



TAX TRANSPARENCY AND PAYMENTS TO GOVERNMENTS REPORT



2016



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 strategy is to invest in high-quality metals and mining operations where our distinctive capabilities and regional model enable us to stretch performance in a sustainable way. By maintaining financial discipline and continually optimising our portfolio we will deliver sector leading total shareholder returns.



OUR VALUES

CARE

We care about people, the communities we are 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, 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 we operate. We strive to deliver on our commitments and rely on each other to do the right thing. Publishing this Tax Transparency and Payments to Governments Report is consistent with our Values and our commitment to ethical business practices and high levels of corporate governance.

We believe companies should be open and transparent with their tax payments made to governments and communities around the world. Transparency of taxes helps maintain community confidence about the value which is being created from resource development.

In the year ended 30 June 2016, globally we paid US\$326.3M in taxes, royalties and other payments. Our global effective Underlying income tax rate was 36.6% and once royalties of US\$144.8M are included the rate increases to 59.5%.

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 United Kingdom's (UK) Report on Payments to Governments Regulations 2014 (UK Regulations), Chapter 10 of the European Union (EU) Accounting Directive, the Global Reporting Initiative Sustainability Reporting Guidelines and the Australian Board of Tax Voluntary Tax Transparency Code. Providing information which meets the requirements of these disclosure initiatives (some of which are voluntary) means we are providing tax transparency beyond the mandatory legislative requirements applicable to our operations.

South32 also supports 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 including the recent move towards the disclosure of beneficial ownership structures.

To ensure all stakeholders can understand the information in this report, we have outlined the approach adopted in its preparation and the meaning of technical terms used throughout. These explanations can be found in the Basis of Preparation and Glossary.

To provide assurance on the Total Payments Made by Country and Level of Government and Total Payments to Government by Project, an independent assurance report has been provided by KPMG (refer to page 12).



ABOUT SOUTH32

South32 is a globally diversified metals and mining company with operations in Australia, Brazil⁽¹⁾, Colombia, Mozambique and South Africa. We mine and produce bauxite, alumina, aluminium, thermal and metallurgical coal, manganese, nickel, silver, lead and zinc.

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

South32's overall business strategy is to invest in high-quality metals and mining operations where our distinctive capabilities and regional model enable us to stretch performance in a sustainable way. By maintaining financial discipline and continually optimising our portfolio, we will deliver sector leading total shareholder returns.

We are delivering this strategy by:

- Optimising the performance of our existing assets
- Unlocking their potential – by converting high value resource into reserve
- Identifying new opportunities to compete for capital – within our capital management framework

Please refer to our website (www.south32.net) for further details on all of our operations and our strategy.



KEY

Alu Alumina	Mn Manganese	Corporate Office
Al Aluminium	MC Metallurgical Coal	Regional Office
Ba Bauxite	Ni Nickel	Marketing Office
EC Energy Coal	Ag Silver	
Pb Lead	Zn Zinc	

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

OUR APPROACH TO TAX GOVERNANCE

South32's approach to tax governance ensures we make consistent tax related decisions in all jurisdictions. These decisions are based upon the same risk tolerance levels and approvals applied to all other decisions made in our business.

Our Chief Executive Officer (CEO) and Board have approved the following guiding principles which are applied to 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
- Technical filing positions include robust risk assessments with appropriate risk mitigation activities (for example, professional opinions, appropriate disclosure)
- Creation of evidence that demonstrates tax positions can be substantiated in the event of challenge by a revenue authority
- Immediate reporting of any detected errors/omissions to all relevant revenue authorities

South32 only allows tax decisions to be made by the Head of Tax, the Chief Financial Officer, the CEO or the Board. We have prescribed the authority required for different types of tax decisions and approvals based on risk assessments and financial values which are consistent with the broader business approvals and risk processes at South32.

We engage appropriately qualified and experienced personnel to work in our Tax team to enable our tax affairs to be identified, assessed, documented, controlled and reported in a timely manner. To ensure proactive engagement of the Board on tax matters and tax affairs, tax is a regular agenda item at the Board Risk and Audit Committee meetings.

South32 proactively engages with revenue authorities in all jurisdictions to support constructive relationships. This includes explaining our business, our financial results and any significant transactions as they arise.

Our approach to tax governance has been designed taking into account best practices and is in line with the Australian Taxation Office (ATO) Tax Risk Management and Governance Review Guide. The documents which underpin our tax governance approach are reviewed annually to ensure they are in line with current requirements and remain consistent with the broader South32 Risk and Assurance 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 2016*

US\$M ⁽²⁾	Corporate income tax	Royalty related taxes	Royalties	License fees
Australia				
Government of Australia	5.3	-	5.7	1.8
Government of Northern Territory	-	39.9	-	-
Municipality of George Town	-	-	-	-
State of New South Wales	-	-	40.5	-
State of Queensland	-	-	39.2	-
State of Tasmania	-	-	-	-
State of Western Australia	-	-	20.8	-
Townsville City Council	-	-	-	-
Australia: Total	5.3	39.9	106.2	1.8
Brazil				
Government of Brazil ⁽⁴⁾	38.8	-	-	-
State of Rio de Janeiro	-	-	-	-
Brazil: Total	38.8	-	-	-
Colombia				
Government of Colombia	(23.3)	-	22.5	0.9
Municipality of Montelibano	-	-	-	-
Colombia: Total	(23.3)	-	22.5	0.9
Mozambique				
Government of Mozambique	-	-	4.0	-
Mozambique: Total	-	-	4.0	-
South Africa				
Government of South Africa	45.9	-	18.2	-
South Africa: Total	45.9	-	18.2	-
Switzerland				
Government of Switzerland ⁽⁵⁾	2.1	-	-	-
Switzerland: Total	2.1	-	-	-
United Kingdom				
Government of United Kingdom	1.9	-	-	-
United Kingdom: Total	1.9	-	-	-
Total taxes paid⁽⁶⁾	70.7	39.9	150.9	2.7

(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\$13.4M offset against net taxes refunded.

(5) The jointly controlled Swiss company will cease to perform manganese marketing activities by 30 June 2017.

TOTAL PAYMENTS TO GOVERNMENT BY PROJECT*Table 2 Total payments to government by project for year ended 30 June 2016*

US\$M ⁽⁷⁾	Corporate income tax	Royalty related taxes	Royalties	License fees
Cannington – Australia	-	-	39.2	-
Illawarra Metallurgical Coal - Australia	-	-	40.5	-
Worsley Alumina - Australia	-	-	20.8	-
Cerro Matoso - Colombia	(23.3)	-	22.5	0.9
South Africa Energy Coal - South Africa	1.7	-	17.8	-
Total extractive project related payments - Subsidiaries	(21.6)	-	140.8	0.9
Equity accounted investments (EAIs)				
Australia Manganese - Australia	5.3	39.9	5.7	1.8
South Africa Manganese - South Africa	-	-	0.4	-
Total extractive project related payments including EAIs	(16.3)	39.9	146.9	2.7
Non-extractive project related payments	87.0	-	4.0	-
Total taxes paid⁽⁷⁾	70.7	39.9	150.9	2.7

(7) Corporate income tax payments (US\$70.7M) differs to the Income tax (paid)/received as shown in the Consolidated Cash Flow Statement in our 2016 Annual Report (US\$52M) due to our share of payments relating to Equity Accounted Investments (US\$5.3M) and to income tax payments offset against other tax receivables in Brazil (US\$13.4M) which are included in the above table but not in the Annual Report disclosure.

	Payments to governments for UK Regulations purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne ⁽⁸⁾)	Net taxes refunded
	12.8	-	10.2	23.0	159.7	(151.4)
	39.9	2.7	-	42.6	-	-
	-	-	0.1	0.1	-	-
	40.5	9.3	5.2	55.0	-	-
	39.2	2.7	0.7	42.6	-	-
	-	0.8	-	0.8	-	-
	20.8	15.5	7.3	43.6	-	-
	-	-	0.1	0.1	-	-
	153.2	31.0	23.6	207.8	159.7	(151.4)
	38.8	-	0.8	39.6	0.4	(13.4)
	-	-	-	-	-	0.6
	38.8	-	0.8	39.6	0.4	(12.8)
	0.1	-	6.1	6.2	5.8	4.7
	-	-	0.6	0.6	-	0.4
	0.1	-	6.7	6.8	5.8	5.1
	4.0	-	-	4.0	2.6	(0.5)
	4.0	-	-	4.0	2.6	(0.5)
	64.1	-	-	64.1	90.5	(149.3)
	64.1	-	-	64.1	90.5	(149.3)
	2.1	-	-	2.1	-	-
	2.1	-	-	2.1	-	-
	1.9	-	-	1.9	1.4	(0.3)
	1.9	-	-	1.9	1.4	(0.3)
	264.2	31.0	31.1	326.3	260.4	(309.2)

(6) Corporate income tax payments (US\$70.7M) differs to the Income tax (paid)/received as shown in the Consolidated Cash Flow Statement in our 2016 Annual Report (US\$52M) due to our share of payments relating to Equity Accounted Investments (US\$5.3M) and to income tax payments offset against other tax receivables in Brazil (US\$13.4M) which are included in the above table but not in the Annual Report disclosure.

	Payments to governments for UK Regulations purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne ⁽⁸⁾)	Net taxes refunded
	39.2	2.6	1.0	42.8	18.1	(2.0)
	40.5	9.3	5.5	55.3	49.4	(27.1)
	20.8	11.6	15.2	47.6	50.9	(72.8)
	0.1	-	6.7	6.8	5.8	5.1
	19.5	-	-	19.5	52.9	(54.1)
	120.1	23.5	28.4	172.0	177.1	(150.9)
	52.7	2.8	1.0	56.5	14.5	(16.2)
	0.4	-	-	0.4	6.4	(14.9)
	173.2	26.3	29.4	228.9	198.0	(182.0)
	91.0	4.7	1.7	97.4	62.4	(127.2)
	264.2	31.0	31.1	326.3	260.4	(309.2)

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

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

OUR UNDERLYING EFFECTIVE TAX RATE

In disclosing our tax information on the following pages we have included columns of data for each of the countries where we have an operational presence. Those countries where we have companies which hold investments or provide services are grouped together into an "Other" column and are disclosed on a collective basis.

South32 uses Underlying earnings as a key measure to assess 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 (refer to the Glossary for a list of these items). 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 the Group.

Table 3 Underlying tax expense and Underlying ETR for the year ended 30 June 2016

	SOUTH32	South Africa	Australia	Colombia	Brazil	Mozambique	Other
	US\$M	28%	30%	40%	34%	0%	Various
Underlying EBIT (profit)/loss	(356)	(128)	(201)	90	(69)	18	(66)
Less: Underlying net financing (revenue)/costs	125	79	40	10	-	3	(7)
Remove: Equity accounted investments profit (loss) ⁽¹⁰⁾	(23)	(45)	13	-	-	-	9
Underlying (profit)/loss before taxation	(254)	(94)	(148)	100	(69)	21	(64)
Tax on (profit)/loss at country tax rate	59	26	44	(39)	24	-	4
Marketing income attributable	7	-	7	-	-	-	-
Dividend withholding tax	5	-	-	-	-	-	5
Permanent differences	22	8	(2)	7	3	-	6
Underlying income tax (benefit)/expense	93	34	49	(32)	27	-	15
Underlying effective tax rate⁽¹¹⁾	36.6%	36.2%	33.1%	32.0%	39.1%	0.0%⁽¹²⁾	23.4%

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

(11) Underlying income tax (benefit)/expense / Underlying profit/(loss) before taxation.

(12) The Mozambique operations are subject to a royalty on revenues instead of income tax. Refer below for more detail.

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 or 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 low, 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. 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 2016, we paid US\$4.2M of royalties and dividends to the Mozambique government.

OUR INCOME TAX EXPENSE

The table below presents a reconciliation between South32's statutory loss and income tax expense for the year ended 30 June 2016. In all cases, South32 incurred accounting losses yet did not receive the full tax benefit for these losses. Consequently, South32's effective tax rates were below the rates applicable in the countries in which we operate. This unfavourable outcome occurred as we did not receive tax relief on the accounting expenses listed in the table below.

Table 4 Reconciliation of statutory loss to income tax expense and current tax payable for the year ended 30 June 2016

	SOUTH32	South Africa	Australia	Colombia	Brazil	Mozambique	Other
	US\$M	28%	30%	40%	34%	0%	Various
(Profit)/loss before taxation from continued operations	1,545	507	855	110	42	23	8
Remove: (Profit)/loss on equity accounted investments	330	160	179	-	-	-	(9)
(Profit)/loss subject to taxation	1,215	347	676	110	42	23	17
Tax on (profit)/loss at standard rate of 30 percent	(365)	(104)	(203)	(33)	(13)	(7)	(5)
Tax rate differential on non-Australian income	9	11	-	(11)	(2)	7	4
Exchange variations and other translation adjustments	124	82	-	30	10	-	2
Withholdings tax on distributed earnings	5	-	-	-	-	-	5
Reset Australian tax balances post demerger ⁽¹³⁾	(85)	-	(85)	-	-	-	-
Brazil Alumina tax accounting adjustments ⁽¹³⁾	20	-	-	-	20	-	-
Non-deductible impairment expense ⁽¹³⁾	224	6	218	-	-	-	-
Derecognition of future tax benefits ⁽¹³⁾	126	126	-	-	-	-	-
Tax on income attributable to Australian operations	7	-	7	-	-	-	-
Other	5	(9)	(1)	5	4	-	6
Income tax expense/(benefit)	70	112	(64)	(9)	19	-	12
<i>Temporary differences</i>							
Depreciation	205	142	37	19	7	-	-
Closure and rehabilitation	(172)	(155)	1	(19)	1	-	-
Non tax-depreciable fair value adjustments, revaluations and mineral rights	58	9	38	-	11	-	-
Finance leases	(25)	(1)	(24)	-	-	-	-
Other	(21)	(27)	12	9	(10)	-	(5)
Current income tax payable/(refundable) for the year	115	80	-	-	28	-	7
Effective tax rate⁽¹⁴⁾	5.8%	32.3%	(9.5%)	(8.2%)	45.2%	0.0%	70.6%
Cash effective tax rate⁽¹⁵⁾	9.5%	23.1%	0.0%	0.0%	66.7%	0.0%	41.2%

(13) Refer to Segment Information Note (Note 5) of our 2016 Annual Report for further information.

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

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

OUR INCOME TAX PAYABLE

The table below presents a reconciliation of the current tax balances in the Consolidated Financial Statements of our 2016 Annual Report. It shows payments made during the year, other movements and any outstanding income tax owing or receivables pending as at 30 June 2016.

Despite making losses, we had net tax payable in South Africa and Brazil, but did not have a tax liability in Australia or Colombia. This is mostly attributable to foreign exchange gains which arise only for income tax purposes due to the income tax calculations being completed in local currencies and not in the accounting currency (USD).

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 in full during the 2017 financial year.

Table 5 Reconciliation of current tax balances for the year ended 30 June 2016

	SOUTH32	South Africa	Australia	Colombia	Brazil	Mozambique	Other
	US\$M	28%	30%	40%	34%	0%	Various
Opening current tax payable/(receivable)	(33)	(11)	-	(31)	9	-	-
Opening current tax liability/(asset)	(33)	-	(33)	-	-	-	-
Net opening current tax position	(66)	(11)	(33)	(31)	9	-	-
Current income tax payable/(refundable) for the year	115	80	-	-	28	-	7
(Payments)/refunds relating to current income year ⁽¹⁶⁾	(112)	(76)	-	(7)	(22)	-	(7)
(Payments)/refunds relating to prior income years ^{(16) and (17)}	47	35	-	30	(16)	-	(2)
Other movements ⁽¹⁸⁾	(39)	(36)	-	-	(4)	-	1
Current income tax payable/(receivable)	(22)	(8)	-	(8)	(5)	-	(1)
Current tax liability/(asset)	(33)	-	(33)	-	-	-	-
Net closing current tax position	(55)	(8)	(33)	(8)	(5)	-	(1)

(16) (Payments)/refunds of US\$65M (US\$112M current year payments offset by US\$47M prior year refunds) differs to the Income tax (paid)/received as shown in the Consolidated Cash Flow Statement in our 2016 Annual Report (US\$52M) due to income tax payments offset against other tax receivables in Brazil (US\$13.4M) which is included in the above table but not in the Annual Report disclosure. (Payments)/refunds in the above table (US\$65M) also differs to the Total Payments by Government and Total Payments by Project tables included previously in this report due to our share of payments relating to Equity Accounted Investments (US\$5.3M) which are included in those disclosures but not in the above table.

(17) This is comprised of a refund of an overpayment of income tax in a prior period in South Africa, a refund of prior period compulsory tax instalments in Colombia and payments of tax instalments relating to prior periods in Brazil.

(18) Reallocation of the South African receivable relating to overpayment of prior period income tax from a generic receivable general ledger account to the current tax general ledger account.

OUR EQUITY ACCOUNTED INVESTMENTS TAX EXPENSE

In South32's 2016 Annual Report our Manganese operations are treated as equity accounted investments. This means the post-tax (profit)/loss from the operation is recorded in the Group's overall (profit)/loss and the value of the investment in the operations 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 2016 Annual Report do not include balances relating to the Manganese operations.

To provide visibility to Manganese tax balances and tax payments we have included the tables below. All Manganese balances below are presented on a 100% ownership basis⁽¹⁹⁾.

The table below provides a reconciliation between the Manganese statutory (profit)/loss and income tax expense for the year ended 30 June 2016.

The Underlying effective tax rate, excluding royalties, for our Manganese operations was 18.8% for the year ended 30 June 2016. This unfavourable outcome occurs because we did not receive tax relief on the accounting expenses listed in the table below.

Table 6 Reconciliation of Manganese statutory loss to income tax expense and current tax payable for the year ended 30 June 2016

	Manganese	Australia	South Africa	Other
	US\$M	30%	28%	Various
(Profit)/loss before taxation from continued operations	896	325	594	(23)
Tax on (profit)/loss at standard rate of 30 percent	(269)	(98)	(178)	7
Tax rate differential on foreign income	6	-	11	(5)
Exchange variations and other translation adjustments	28	(1)	29	-
Non-deductible impairment expense	72	13	59	-
Derecognition of future tax benefits	137	89	48	-
Other	2	(1)	4	(1)
Income tax expense/(benefit)	(24)	2	(27)	1
Royalty related tax	(23)	(23)	-	-
Total tax expense/(benefit)	(47)	(21)	(27)	1
<i>Temporary Differences</i>				
Depreciation	205	119	86	-
Closure and rehabilitation	(161)	(87)	(74)	-
Royalty tax	43	43	-	-
Other	(3)	(19)	14	2
Current income tax payable/(refundable) for the year	37	35	(1)	3
Effective tax rate excluding royalties⁽²⁰⁾	(2.7%)	0.6%	(4.5%)	(4.3%)
Cash effective tax rate excluding royalty related taxes⁽²¹⁾	1.9%	4.6%	(0.2%)	(13.0%)

(19) 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% interest.

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

(21) 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 2016. It shows payments made during the year, other movements and any outstanding income tax/royalty tax owing or receivables pending as at 30 June 2016.

Table 7 Reconciliation of Manganese current tax balances for the year ended 30 June 2016

	Manganese	Australia	South Africa	Other
Income Tax	US\$M	30%	28%	Various
Opening current tax payable/(receivable)	(6)	(9)	-	3
Current income tax payable/(refundable) for the year	22	19	-	3
(Payments)/refunds relating to current income year	(20)	(20)	-	-
(Payments)/refunds relating to prior income years	8	11	-	(3)
Closing income tax payable/(receivable)	4	1	-	3
Royalty Related Income Tax				
Opening royalty tax payable/(receivable)	55	55	-	-
Current royalty tax payable/(refundable) for the year	15	15	-	-
(Payments)/refunds relating to current income year	(24)	(24)	-	-
(Payments)/refunds relating to prior income years	(42)	(42)	-	-
Other movements ⁽²²⁾	4	4	-	-
Closing royalty tax payable/(receivable)	8	8	-	-

(22) Relates to an adjustment to the opening royalty tax payable.

INTERNATIONAL RELATED PARTY DEALINGS

Being a globally diversified metals and mining company, we have operations and support functions located in various 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.

We hold these non-operating offshore companies because they cannot be rationalised without prohibitive commercial costs, however they provide no tax benefit to South32. This is because these companies are Australian or UK tax residents which ensures any taxable income of the companies is subject to tax in accordance with the tax legislation of Australia or the UK.

Summarised in the table below is the number of South32 subsidiaries which are incorporated and the number which are tax residents in each country.

Table 8 Subsidiaries incorporation and tax residency by country

Country	Number of Subsidiaries Incorporated	Number of Subsidiaries Tax Resident
Australia	18	22
Brazil	1	1
British Virgin Islands ⁽²³⁾	4	0
Colombia	2	2
Jersey ⁽²⁴⁾	1	0
Mozambique	1	1
Netherlands	3	3
Singapore	2	2
South Africa	29	29
United Kingdom	1	2
Total	62	62

(23) 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.

(24) The subsidiary incorporated in Jersey is a resident of Australia 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.

Sales and Purchases of Commodities

We conduct our sales and purchasing activities including marketing, logistics (shipping and freight movement) and customer credit risk management from Singapore. Being a commercial hub with proximity to the markets that we trade and do business with, Singapore is well equipped to be the base of our marketing activities.

All sales and purchase transactions between our operations and marketing office are priced in accordance with OECD guidelines and local laws. We prepare significant documentation to support the transactions 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.

Trading profits from our Singapore marketing activities relating to Australian sourced commodities are included 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. This company is subject to Swiss tax on all its activities and will be replaced by a Singaporean company by 30 June 2017.

Financing and Service Arrangements

Some of our entities (primarily Australia, UK and South Africa tax resident entities) provide financing to other South32 operations. This financing is provided at relevant market rates and where the operations hold excess cash, market based deposit rates are offered by the financing entities. Income from these financing activities is assessed and, where required, tax paid in the relevant 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.



INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF SOUTH32 LIMITED

Auditor's Opinion

In our opinion, the tables labelled "Total Payments Made By Country and Level of Government" and "Total Payments to Government by Project" ("the Tables") on pages 4 and 5 in the South32 Limited ("South32") Tax Transparency and Payments to Government Report 2016 (the "Report") are prepared, in all material respects, in accordance with the "Basis of Preparation" set out on page 13 of the Report for the year ended 30 June 2016.

Basis of Reporting

The Basis of Preparation 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.

Basis for Opinion and Auditor's Responsibilities

We performed an audit in order to express an opinion as to whether the Tables were prepared in accordance with the Basis of Preparation for the year ended 30 June 2016.

We conducted our audit in accordance with Australian Auditing Standards. According to those standards, we must:

- Comply with relevant ethical requirements; and
- Plan and perform the audit to obtain reasonable assurance about whether the Tables are free from material misstatement whether due to fraud or error.

We performed procedures to obtain audit evidence about the Tables. We used our judgement to select procedures, including our assessment of the risks of material misstatement of the Tables whether due to fraud or error.

We do not express an opinion on South32's internal controls. However, we do consider relevant internal controls in the design of our audit procedures. We also evaluated the appropriateness of the Basis of Preparation in relation to the Tables.

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

South32's Responsibilities

South32 are responsible for:

- The preparation and presentation of the Report;
- Establishing a framework in which the Tables and other related information in the Report 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 the Report that is free from material misstatement, whether due to fraud or error.

Use of this Audit Report

This audit report is prepared for South32 in accordance with our engagement letter and is intended solely for the Directors of South32.

We disclaim any assumption of responsibility for any reliance on this audit report, or the Report to which it relates, to any person other than the Directors of South32, or for any purpose other than that for which it was prepared.

Our Independence

In concluding our audit, we have complied with independence requirements of the Accounting Professional and Ethical Standards Board.

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

KPMG

Perth
16 November 2016

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 our share of 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 metalloy 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 South African Aluminium operations, Brazil Alumina operations, Mozambique

Aluminium operations, equity accounted Australian manganese alloy operations, equity accounted South African metalloy operations 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, environmental 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 2016 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 2016 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 2016 Annual Report.

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