



TAX TRANSPARENCY
AND PAYMENTS TO
GOVERNMENT REPORT

SOUTH32 IS A GLOBAL MINING AND METALS COMPANY

We produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc at our operations in Australia, Southern Africa and South America. With a focus on growing our base metals exposure, we also have two development options in North America and several partnerships with junior explorers around the world.

ACKNOWLEDGEMENT

Making a difference

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.

Find out how **we make a difference** on page 20 of our Annual Report

Optimise, Unlock, Identify

Our purpose is underpinned by a simple **strategy** which is focused on optimising the performance of our operations, unlocking their potential and identifying new opportunities to create value for all our stakeholders.

Discover more about **Our strategy** on page 10 of our Annual Report

Care, Trust, Togetherness and Excellence

While our strategy outlines what we do to achieve our purpose, our **values** of care, trust, togetherness and excellence guide how we do it. Every day, our values shape the way we behave and the standards we set for ourselves and others.

Discover more about **Our people** in our Sustainable Development Report

See the documents that make up the rest of our reporting suite at <https://www.south32.net/investors-media/investor-centre/annual-reporting-suite>, including:

Annual Report

A summary of the operations, activities and performance of South32 Limited (ABN 84 093 732 597) and its controlled entities and joint arrangements for the year ended 30 June 2020 and its financial position as at 30 June 2020.

Corporate Governance Statement

Our corporate governance practices and a description of our approach to responsible and ethical behaviour.

Sustainable Development Report

An overview of how our business-wide processes support our sustainability objectives, how we manage our most important sustainability topics and progress made during the 2020 financial year.

Non-IFRS

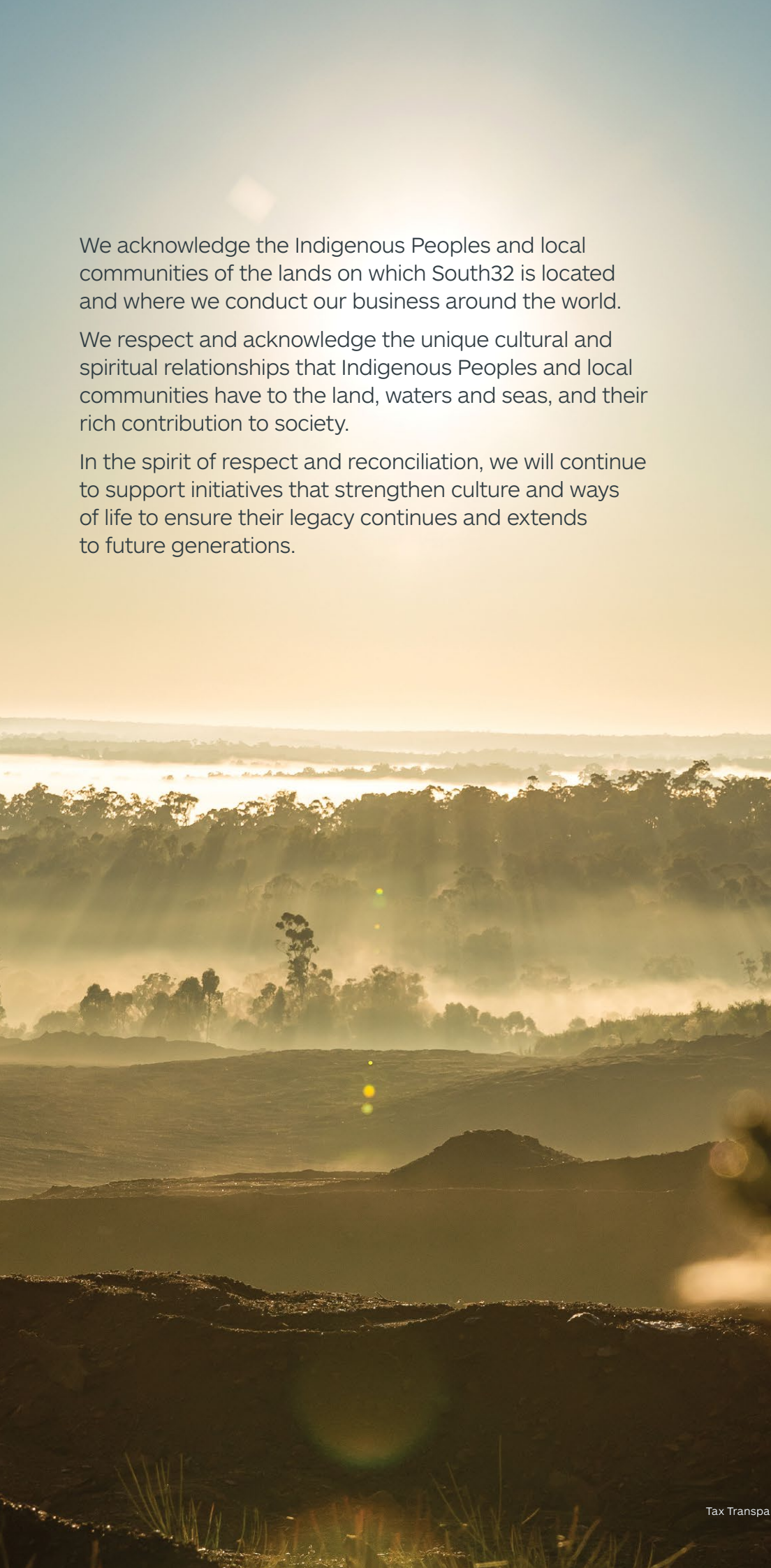
This report includes certain non-IFRS financial measures, including underlying measures of earnings, effective tax rate and cash flow. Non-IFRS measures should not be considered as alternatives to an IFRS measure of profitability, financial performance or liquidity.

For an explanation of how South32 uses non-IFRS measures, see page 32 of the Annual Report.

The meanings of individual non-IFRS measures used in this report are set out in the Glossary on page 20.

For information or to contact South32, visit www.south32.net.

The photos used throughout our reporting may have been taken before the social distancing requirements in response to COVID-19.



We acknowledge the Indigenous Peoples and local communities of the lands on which South32 is located and where we conduct our business around the world.

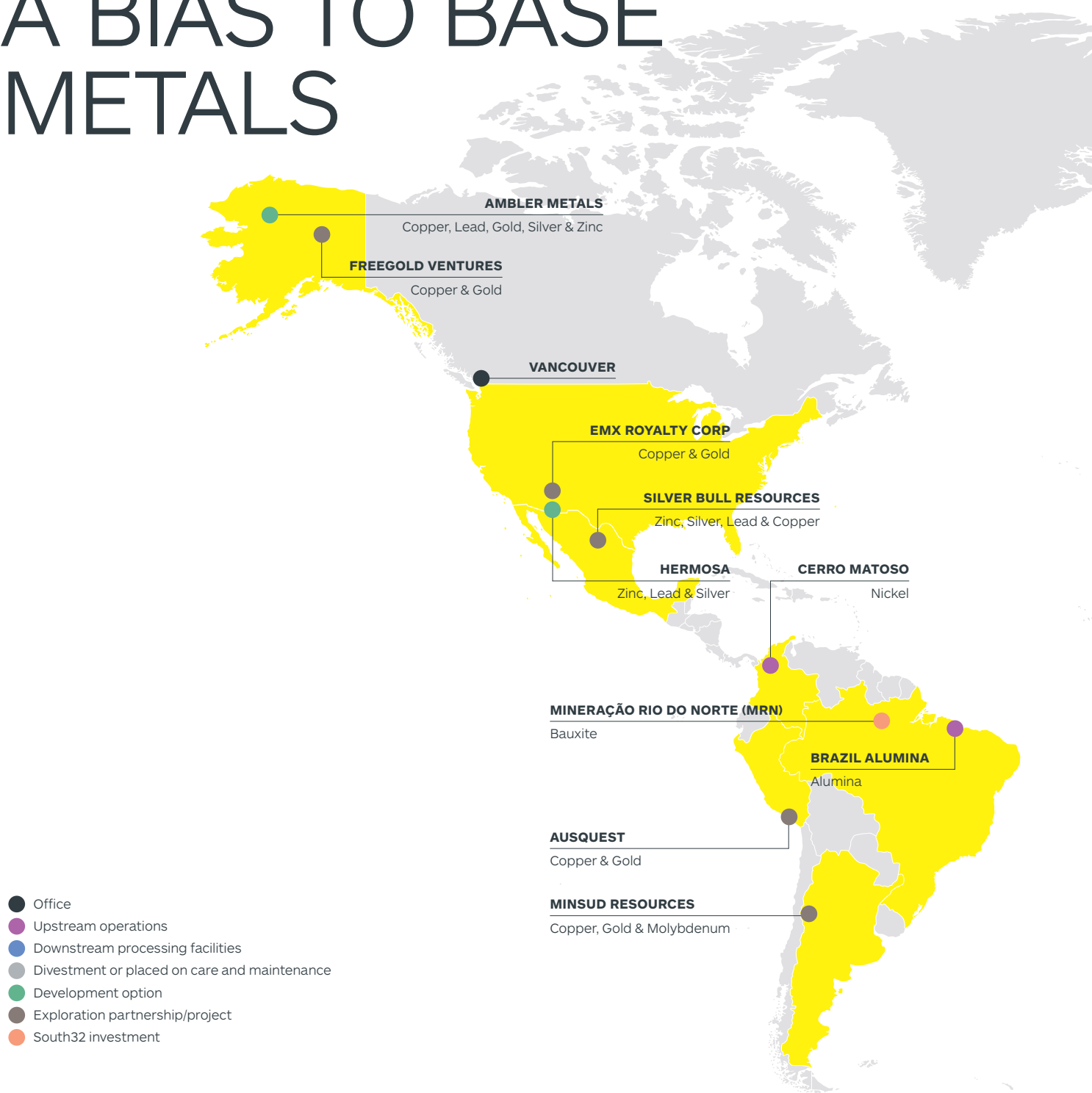
We respect and acknowledge the unique cultural and spiritual relationships that Indigenous Peoples and local communities have to the land, waters and seas, and their rich contribution to society.

In the spirit of respect and reconciliation, we will continue to support initiatives that strengthen culture and ways of life to ensure their legacy continues and extends to future generations.

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DIVERSIFIED PORTFOLIO WITH A BIAS TO BASE METALS



OUR COMMODITIES

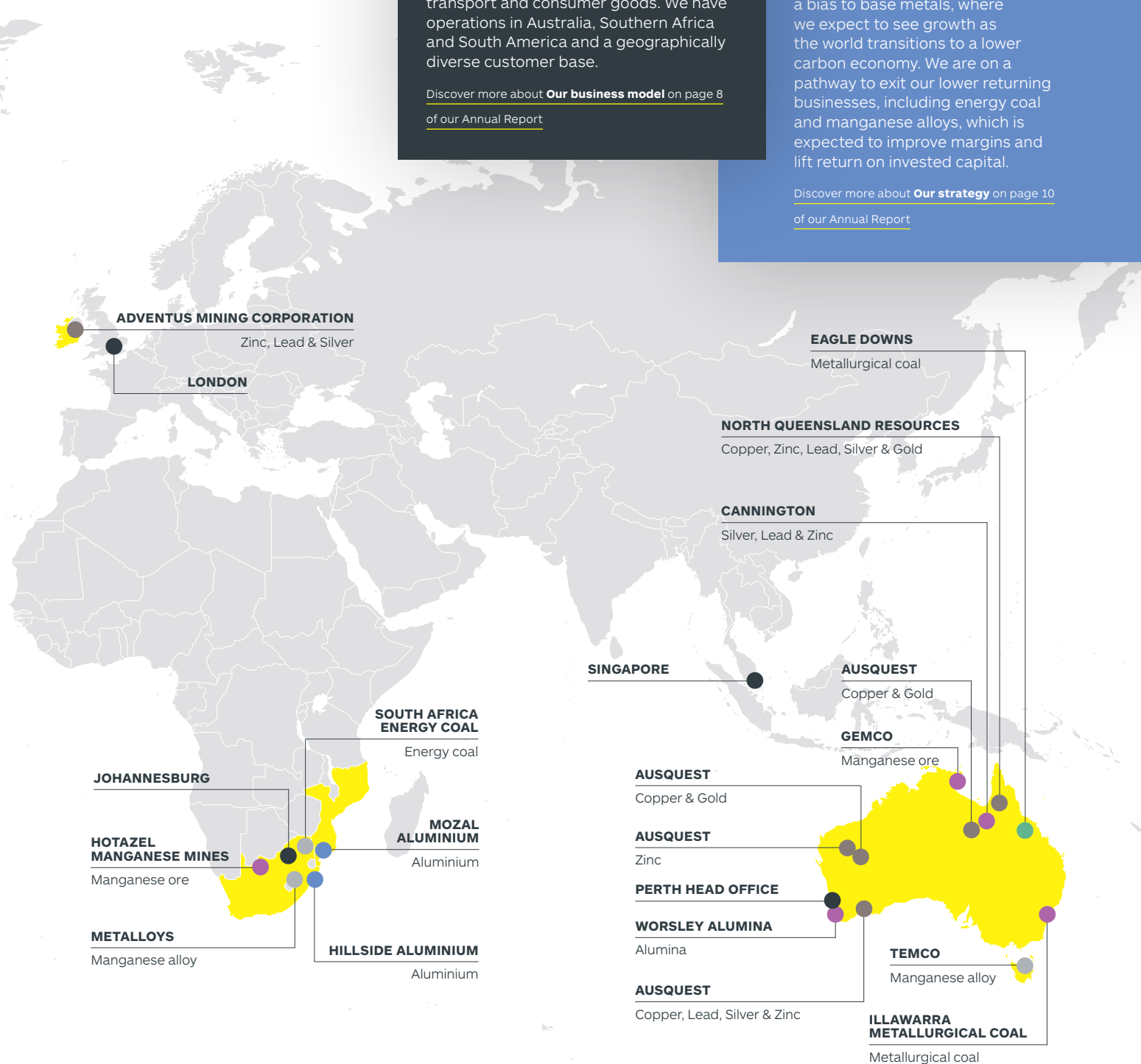
We mine metallurgical coal and manganese ore which are used to produce steel and we produce alumina, aluminium, ferronickel, silver, lead and zinc, which have applications in industry, transport and consumer goods. We have operations in Australia, Southern Africa and South America and a geographically diverse customer base.

Discover more about **Our business model** on page 8 of our Annual Report

PORTFOLIO OUTLOOK

We are actively reshaping and improving our portfolio by embedding growth options with a bias to base metals, where we expect to see growth as the world transitions to a lower carbon economy. We are on a pathway to exit our lower returning businesses, including energy coal and manganese alloys, which is expected to improve margins and lift return on invested capital.

Discover more about **Our strategy** on page 10 of our Annual Report



A STRATEGY TO ACHIEVE OUR PURPOSE

At South32 we believe that, when done sustainably, the development of natural resources can change people's lives for the better.

This is integral to our **purpose** – 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 purpose is underpinned by one simple yet powerful **strategy**:



Our strategy outlines what we do to achieve our purpose and our values of Care, Trust, Togetherness and Excellence guide how we do it. Our values shape the way we behave and the standards we set for ourselves and others.

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.

BUILDING COMMUNITY CONFIDENCE

At South32, we care 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 an annual Tax Transparency and Payments to Governments Report allows us to demonstrate that our tax affairs are conducted in accordance with our commitment to ethical business practices.

We believe 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 2020 the Group had an unusually high underlying effective tax rate, 116 per cent, due to reduced profitability and no accounting benefit being recognised for losses incurred by South Africa Energy Coal (SAEC) and Mozal Aluminium (Mozal). Detail of how the tax expense has been calculated is contained within this report.

We paid US\$751 million in taxes in the year ended 30 June 2020, a decrease of US\$230 million compared to the prior year.

This report outlines our globally consistent approach to tax, details of 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 (GRI) Sustainability Reporting Guidelines; and
- Australian Board of Taxation 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 provide 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.

We also support governments publicly disclosing contracts and licences for the exploration and development of minerals and other natural resources as outlined in the EITI standard. While most of our mineral developments are in jurisdictions where licences are issued pursuant to legislation, South32's has two government mineral development contracts. These contracts are publicly available, and more detail is provided on page 18.

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 (refer to pages 19 and 20). We have also included extensive footnotes with explanations/reconciliations to help readers understand how the numbers quoted in this report reconcile to our 2020 Annual Report.

An independent audit 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 21).

Our approach to tax

OUR APPROACH TO TAX IS CONFIRMED ANNUALLY BY OUR BOARD AND CEO

All tax-related decisions are made in accordance with our purpose and our values and are consistent across all jurisdictions.





To ensure proactive engagement of the Board on tax matters, tax is a regular agenda item for Board Risk and Audit Committee meetings.

Our Board and Chief Executive Officer (CEO), as part of an annual review of tax governance, have affirmed the following principles of our approach to tax in all jurisdictions:

- Complying with all applicable laws, regulations, disclosure requirements, accurate payment of taxes and timely lodgement of returns;
- Building and maintaining constructive relationships with revenue authorities, government bodies and all other relevant parties;
- Taking decisions at an appropriate level and ensuring this is supported by comprehensive documentation;
- Ensuring technical filing positions include robust risk assessments with appropriate risk mitigation activities (for example, professional opinions, appropriate disclosure);
- Ensuring tax positions taken are supported by evidence, so they can be substantiated if reviewed by a revenue authority;
- Immediate voluntary reporting of any detected errors/omissions to all relevant revenue authorities; and
- Complying with all South32's Group and tax specific controls and maintaining evidence of their operation.

TAX GOVERNANCE

We only allow tax decisions to be made by the Board, CEO, Chief Financial Officer or Vice President Tax and we have consistent authority levels required for tax decisions and approvals. These authorities are based on risk assessments which are consistent with the broader business approvals and the risk tolerance levels applied to other decisions in our business.

These requirements are captured in our Tax Risk Management Framework (applicable to Tax employees) and Tax Standard (applicable to all employees) which are available on our internal website.

Our tax governance and the processes and controls we have 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 regarding tax strategy reporting requirements.

The operation of these governance processes and controls is contemporaneously evidenced, reviewed annually by the Tax team and subject to independent review at least every three years. Our tax affairs are also subject to scrutiny by tax authorities and our external auditors as part of normal local compliance and reporting processes.

We employ appropriately qualified and experienced tax personnel to ensure our tax affairs are identified, assessed, documented, controlled and reported in a timely manner. We also utilise external advisors to support our team on technical filing positions or in the interpretation of specific points of law.

All our employees receive training on our Code of Business Conduct which is based on our values and sets the standard for our behaviour.

We also make available EthicsPoint, an independent external platform for employees, contractors and the community to anonymously report concerns regarding potential breaches of our Code of Business Conduct, including tax-related matters. A copy of the Code of Business Conduct can be found in the Who we are section of our website www.south32.net.

DEALINGS WITH TAX AUTHORITIES, INCLUDING DISPUTES

We are open and transparent in our dealings with tax authorities and engage in a manner which is consistent with our values and our Code of Business Conduct.

Given the geographic scope of our operations and uncertainty regarding the application of complex tax laws, there will occasionally be disagreements with tax authorities over the amount of taxes to be paid.

When a dispute arises we actively engage regarding the application of the law and to seek to identify and resolve any disagreements on a timely basis. At times, it will be appropriate for those matters to be resolved or clarified through legal proceedings.

TAX POLICY

We engage in local and international tax policy and reform to contribute to the development of sustainable and effective tax systems. We do this through participation in industry associations of which we are members.

Total payments made by country and level of government

Table 1 Total payments made by country and level of government for the year ended 30 June 2020 (by country of tax residence)

US\$M ⁽¹⁾	Corporate income tax	Royalty related taxes	Royalties	Licence fees	Payments to governments for UK Regulation purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne) ⁽²⁾	Net taxes refunded
Australia										
Government of Australia	191.6	-	9.9	-	201.5	-	6.5	208.0	160.9	(147.8)
Government of Northern Territory	-	106.0	-	-	106.0	3.3	0.4	109.7	-	-
Municipality of George Town	-	-	-	-	-	-	0.1	0.1	-	-
State of New South Wales	-	-	62.0	0.1	62.1	6.4	1.3	69.8	-	-
State of Queensland	-	-	29.2	-	29.2	2.4	1.6	33.2	-	-
State of Tasmania	-	-	-	-	-	0.9	-	0.9	-	-
State of Western Australia	-	-	27.7	0.3	28.0	14.6	0.7	43.3	-	-
Townsville City Council	-	-	-	-	-	-	0.1	0.1	-	-
Australia: Total	191.6	106.0	128.8	0.4	426.8	27.6	10.7	465.1	160.9	(147.8)
Brazil										
Government of Brazil ⁽³⁾	95.1	-	-	-	95.1	-	0.2	95.3	0.4	(87.3)
Brazil: Total	95.1	-	-	-	95.1	-	0.2	95.3	0.4	(87.3)
Canada										
Government of Canada	0.8	-	-	-	0.8	-	-	0.8	-	-
Canada: Total	0.8	-	-	-	0.8	-	-	0.8	-	-
Colombia										
Government of Colombia	54.6	-	50.5	0.8	105.9	-	0.8	106.7	3.8	(3.3)
Municipality of Montelibano	-	-	-	-	-	-	0.8	0.8	-	0.3
Colombia: Total	54.6	-	50.5	0.8	105.9	-	1.6	107.5	3.8	(3.0)
Mozambique										
Government of Mozambique	-	-	4.5	-	4.5	-	-	4.5	3.5	-
Mozambique: Total	-	-	4.5	-	4.5	-	-	4.5	3.5	-
Netherlands										
Government of Netherlands	1.1	-	-	-	1.1	-	-	1.1	-	-
Netherlands: Total	1.1	-	-	-	1.1	-	-	1.1	-	-
Singapore										
Government of Singapore	2.3	-	-	-	2.3	-	-	2.3	0.3	-
Singapore: Total	2.3	-	-	-	2.3	-	-	2.3	0.3	-
South Africa										
Government of South Africa	58.8	-	11.8	-	70.6	-	-	70.6	113.5	(266.7)
South Africa: Total	58.8	-	11.8	-	70.6	-	-	70.6	113.5	(266.7)
Sweden										
Government of Sweden	-	-	-	-	-	-	-	-	-	0.4
Sweden: Total	-	-	-	-	-	-	-	-	-	0.4
United Kingdom										
Government of United Kingdom	1.9	-	-	-	1.9	-	-	1.9	2.4	(0.3)
United Kingdom: Total	1.9	-	-	-	1.9	-	-	1.9	2.4	(0.3)
United States of America										
Government of United States of America	0.4	-	-	-	0.4	0.7	0.4	1.5	2.9	-
United States on America: Total	0.4	-	-	-	0.4	0.7	0.4	1.5	2.9	-
Total taxes paid⁽⁴⁾	406.6	106.0	195.6	1.2	709.4	28.3	12.9	750.6	287.7	(504.7)

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

(2) These taxes are deducted by the Company from employees' remuneration and remitted to revenue authorities on the employees' behalf.

(3) Includes corporate income tax payable of US\$88 million offset against indirect taxes refundable.

(4) Refer to page 12 for a reconciliation of corporate income tax paid (US\$335 million) to the income tax (paid)/received as shown in the Consolidated Cash Flow Statement of our 2020 Annual Report.

Total payments to government by project

Table 2 Total payments to government by project for the year ended 30 June 2020

US\$M ⁽⁵⁾	Corporate income tax	Royalty related taxes	Royalties	Licence fees	Payments to governments for UK Regulation purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne) ⁽⁶⁾	Net taxes refunded
Cannington - Australia	-	-	29.2	-	29.2	2.4	1.3	32.9	20.1	-
Illawarra Metallurgical Coal - Australia	-	-	62.0	0.1	62.1	6.4	1.6	70.1	44.4	-
Worsley Alumina - Australia	-	-	27.7	0.3	28.0	9.4	5.2	42.6	46.6	(69.1)
Eagle Downs - Australian	-	-	-	-	-	0.1	0.8	0.9	0.4	(2.5)
Cerro Matoso - Colombia	54.6	-	50.5	0.8	105.9	-	1.5	107.4	3.8	(3.1)
South Africa Energy Coal - South Africa	0.6	-	3.4	-	4.0	-	-	4.0	72.8	(133.9)
Hermosa - USA	0.4	-	-	-	0.4	0.7	0.4	1.5	2.9	-
Total extractive project related payments - Subsidiaries	55.6	-	172.8	1.2	229.6	19.0	10.8	259.4	191.0	(208.6)
Equity accounted investments (EAIs)										
Australia Manganese - Australia	41.4	106.0	9.9	-	157.3	3.3	1.4	162.0	18.7	(18.3)
South Africa Manganese - South Africa	13.8	-	8.4	-	22.2	-	-	22.2	7.6	(18.8)
Total extractive project related payments including EAIs	110.8	106.0	191.1	1.2	409.1	22.3	12.2	443.6	217.3	(245.7)
Non-extractive project related payments	295.8	-	4.5	-	300.3	6.0	0.7	307.0	70.4	(259.0)
Total taxes paid⁽⁷⁾	406.6	106.0	195.6	1.2	709.4	28.3	12.9	750.6	287.7	(504.7)

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

(6) These taxes are deducted by the Company from employees' remuneration and remitted to revenue authorities on the employees' behalf.

(7) Refer to page 12 for a reconciliation of corporate income tax paid (US\$335 million) to the Income tax (paid)/received as shown in the Consolidated Cash Flow Statement of our 2020 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. Underlying earnings is calculated as Underlying earnings before interest and tax (EBIT) less Underlying net financing (revenue)/costs less Underlying income tax expense.

Table 3 Underlying tax expense and Underlying ETR for the year ended 30 June 2020

	South32	Australia	Brazil	Canada	Colombia	Ireland	Mozambique	Netherlands	Singapore	South Africa	Sweden	United Kingdom	United States
	US\$M	30%	34%	26%	32%	12.5%	0%	25%	5%	28%	21.4%	19%	21%
Underlying EBIT (profit)/loss	(446)	(374)	26	-	(100)	1	28	-	(63)	25	2	(3)	12
Less: Underlying net financing (revenue)/costs	145	80	3	-	6	-	3	-	(1)	58	-	(4)	-
Remove: Equity accounted investments profit ⁽⁸⁾	(208)	(161)	-	-	-	-	-	-	(6)	(41)	-	-	-
Underlying (profit)/loss before tax	(93)	(133)	29	-	(94)	1	31	-	(58)	124	2	(7)	12
Income tax at 30 percent	28	40	(9)	-	28	-	(9)	-	18	(37)	(1)	2	(4)
Tax rate differential on non-Australian income	(4)	-	(1)	-	-	-	9	-	(15)	2	-	(1)	2
Tax on sales attributable to Australia	8	8	-	-	-	-	-	-	-	-	-	-	-
Tax on other income attributable to Australia	12	12	-	-	-	-	-	-	-	-	-	-	-
Non-recognition of future tax benefits	61	-	-	-	-	-	-	-	-	58	1	-	2
Permanent differences	3	7	-	-	(5)	-	-	-	1	-	-	-	-
Underlying income tax expense/(benefit)	108	67	(10)	-	23	-	-	-	4	23	-	1	-
Underlying effective tax rate	116%	50%	35%	0%	25%	0%	0%	0%	7%	19%	0%	14%	0%
Underlying profit before tax	(93)												
Underlying income tax expense	108												
Underlying profit after tax	15												
Add: Equity accounted investments profit	(209)												
Underlying Earnings	(193)												

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.

In the current year, our Underlying ETR has increased due to reduced Group profitability as a result of lower commodity prices and compressed profit margins. Under these circumstances, permanent differences make our Underlying ETR higher than in favourable trading conditions.

No tax benefit has been recognised for losses incurred by SAEC, as these losses are not expected to be recouped during South32's ownership. South32 has signed a binding, conditional agreement for the sale of our shareholding in SAEC.

No tax benefit is recognised for the losses in Mozal, as our aluminium smelting operation in Mozambique pays tax on revenues instead of profits. For the year ended 30 June 2020, we paid US\$10 million of royalties and dividends to the Mozambique government.

(8) Refer to page 16 for information regarding our equity accounted investments.

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 2020. The country effective tax rates are different from the country statutory tax rates due to non-deductible expenses and the impact of foreign exchange movements on tax balances. The Group's effective tax rate and cash effective tax rate are higher than the Underlying ETR due to the tax impacts associated with the unfavourable impact of foreign exchange rate movements on tax balances. As the denominator used in the calculation of the ETR ((profit)/loss subject to tax) is small, this year's effective tax rates are unusually high.

Table 4 Reconciliation of statutory profit to income tax expense and current tax payable for the year ended 30 June 2020

	South32	Australia	Brazil	Canada	Colombia	Ireland	Mozambique	Netherlands	Singapore	South Africa	Sweden	United Kingdom	United States
	US\$M												
(Profit)/loss before tax	(122)	(255)	30	-	(94)	1	30	-	(63)	222	2	(7)	12
Remove: (Profit)/loss on equity accounted investments	(100)	(110)	-	-	-	-	-	-	(5)	15	-	-	-
(Profit)/loss subject to tax	(22)	(145)	30	-	(94)	1	30	-	(58)	207	2	(7)	12
Income tax on (profit)/loss at 30 percent	7	44	(9)	-	28	-	(9)	-	18	(62)	(1)	2	(4)
Tax rate differential on non-Australian income	(2)	-	(1)	-	1	-	9	-	(16)	4	-	(1)	2
Tax on sales income attributable to Australia	8	8	-	-	-	-	-	-	-	-	-	-	-
Tax on other income attributable to Australia	12	12	-	-	-	-	-	-	-	-	-	-	-
Non-recognition of future tax benefits	61	-	-	-	-	-	-	-	-	58	1	-	2
Exchange variations and other translation adjustments	99	(3)	53	-	14	-	-	-	-	35	-	-	-
Permanent differences	2	7	-	-	(5)	-	-	-	1	(1)	-	-	-
Income tax expense/(benefit)	187	68	43	-	38	-	-	-	3	34	-	1	-
<i>Temporary differences</i>													
Depreciation	(42)	(23)	(27)	-	(2)	-	-	-	-	10	-	-	-
Closure and rehabilitation	(5)	(11)	(2)	-	3	-	-	-	-	5	-	-	-
Non-tax-depreciable fair value adjustments, revaluations & mineral rights	1	(1)	-	-	2	-	-	-	-	-	-	-	-
Finance leases	3	3	-	-	-	-	-	-	-	-	-	-	-
Income tax losses recouped	(23)	-	(11)	-	-	-	-	-	(3)	(9)	-	-	-
Brazil tax deferral Incentives	16	-	16	-	-	-	-	-	-	-	-	-	-
Other	(7)	(10)	(10)	-	(3)	-	-	-	-	14	-	-	-
Current income tax payable	130	26	9	-	38	-	-	-	-	56	-	1	-
Effective tax rate	850%	47%	143%	0%	40% ⁽¹¹⁾	0% ⁽⁹⁾	0%	0%	5%	16%	0% ⁽¹²⁾	14%	0% ⁽¹²⁾
Cash effective tax rate	590%	18% ⁽¹⁰⁾	30% ⁽¹¹⁾	0%	40%	0%	0%	0%	0% ⁽¹²⁾	27%	0%	14%	0%

(9) Ireland, Sweden and United States effective tax rates and cash effective tax rates are nil as they have incurred income tax losses which are not recognised as future tax benefits.

(10) Australia cash effective tax rate is lower than the country effective tax rate due to impact of temporary differences, primarily depreciation and closure and rehabilitation provisions.

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

(12) Singapore cash effective tax rate is nil due to utilisation of prior year tax losses.

Our income tax payable

The current tax balances in the Consolidated Financial Statements of our 2020 Annual Report are presented in the table below.

Table 5 Reconciliation of current tax balances for the year ended 30 June 2020

	South32	Australia	Brazil	Canada	Colombia	Ireland	Mozambique	Netherlands	Singapore	South Africa	Sweden	United Kingdom	United States
	US\$M	30%	34%	26%	32%	12.5%	0%	25%	5%	28%	21.4%	19%	21%
Net opening current tax payable/ (receivable)	172	98	73	-	7	-	-	1	-	(7)	-	-	-
Current income tax payable	130	26	9	-	38	-	-	-	-	56	-	1	-
Payments relating to current income year	(158)	(43)	(15)	-	(53)	-	-	-	-	(46)	-	(1)	-
(Payments)/refunds relating to prior income year	(177)	(95)	(80)	(1)	-	-	-	(1)	-	1	-	(1)	-
Other movements ⁽¹³⁾	15	(2)	17	-	-	-	-	-	-	-	-	-	-
Net closing current income tax payable/ (receivable)	(18)	(16)	4	(1)	(8)	-	-	-	-	4	-	(1)	-

A reconciliation of the tax payments disclosed in the 2020 Annual Report in the above table, 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 set out in the table below.

Table 6 Reconciliation of income tax paid for the year ended 30 June 2020

	US\$M ⁽¹⁴⁾
Income tax paid per 2020 Annual Report and Table 5 of this report⁽¹⁵⁾	(335)
Include: Our share of payments related to Equity Accounted Investments	(72)
Corporate Income Taxes paid per Table 1 and Table 2 of this report⁽¹⁶⁾	(407)

(13) Other movements in Brazil relate to the reclassification of tax liabilities previously deferred under government incentives (SUDENE) as profits were repatriated.

(14) Numbers are rounded to whole millions consistent with the presentation of numbers in the Annual Report.

(15) Refer to the Consolidated Cash Flow Statement in the 2020 Annual Report. Total income tax payments for the year of US\$335 million (rounded) is calculated as payments relating to current income year (US\$158 million) plus payments relating to prior income years (US\$177 million).

(16) Refer to pages 8 to 9.

2020 country by country information

The table below includes additional country by country information, based on the tax residency as required by the Global Reporting Initiative.

Table 8 Country by country report for the year ended 30 June 2020

US\$M	South32	Australia	Brazil	Canada	Colombia	Ireland	Mozambique	Netherlands	Singapore	South Africa	Sweden	United Kingdom	United States
Unrelated party revenues ⁽¹⁷⁾	6,317	475	16	-	3	-	33	-	4,336	1,436	-	18	-
Related party revenues	5,324	2,107	380	3	505	-	455	-	864	999	-	10	1
(Profit)/loss before tax	(122)	(255)	30	-	(94)	1	30	-	(63)	222	2	(7)	12
(Profit)/loss subject to tax	(22)	(145)	30	-	(94)	1	30	-	(58)	207	2	(7)	12
Income tax paid during the period	335	136	95	1	55	-	-	1	-	45	-	2	0
Income tax accrued in the period	130	26	9	-	38	-	-	-	-	56	-	1	0
Tangible assets	10,492	5,490	596	1	560	-	483	-	47	1,345	-	3	1,967
Number of employees (unrounded)	14,554	4,918	16	7	882	-	1,044	-	120	7,431	-	37	99

OUR SUBSIDIARIES

A full list of South32 subsidiaries, their country of incorporation, tax residency, principal activity and South32's ownership interest can be found in the Annual Reporting Suite section at www.south32.net.

The table below summarises the country of incorporation and tax residence for all South32 Group companies.

Table 9 Subsidiaries country of incorporation and tax residency

Country	Number of Subsidiaries Incorporated	Number of Subsidiaries Tax Resident
Australia ⁽¹⁸⁾⁽¹⁹⁾⁽²⁰⁾	23	28
Brazil	1	1
British Virgin Islands ⁽¹⁸⁾	4	-
Canada	2	2
Colombia	4	4
Ireland	1	1
Jersey ⁽²⁰⁾	1	-
Mozambique	1	1
Netherlands ⁽²¹⁾	3	2
Singapore ⁽¹⁹⁾	2	1
South Africa ⁽²¹⁾	25	26
Sweden	1	1
United Kingdom ⁽¹⁸⁾	2	3
United States	4	4
TOTAL	74	74

(17) Comprised of Group production revenue (US\$5,492 million), Third party product and services revenue (US\$583 million), Other income (US\$198 million) and Finance income (US\$44 million). Refer to our Consolidated Income Statement in our 2020 Annual Report for further details regarding the nature of each type of income.

(18) 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.

(19) One subsidiary incorporated in Singapore is a resident of Australia for tax purposes.

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

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

International related party dealings

Being a globally diversified company, we have operations and support functions located in many countries. This operating model causes cross border intra-group transactions including dividends, sales and purchases of commodities, and financing and service arrangements. We prepare significant documentation to support the understanding and pricing of these transactions, provide this documentation to tax authorities and have independent expert advice confirming the transactions are completed on an arm's length basis.

We have non-operating offshore companies incorporated in the British Virgin Islands and Jersey. These entities only hold investments, they do not trade, or 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 will continue to hold non-operating offshore companies while the tax or commercial costs required to rationalise these entities is excessive.

SALES AND PURCHASES OF COMMODITIES BY OUR SINGAPORE MARKETING ENTITY

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 suited to be the location for these activities. Our Singapore marketing headquarters is supported by staff in our London office.

All sales and purchase transactions between our operations and marketing office are priced in accordance with the Organisation for Economic Cooperation and Development (OECD) guidelines and local laws.

Our Singaporean activities are taxed under an incentive granted by the Singapore government. This is one of a range of incentives which is legislated and open to all taxpayers in Singapore that can demonstrate significant contributions to the economy and meet the ongoing quantitative and qualitative criteria. Trading profits from our Singapore marketing activities relating to Australian sourced commodities are also included in full in our Australian tax return and subject to tax in Australia.

Table 10 South32 Singapore Marketing income statement for the year ended 30 June 2020

US\$M	Group product sold to unrelated parties	Group product and raw materials sold to related parties	Third party product sold to unrelated parties	Freight services to unrelated parties	Other	South32 Marketing
Revenue ⁽²²⁾⁽²³⁾	3,985	862	175	162	-	5,184
Equity accounted investments profit					5	5
Services revenue ⁽²⁴⁾					13	13
Purchases ⁽²⁵⁾⁽²⁶⁾	(3,844)	(792)	(162)	-	-	(4,798)
Freight	(59)	(58)	(11)	(163)	-	(291)
Service expense	-	-	-	-	(13)	(13)
Interest income	-	-	-	-	1	1
Office related costs	-	-	-	-	(38)	(38)
Profit/(loss)	82	12	2	(1)	(32)	63

(22) Group product and third party product revenue includes recoupment of freight costs, at cost.

(23) Group product sold to related parties of US\$862 million is comprised of alumina sales to Hillside Aluminium (US\$402 million) and Mozal Aluminium (US\$148 million) and raw materials sales to Worsley Alumina (US\$120 million), Hillside Aluminium (US\$135 million) and Mozal Aluminium (US\$57 million).

(24) Services income relates to services provided to our Singaporean Manganese marketing company.

(25) Group product sold to unrelated parties is purchased from related parties in Australia (US\$1,530 million), Brazil (US\$380 million), Colombia (US\$505 million), Mozambique (US\$455 million) and South Africa (US\$974 million), totalling US\$3,844 million.

(26) Group product sold to related parties purchases is comprised of alumina purchases from Worsley Alumina (US\$522 million) and raw materials purchased from unrelated parties (US\$270 million), totalling purchases of US\$792 million.

INTRA-GROUP CROSS BORDER CHARGES

We charge service fees for Group management activities and other intra-group services. Providers of these intra-group services are subject to tax in both the service provider's and service recipient's tax jurisdictions.

Additionally, our Singaporean insurance company provides commercially available insurance options to assist the Group to manage business risks. The company is incorporated and subject to tax in Singapore at the Singaporean statutory tax rate, however the company is also an Australian tax resident and subject to tax in Australia.

Table 11 Intra-group cross border charges by country for the year ended 30 June 2020

	US\$M	Service provider					Service recipient
		Australia	Canada	Singapore	South Africa	United Kingdom	Expense
Service recipient	Australia		3	1	13	-	(17)
	Colombia	11	-	-	2	-	(13)
	Mozambique	4	-	-	5	-	(9)
	Singapore	5	-	-	-	8	(13)
	South Africa	31	-	-	-	2	(33)
	United States	3	-	-	-	-	(3)
Service provider revenue		54	3	1	20	10	(88)

INTRA-GROUP CROSS BORDER FINANCING

South32 companies, located in various countries, place funds on deposit with one of our UK companies. These financing arrangements are provided at relevant market rates and the interest income is assessed and associated tax paid in the jurisdiction of the lending company.

Table 12 Intra-group cross border interest charges by country for the year ended 30 June 2020

	US\$M
Australia	1
Netherlands	1
Singapore	1
South Africa	5
United States	1
Interest income	9

Our equity accounted investments

South32's 2020 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. Further 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 2020 Annual Report do not include balances relating to the manganese operations. South32 has a 60 per cent ownership interest in all its equity accounted manganese operations, except for South Africa Manganese Ore in which we hold a 54.6 per cent effective interest. The manganese tax balances included in the tables below are presented on a 100 per cent ownership basis.

INCOME TAX EXPENSE

Table 13 Reconciliation of manganese statutory profit to income tax expense and current income tax payable for the year ended 30 June 2020

	Manganese	Australia	Singapore	South Africa
	US\$M	30%	10%	28%
(Profit)/loss subject to tax	(454)	(450)	(16)	12
Income tax on profit at 30 percent	136	135	5	(4)
Tax rate differential on non-Australian income	(3)	-	(3)	-
Exchange variations and other translation adjustments	16	2	-	14
Non-recognition of future tax benefits	1	-	-	1
Permanent differences	17	21	-	(4)
Income tax expense	167	158	2	7
Royalty related tax	110	110	-	-
Total tax expense	277	268	2	7
<i>Temporary Differences</i>				
Depreciation	71	35	-	36
Closure and rehabilitation	(34)	(35)	-	1
Royalty tax	(6)	(6)	-	-
Other	(5)	5	-	(10)
Current income tax payable	303	267	2	34
Effective tax rate excluding royalties⁽²⁷⁾	37%	35%	13%	58% ⁽²⁸⁾
Cash effective tax rate excluding royalties⁽²⁹⁾	44%	36%	13%	283% ⁽³⁰⁾

Our manganese Singaporean activities are taxed under an incentive granted by the Singapore government. This is one of a range of incentives which is legislated and open to all taxpayers in Singapore that can demonstrate significant contributions to the economy and meet the ongoing quantitative and qualitative criteria.

INCOME TAX PAYABLE

Table 14 Reconciliation of manganese current tax balances for the year ended 30 June 2020

	Manganese	Australia	Singapore	South Africa
	US\$M	30%	10%	28%
Income Tax				
Opening current tax payable/(refundable)	9	6	4	(1)
Current income tax payable	152	115	2	35
Payments relating to current and prior income years	(122)	(93)	(4)	(25)
Closing income tax payable	39	28	2	9
Royalty Related Income Tax				
Opening royalty tax payable	97	97	-	-
Current royalty tax payable	151	151	-	-
Payments relating to current and prior income years	(177)	(177)	-	-
Closing royalty tax payable	71	71	-	-

(27) Total tax expense less royalty related tax divided by (profit)/loss subject to tax.

(28) South Africa effective tax rate is higher than the country statutory rate due to the impact of foreign exchange rate movements in tax balances.

(29) Current income tax payable less royalty related taxes divided by (profit)/loss subject to tax.

(30) South Africa cash effective tax rate is higher than the country statutory rate due to impact of temporary differences, primarily depreciation.

SALES AND PURCHASES OF COMMODITIES

Our manganese operations conduct 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 suited to be the location for these activities.

All sales and purchase transactions between our manganese operations and marketing office are priced in accordance with the OECD guidelines and local laws.

Table 15 Manganese Singapore Marketing income statement for the year ended 30 June 2020

US\$M	Manganese Marketing
Revenue	1,791
Purchases ⁽³¹⁾	(1,624)
Freight purchases	(133)
Service expense	(13)
Interest income	2
Office related costs	(7)
Profit	16

INTRA-GROUP CROSS BORDER CHARGES

Our manganese operations are charged service fees for South32 Group management activities and other intra-group services. These services are subject to tax in both the service provider's and the service recipient's tax jurisdictions.

Table 16 Manganese intra-group cross border charges by country for the year ended 30 June 2020

	US\$M	Service Provider			Service Recipient
		Australia	South Africa	United Kingdom	Expense
Service recipient	Australia – Manganese		3		(3)
	Singapore – Manganese	-	-	2	(2)
	South Africa – Manganese	19		-	(19)
	Service Provider Revenue	19	3	2	(24)

INTRA-GROUP CROSS BORDER FINANCING

Our manganese companies, located in various countries, place funds on deposit with one of our South32 UK companies. These financing arrangements are provided at relevant market rates and the interest income is assessed and associated tax paid in the jurisdiction of the lending company.

Table 17 Manganese intra-group cross border interest charges by country for the year ended 30 June 2020

	US\$M
South Africa – Manganese	2
Singapore - Manganese	1
Interest income	3

(31) Purchases of US\$1,624 million are from related parties in Australia (US\$1,146 million) and South Africa (US\$478 million).

Mineral development contracts

South32 supports governments publicly disclosing contracts and licences for the exploration and development of minerals and other natural resources outlined in the EITI standard. While all our exploration and most of our mineral developments are in jurisdictions that issue licences pursuant to public legislation, we do have two mineral development contracts with governments. These are publicly available, and details of the contracts are below, including links to the documents.

Table 7 Mineral Development Contracts

South32 Project	Contract name	South32 entities	South32 ownership interest in project	Host Government	Contract Term	Link to publicly available document
Cerro Matoso – Nickel Project	Contract 051-96	Cerro Matoso S.A.	99.9%	Colombia	To 2029 with an option to extend to 2044	Yes - Contract 51
Worsley Alumina Refinery (including Boddington Bauxite Mine)	Alumina Refinery (Worsley) Agreement Act 1973	South32 Aluminium (Worsley) Pty Ltd South32 Aluminium (RAA) Pty Ltd	86%	State of Western Australia	To 2046	Yes - Worsley contract

Basis of preparation for the year ended 30 June 2020

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; and
- Australian Board of Taxation Voluntary Tax Transparency Code.

Our report includes payments to governments made by South32 Limited and its subsidiaries for the period they form part of the South32 Limited accounting consolidated group. We have also included payments to governments for equity accounted investments where South32 has a greater than 50 per cent 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. Payments are not reported where taxes paid to a government body do not exceed US\$0.1 million.

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 Hillside Aluminium (South Africa), Brazil Alumina, Mozal Aluminium (Mozambique), our equity accounted Australia and South Africa Manganese Alloy smelters and companies which provide services (management, marketing or financing) or are limited to holding investments.

Glossary of terms

Cash Effective Tax Rate

Current tax payable/refundable divided by profit/loss subject to tax.

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.

Effective Tax Rate

Income tax expense/benefit divided by profit/loss subject to tax.

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 monthly.

Extractive

Any activity involving the exploration, prospecting, discovery, development, and extraction of minerals, oil, natural gas or other materials.

Fees

Payments to governments where no specific service is attached but rather levied 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.

Group

Refers to South32 Limited and its subsidiaries and operated joint arrangements.

IFRS (International Financial Reporting Standards)

Accounting standards as issued by the International Accounting Standards Board (IASB).

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 fuel. South32 also collects GST/VAT in respect of certain sales.

Non-Extractive

Any activity which does not involve the exploration, prospecting, discovery, development, and extraction of minerals, oil, natural gas or other materials. South32's non-extractive operations include Hillside Aluminium (South Africa), Brazil Alumina, Mozal Aluminium (Mozambique), equity accounted Australia Manganese Alloy, equity accounted South Africa Manganese Alloy 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, including 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/loss and pre-tax statutory profit/loss. These differences arise because of certain expense or revenue items which under income tax legislation will never be included in the determination of taxable income/loss although they are recognised in the Consolidated Income Statement.

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 IFRS and presented in the Consolidated Income Statement in the South32 2020 Annual Report.

South32

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

Temporary Differences

Differences between taxable income/loss and the pre-tax statutory profit/loss. These differences arise because certain revenue or expense items are included in determination the taxable income/loss, which does not coincide with the period in which they are recognised in the Consolidated Income Statement.

Underlying Earnings

Underlying earnings is profit after tax and earnings adjustment items. Earnings adjustments represent items that don't reflect our underlying operations, including:

- 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; and
- The income tax impact of the above items.

A reconciliation of our Underlying earnings to our Statutory earnings can be found in our 2020 Annual Report.

Underlying Effective Tax Rate

Underlying income tax expense/benefit divided by Underlying profit/loss subject to tax.

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 2020 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 8 to 9 of South32 Limited Tax Transparency and Payments to Government Report 2020 (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 19 of the Report for the year ended 30 June 2020.

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 Tables 1 and 2* 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 Tables 1 and 2 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 an 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 to be 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; and
- 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.

KPMG
Perth

27 October 2020

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