have also included payments to governments for equity accounted investments where South32 has a greater than 50% ownership interest.

Payments have been disclosed in US dollars in line with the South32 functional currency for consolidated accounting purposes and where relevant, payments have been translated from the applicable local currency to US dollars at the exchange rate on the date of the payment.

In accordance with the UK Reports on Payments to Governments Regulations 2014 and the EU Accounting Directive the payments to government by project table provides detail on a project by project basis for payments relating to extractive operations only. However, to allow the project by project table to be reconciled to the other disclosures in this report, all payments relating to non-extractive projects have been included in the table as a singular line item. South32's non extractive projects include our South African Aluminium operations, Brazil Alumina operations, Mozambique Aluminium operations, equity accounted Australian Manganese Alloy operations, equity accounted South African Manganese Alloy operations and companies which provide services (management, marketing or financing) or are limited to holding investments.

## GLOSSARY OF TERMS AND ABBREVIATIONS

### Corporate Income Taxes

Payments to governments (net of refunds) based on taxable profits, including withholding taxes paid on dividends, interest or royalties. Generally, these taxes are reflected in the corporate income tax returns made to government and included as income taxes in the Consolidated Income Statement.

### Employer Payroll Taxes

Payments to governments in relation to South32's capacity as an employer. These taxes are calculated as a percentage of salary, wages and on-costs and are paid on a monthly basis.

### Extractive

Any activity involving the exploration, prospection, discovery, development, and extraction of minerals, oil, natural gas or other materials. All of South32's mining and processing operations are extractive in nature except the aluminium and alumina operations.

### Fees

Payments to governments where no specific service is attached but rather levies on the initial or ongoing right to use an area for extractive activities.

### Government

Any national, regional or local authority of a country and includes any department, agency or undertaking controlled by such an authority.

### Net Taxes Refunded

South32 claims refunds of transactional taxes. For example, Goods and Services Tax (GST), Value Added Tax (VAT) and Fuel Tax paid to suppliers for in-country purchases of goods, services and eligible fuel, and also collects GST/VAT in respect of certain sales.

### Non Extractive

Any activity which does not involve the exploration, prospection, discovery, development, extraction of minerals, oil, natural gas or other materials. South32's non extractive operations include the South African Aluminium operation, Brazil Alumina operation, Mozal

Aluminium operations (Mozambique), equity accounted Australia Manganese Alloy operation, equity accounted South African Manganese Alloy operation and any companies that provide services (management, marketing or financing) or are limited to holding investments.

### Other Taxes and Payments

Payments to governments under other legislated rules where no specific service is attached, include fringe benefits tax, property tax, stamp duty, environment taxes, wealth tax and other levies/charges.

### Payment

An amount paid whether in money or in kind.

### Permanent Differences

Differences between taxable income or loss and pre-tax statutory profit or loss. These differences arise as a result of particular expenses or revenue which under income tax legislation will never be included in the determination of taxable income or loss although they are recognized in the statutory profit or loss.

### Project

Operational activities that are governed by a single contract, licence, lease, concession or similar legal agreement and form the basis for payment of liabilities to a government. Where multiple such agreements are substantially interconnected, this is considered a single project.

### Royalties

Payment to governments in respect of revenue or production related to extraction of minerals or metals.

### Royalty Related Taxes

Payments to governments in respect of profits from the extraction of natural resources. Royalty related taxes are presented as income tax in the Consolidated Income Statement.

### Statutory Profit/(Loss)

The profit/(loss) calculated in accordance with the International Financial Reporting Standards and presented in the Consolidated Income Statement in the South32 2017 Annual Report.

### South32

South32 Limited is the parent company of the South32 Group of companies. Unless otherwise stated, references to South32 and the South32 Group, the Company, we, us and our, refer to South32 Limited and its controlled entities, as a whole. South32 shares trade on the ASX, JSE and LSE under the listing code of S32.

### Temporary Differences

Differences between pre-tax statutory profit or loss and taxable income or loss for a given reporting period which arise because the reporting period in which some items of revenue and expense are included in the determination of the pre-tax statutory profit or loss does not coincide with the reporting period in which they are included in the determination of taxable income or loss.

### Underlying Earnings

Underlying earnings before interest and tax, less Underlying net financing (revenue)/expenses, less Underlying tax expense/(benefit). Underlying earnings excludes earnings adjustments which are the following items:

- Exchange rate gains/losses on restatement of monetary items
- Impairment losses/reversals
- Net/gains losses on disposal and consolidation of interests in businesses
- Fair value gains/losses on derivative financial instruments
- Major corporate restructures
- The income tax impact of the above items

A reconciliation of our Underlying earnings to our Statutory earnings can be found in our 2017 Annual Report.

### Underlying Income Tax Expense

Corporate income tax incurred during the period on items included in Underlying earnings before tax. A reconciliation of our Underlying income tax expense to our Statutory tax expense can be found in our 2017 Annual Report.





## INDEPENDENT AUDITOR'S REPORT

### TO THE DIRECTORS OF SOUTH32 LIMITED

#### Opinion

We have audited the tables labelled "Table 1 Total Payments Made by Country and Level of Government" and "Table 2 Total Payments to Government by Project" ("Tables 1 and 2" or the "Tables") on pages 4 and 5 of South32 Limited Tax Transparency and Payments to Government Report 2017 (the "Report").

In our opinion, Tables 1 and 2 of the South32 Limited Report are prepared, in all material respects, in accordance with the "Basis of preparation" set out on page 12 of the Report for the year ended 30 June 2017.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Report* section of our report.

We are independent of the Group in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Tables in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

#### Emphasis of matter – basis of report preparation and restriction on use

The Basis of report preparation contained in the 'Basis of Preparation' section of the Report is of such importance that it is fundamental to your understanding of the Tables. This has not caused us to modify our opinion.

This auditor's report has been prepared for South32 Limited in accordance with our engagement letter and is intended solely for the Directors of South32 Limited. We disclaim any assumption of responsibility for any reliance on this auditor's report, or on the Report to which it relates, to any person other than the Directors of South32 Limited, or for any other purpose than that for which it was prepared.

#### Other Information

Other Information is financial and non-financial information in the Report which is provided in addition to Tables 1 and 2 and this Auditor's Report. South32 Limited is responsible for the Other Information.

Our opinion on Tables 1 and 2 does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of Tables 1 and 2, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with Tables 1 and 2 or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.



### South32 Limited's responsibilities

South32 Limited is responsible for:

- the preparation and presentation of the Report;
- establishing a framework in which Tables 1 and 2 have been prepared;
- determining that the framework as set out in the Basis of preparation meets its needs; and
- establishing internal controls and processes that enable the preparation and presentation of Tables 1 and 2 are free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities for the audit of Tables 1 and 2

Our objective is to:

- obtain reasonable assurance about whether Tables 1 and 2 and other related information are prepared in accordance with the Basis of Preparation; and
- issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- evaluate the appropriateness of the Basis of Preparation used and related disclosures made by South32 Limited.
- obtain an understanding of internal controls relevant to the audit 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 South32 Limited's internal control.
- obtain sufficient appropriate audit evidence to express an opinion whether Tables 1 and 2 were prepared in accordance with the Basis of Preparation. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

A handwritten signature of the KPMG firm, written in a stylized, cursive script.

Perth  
13 September 2017



[SOUTH32.NET](https://www.south32.net)