



**TAX TRANSPARENCY
AND PAYMENTS TO
GOVERNMENTS REPORT**
2019





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.



WHO WE ARE

South32 is a globally diversified 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. We are also the owner of a high grade zinc, lead and silver development option in North America and have several partnerships with junior explorers with a bias to base metals.



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.

Together

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.

Non-IFRS

This report includes certain non-IFRS financial measures, including underlying measures of earnings, effective tax rate, returns on invested capital, cash flow and net debt. For an explanation of how South32 uses non-IFRS measures, see page 22 of the Annual Report. The meanings of individual non-IFRS measures used in this report are set out in the Glossary on page 20. Non-IFRS measures should not be considered as alternatives to an IFRS measure of profitability, financial performance or liquidity.

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

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See the rest of our 2019 annual reporting suite at www.south32.net.



- Annual Report
- Corporate Governance Statement
- FY19 Sustainability Performance Report
- Our Approach to Water Stewardship
- Our Approach to Climate Change
- Modern Slavery Statement (November 2019)

INTRODUCTION

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 corporate values and 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 2019, we paid US\$980.7 million in taxes, royalties and other payments. Despite declining profitability, this is a US\$133 million increase in payments compared to the prior year and is caused by large Australian and South African final income tax payments for the 2018 year being paid in 2019. Our global Underlying effective tax rate was 37.8 per cent and once royalties of US\$171.9 million are included, the rate increases to 48.1 per cent.

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; and
- 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.

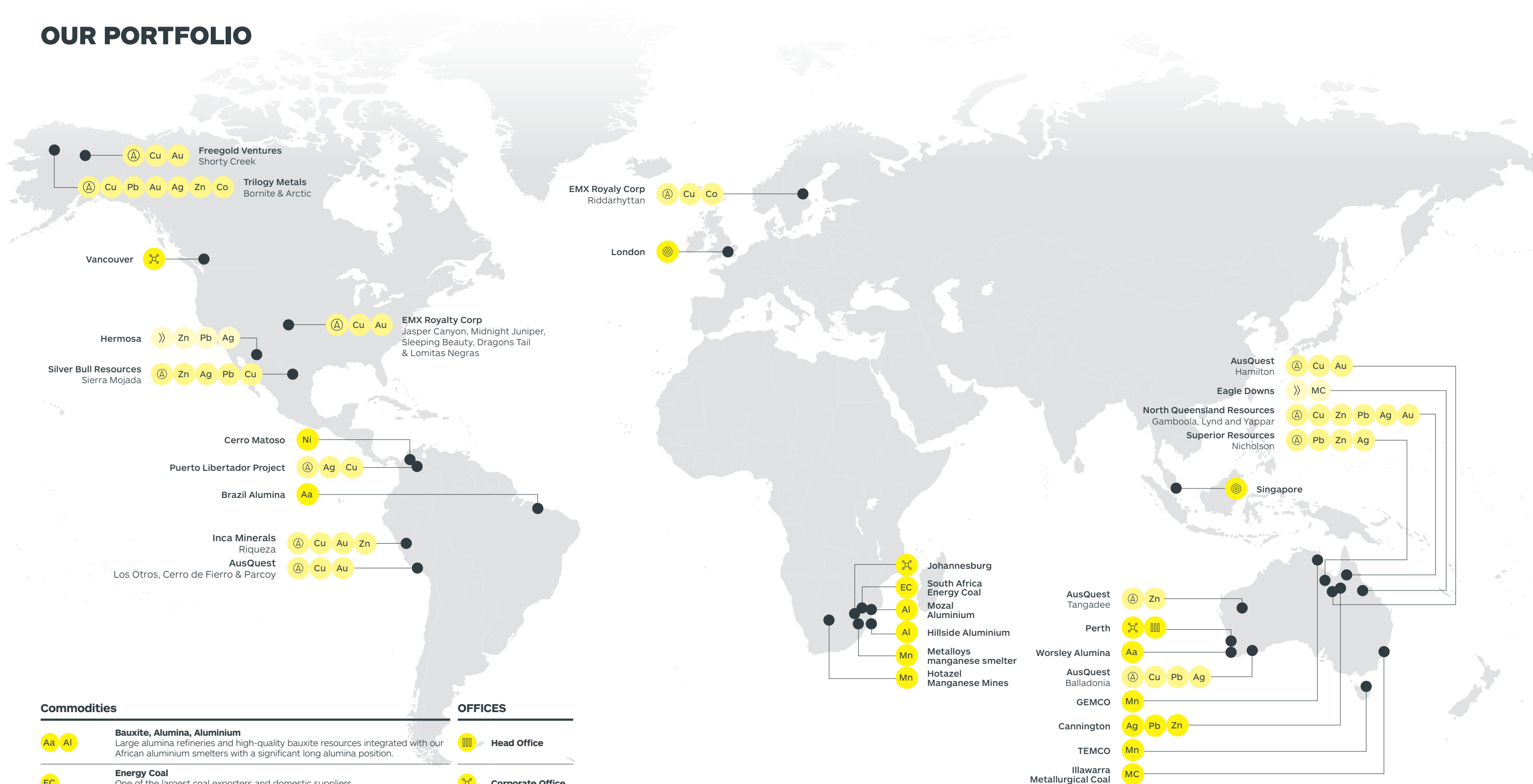
We support the Extractive Industries Transparency Initiative (EITI) and provide a financial contribution to the EITI through our membership of the International Council on Mining and Metals (ICMM). This membership supports the EITI's ongoing activities of promoting open and accountable management of mineral resource wealth. We also support governments publicly disclosing contracts and licences for the exploration of minerals and other natural resources as outlined in the EITI standard. Many of South32's major contracts for resource development are already publicly available.

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 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 PORTFOLIO



Commodities		OFFICES	
Aa, Al	Bauxite, Alumina, Aluminium Large alumina refineries and high-quality bauxite resources integrated with our African aluminium smelters with a significant long alumina position.	Head Office	
EC	Energy Coal One of the largest coal exporters and domestic suppliers in South Africa.	Corporate Office	
Mn	Manganese World's largest producer of manganese ore and a producer of alloy.	Marketing Office	
MC	Metallurgical Coal A major exporter of high-quality metallurgical coal.	PROJECTS	
Ni	Nickel One of the world's largest ferronickel producers.		
Ag, Pb, Zn	Silver, Lead, Zinc One of the world's largest producers of silver and lead.		
Cu	Copper	Au	Gold
Co	Cobalt		

ABOUT SOUTH32

Around the world, we're helping people improve their lives through the development of natural resources.

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.

We also own a high grade zinc, lead and silver development option in North America and have partnered with several junior explorers with a bias to base metals.

Whether it's for use in infrastructure, energy generation, consumables or vehicles, we believe the extraction and processing of minerals and metals can be done in a responsible way.

That's why we continually challenge ourselves to be the best in what matters – the safety and wellbeing of our people and communities, our operational performance, and minimising our environmental impact.

OUR PURPOSE IS TO MAKE A DIFFERENCE

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

We do this by creating local jobs, empowering and investing in communities, and contributing to governments through paying taxes and royalties – while achieving sector leading returns for our shareholders.

OUR STRATEGY AND BREAKTHROUGHS

Our purpose is underpinned by our strategy, which is focused on:

- Optimising the performance of our existing operations;
- Unlocking their potential by converting high value resource into reserve; and
- Identifying new opportunities to compete for capital.

To deliver on our purpose and strategy, we're guided by our 'Breakthroughs', which outline how we'll make a difference through our safety performance, stakeholder engagement, operations, functions, technology, environmental and social leadership, and portfolio optimisation. Across the organisation, our Breakthroughs form the basis of our business plans to ensure we're all aligned.

While our strategy and Breakthroughs focus on the 'what', our values focus on 'how' we achieve our purpose. We hold ourselves and each other to account to act and make decisions aligned with our values of care, trust, togetherness and excellence.

Further information about our strategy and operations can be found at www.south32.net.



We all guarantee everyone goes home safe and well



We are meaningfully connected and believe in our purpose



Our operations run to their full potential and maximise return on investment



Our functions are lean and enable our operations to deliver their full potential



Technology and innovation is radically lifting our performance



We create value through our environmental and social leadership



We have optimised our portfolio and have multiple growth options with a bias to base metals

OUR APPROACH TO TAX

South32's approach to tax ensures all tax-related decisions are made in accordance with our purpose and our values and are consistent across all jurisdictions.

The following guiding principles underpin all tax-related matters in all jurisdictions:

- Compliance 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;
- 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; and
- Compliance with all tax controls, supported by evidence.

Our Board and Chief Executive Officer (CEO) have affirmed these principals as part of an annual review of tax governance. Further, 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.

TAX GOVERNANCE

We only allow tax decisions to be made by the Board, CEO, Chief Financial Officer and Vice President Tax and we have consistent authority levels required for different types of tax decisions and approvals. These authorities are based on risk assessments and financial values 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 Policy (applicable to Tax employees) and Tax Standard (applicable to all employees) and both documents 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 are 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 annual training on our Code of Business Conduct which is based on our values and sets the standard for our behaviour.

We 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 Corporate Governance section of our website www.south32.net.

TAX AUTHORITIES

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.

TAX POLICY

We engage in local and international tax policy and reform matters 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 year ended 30 June 2019

US\$M ⁽¹⁾	Corporate income tax	Royalty-related taxes	Royalties	Licence fees	Payments to governments for UK Regulations 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	355.5	-	12.4	-	367.9	-	6.6	374.5	153.5	(124.0)
Government of Northern Territory	-	131.7	-	-	131.7	4.1	0.4	136.2	-	-
Municipality of George Town	-	-	-	-	-	-	0.1	0.1	-	-
State of New South Wales	-	-	73.0	0.1	73.1	9.2	11.5	93.8	-	-
State of Queensland	-	-	19.7	0.2	19.9	4.0	20.7	44.6	-	-
State of Tasmania	-	-	-	-	-	1.1	-	1.1	-	-
State of Western Australia	-	-	26.8	-	26.8	20.7	1.7	49.2	-	-
Townsville City Council	-	-	-	-	-	-	0.1	0.1	-	-
Australia: Total	355.5	131.7	131.9	0.3	619.4	39.1	41.1	699.6	153.5	(124.0)
Brazil										
Government of Brazil ⁽³⁾	21.8	-	-	-	21.8	-	1.0	22.8	0.4	4.7
Brazil: Total	21.8	-	-	-	21.8	-	1.0	22.8	0.4	4.7
Canada										
Government of Canada	10.6	-	-	-	10.6	-	-	10.6	11.0	-
Canada: Total	10.6	-	-	-	10.6	-	-	10.6	11.0	-
Colombia										
Government of Colombia	56.2	-	47.0	0.6	103.8	-	0.4	104.2	3.8	(2.0)
Municipality of Montelibano	-	-	-	-	-	-	0.8	0.8	-	0.2
Colombia: Total	56.2	-	47.0	0.6	103.8	-	1.2	105.0	3.8	(1.8)
Mozambique										
Government of Mozambique	-	-	5.2	-	5.2	-	-	5.2	3.3	-
Mozambique: Total	-	-	5.2	-	5.2	-	-	5.2	3.3	-
Netherlands										
Government of Netherlands	-	-	-	-	-	-	-	-	-	-
Netherlands: Total	-	-	-	-	-	-	-	-	-	-
Singapore										
Government of Singapore	1.7	-	-	-	1.7	-	-	1.7	1.2	-
Singapore: Total	1.7	-	-	-	1.7	-	-	1.7	1.2	-
South Africa										
Government of South Africa	108.8	-	23.7	-	132.5	-	-	132.5	126.6	(286.8)
South Africa: Total	108.8	-	23.7	-	132.5	-	-	132.5	126.6	(286.8)
Switzerland										
Government of Switzerland ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-
Switzerland: Total	-	-	-	-	-	-	-	-	-	-
United Kingdom										
Government of United Kingdom	2.1	-	-	-	2.1	-	-	2.1	1.8	(0.2)
United Kingdom: Total	2.1	-	-	-	2.1	-	-	2.1	1.8	(0.2)
United States of America										
Government of United States of America	-	-	-	-	-	0.9	0.3	1.2	11.6	-
USA: Total	-	-	-	-	-	0.9	0.3	1.2	11.6	-
Total taxes paid⁽⁵⁾	556.7	131.7	207.8	0.9	897.1	40.0	43.6	980.7	313.2	(408.1)

(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 non-cash corporate income tax payments of US\$3 million offset against net taxes refunded.
(4) The jointly controlled Swiss company's liquidation was completed in August 2019. It ceased performing manganese marketing activities during the 2017 financial year.
(5) Refer to page 14 for a reconciliation of corporate income tax paid (US\$557 million) to the income tax paid as shown in the Consolidated Cash Flow Statement of our 2019 Annual Report.

TOTAL PAYMENTS TO GOVERNMENT BY PROJECT

Table 2 Total payments to government by project for year ended 30 June 2019

US\$M ⁽⁶⁾	Corporate income tax	Royalty-related taxes	Royalties	License fees	Payments to governments for UK Regulations purposes	Employer payroll taxes	Other taxes and payments	Total government payments borne	Employee payroll taxes (not borne) ⁽⁷⁾	Net taxes refunded
Cannington - Australia	-	-	19.7	0.2	19.9	4.0	1.5	25.4	18.2	-
Illawarra Metallurgical Coal - Australia	-	-	73.0	0.1	73.1	9.2	11.6	93.9	44.0	-
Worsley Alumina - Australia	-	-	26.8	-	26.8	12.0	7.3	46.1	44.2	(68.5)
Eagle Downs - Australia	-	-	-	-	-	-	19.4	19.4	-	-
Cerro Matoso - Colombia	56.2	-	47.0	0.6	103.8	-	1.1	104.9	3.8	(1.8)
South Africa Energy Coal - South Africa	29.1	-	0.2	-	29.3	-	-	29.3	78.3	(136.6)
Total extractive project related payments - Subsidiaries	85.3	-	166.7	0.9	252.9	25.2	40.9	319.0	188.5	(206.9)
Equity accounted investments (EAIs)										
Australia Manganese - Australia	143.1	131.7	12.4	-	287.2	4.1	0.5	291.8	16.2	(16.9)
South Africa Manganese - South Africa	55.4	-	23.5	-	78.9	-	-	78.9	7.1	(16.6)
Total extractive project related payments including EAIs	283.8	131.7	202.6	0.9	619.0	29.3	41.4	689.7	211.8	(240.4)
Non-extractive project related payments	272.9	-	5.2	-	278.1	10.7	2.2	291.0	101.4	(167.7)
Total taxes paid⁽⁸⁾	556.7	131.7	207.8	0.9	897.1	40.0	43.6	980.7	313.2	(408.1)

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

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

(8) Refer to page 14 for a reconciliation of corporate income tax payments (US\$557 million) to the Income tax (paid)/received as shown in the Consolidated Cash Flow Statement of our 2019 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⁽⁹⁾. Underlying earnings is calculated as Underlying earnings before interest and tax (EBIT) less Underlying net financing (revenue)/costs less Underlying income 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 2019

	SOUTH32	Australia	Brazil	Canada	Colombia	Mozambique	Netherlands	Singapore	South Africa	United Kingdom	United States
	US\$M	30%	34%	26%	33%	0%	25%	5%	28%	19%	21%
Underlying EBIT (profit)/loss	(1,440)	(1,331)	(144)	-	(32)	30	(1)	48	(17)	(11)	18
Less: Underlying net financing (revenue)/costs	118	64	(2)	-	7	2	-	-	53	(6)	-
Remove: Equity accounted investments profit ⁽¹⁰⁾	(450)	(325)	-	-	-	-	-	(16)	(109)	-	-
Underlying (profit)/loss subject to taxation	(872)	(942)	(146)	-	(25)	32	(1)	64	145	(17)	18
Tax on (profit)/loss at standard rate of 30%	261	281	44	-	8	(10)	-	(19)	(44)	6	(5)
Tax rate differential on non-Australian income	28	-	6	-	(4)	10	-	15	5	(2)	(2)
Tax on marketing income attributable to Australian operations	16	16	-	-	-	-	-	-	-	-	-
Tax on other income attributable to Australian operations	6	6	-	-	-	-	-	-	-	-	-
Withholding tax on distributed earnings	8	-	-	-	-	-	-	-	-	8	-
Change in tax rates	(5)	-	-	-	(5)	-	-	-	-	-	-
Foreign exploration	7	-	-	-	-	-	-	-	-	-	7
Derecognition of future tax benefits	12	-	-	-	-	-	-	-	12	-	-
Permanent differences	(3)	(2)	(3)	-	4	-	-	-	-	(2)	-
Underlying income tax (benefit)/expense	330	301	47	-	3	-	-	(4)	(27)	10	-
Underlying effective tax rate⁽¹¹⁾	37.8%	32.0%	32.2%	-%	11.9%	-%⁽¹²⁾	-%	6.3%	18.4%	58.8%	-%
Underlying profit before taxation	(872)										
Underlying income tax expense	330										
Underlying profit after taxation	(542)										
Add: Equity accounted investments profit	(450)										
Underlying Earnings	(992)										

(9) Refer to the Glossary for a list of these items.
(10) Refer to page 16 for information regarding our equity accounted investments.
(11) Underlying income tax (benefit)/expense divided by Underlying (profit)/loss subject to taxation.
(12) 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. In the current year, our Underlying ETR has increased due to losses in low tax rate jurisdictions (e.g. Mozambique). Further, when commodity prices are lower 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 2019, we paid US\$13 million of royalties and dividends to the Mozambique government.

Our sales and purchasing activities undertaken in Singapore (marketing, logistics and customer credit risk management) are taxed at lower than the statutory rate 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.

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 2019.

The country effective tax rates are different from the country statutory tax rates due to non-deductible expenses, non-creditable withholding tax 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 impairment losses recognised in our South Africa Energy Coal operations, namely the derecognition of deferred tax assets as utilisation of the future tax benefits is no longer probable and the portion of future tax benefits on impairments not recognised.

Table 4 Reconciliation of statutory profit to income tax expense and current tax payable for the year ended 30 June 2019

	SOUTH32	Australia	Brazil	Canada	Colombia	Mozambique	Netherlands	Singapore	South Africa	United Kingdom	United States
	US\$M	30%	34%	26%	33%	0%	25%	5%	28%	19%	21%
(Profit)/loss before taxation	(803)	(1,312)	(141)	-	(27)	32	(1)	48	598	(18)	18
Remove: Profit on equity accounted investments	(467)	(342)	-	-	-	-	-	(16)	(109)	-	-
(Profit)/loss subject to taxation	(336)	(970)	(141)	-	(27)	32	(1)	64	707	(18)	18
Tax on (profit)/loss at standard rate of 30 per cent	101	290	42	-	9	(10)	-	(19)	(212)	6	(5)
Tax rate differential on non-Australian income	39	-	5	-	(4)	10	-	15	17	(2)	(2)
Tax on marketing income attributable to Australian operations	16	16	-	-	-	-	-	-	-	-	-
Tax on other income attributable to Australian operations	6	6	-	-	-	-	-	-	-	-	-
Withholding tax on distributed earnings	8	-	-	-	-	-	-	-	-	8	-
Change in tax rates	(5)	-	-	-	(5)	-	-	-	-	-	-
Foreign exploration	7	-	-	-	-	-	-	-	-	-	7
Derecognition of future tax benefits	111	-	-	-	-	-	-	-	111	-	-
Future tax benefits not recognised on impairments	107	-	-	-	-	-	-	-	107	-	-
Exchange variations and other translation adjustments	18	(18)	5	-	25	-	-	-	6	-	-
Permanent differences	6	(2)	(3)	-	4	-	-	-	9	(2)	-
Income tax (benefit)/expense	414	292	49	-	29	-	-	(4)	38	10	-
<i>Temporary differences</i>						-	-	-	-	-	-
Depreciation	(148)	(70)	-	-	16	-	-	-	(94)	-	-
Closure and rehabilitation	109	41	12	-	-	-	-	-	56	-	-
Non tax-depreciable fair value adjustments, revaluations and mineral rights	4	3	(2)	-	3	-	-	-	-	-	-
Finance leases	(10)	(10)	-	-	-	-	-	-	-	-	-
Income tax losses (recouped)/recognised	(11)	-	(22)	-	-	-	-	4	7	-	-
Brazil Alumina incentives	(30)	-	(30)	-	-	-	-	-	-	-	-
Other	(15)	(12)	15	-	(11)	-	-	-	(7)	-	-
Current income tax payable	313	244	22	-	37	-	-	-	-	10	-
Effective tax rate⁽¹³⁾	123.2%	30.1%	34.8%	-	107.4%⁽¹⁷⁾	-	-	6.3%	(5.4)%⁽¹⁹⁾	55.6%⁽²¹⁾	_(22)
Cash effective tax rate⁽¹⁴⁾	93.2%	25.2%⁽¹⁵⁾	15.6%⁽¹⁶⁾	-	137.0%⁽¹⁷⁾	-	-	_(18)	_(20)	55.6%⁽²¹⁾	_(22)

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

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

(15) Australia cash effective tax rate is lower than the country statutory rate due to impact of temporary differences, primarily depreciation.

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

(17) Colombia effective tax rate and cash effective tax rate are higher than country statutory rate due to unfavourable impact of foreign exchange rate movements on tax balances.

(18) Singapore cash effective tax rate is nil as it incurred income tax losses which have been recognised as a future tax benefit.

(19) South Africa effective tax rate is lower than the country statutory rate due to the impact of unfavourable permanent differences (primarily derecognition of future tax benefits and future tax benefits not recognised on impairments) on loss making operations. These permanent differences are associated with the impairment of the assets held by our South Africa Energy Coal operations. Refer to the Segment Note of our 2019 Annual Report for further information.

(20) South Africa cash effective tax rate is nil as the operations are incurring tax losses.

(21) United Kingdom effective tax rate and cash effective tax rate are higher than the country statutory rate due to withholding tax payable in South Africa on distributed earnings.

(22) United States effective tax rate and cash effective tax rate are nil as it has incurred income tax losses which have not been recognised as a future tax benefit.

OUR INCOME TAX PAYABLE

The table below reconciles the current tax balances in the Consolidated Financial Statements of our 2019 Annual Report.

It shows payments made during the year, other movements and any outstanding income tax owing or receivables pending as at 30 June 2019.

Consistent with being profitable, tax instalments were made in Australia, Brazil and Colombia. In South Africa tax payments to settle prior year outstanding liabilities were made, however as losses were incurred in most operations in 2019, minimal tax instalments relating to the current year were paid.

Table 5 Reconciliation of current tax balances for the year ended 30 June 2019

	SOUTH32	Australia	Brazil	Canada	Colombia	Mozambique	Netherlands	Singapore	South Africa	United Kingdom	United States
	US\$M	30%	34%	26%	33%	0%	25%	5%	28%	19%	21%
Net opening current tax payable/(receivable)	127	65	(4)	-	26	-	-	-	39	1	-
Current income tax payable	313	244	22	-	37	-	-	-	-	10	-
Payments relating to current income year ⁽²³⁾	(254)	(154)	(22)	-	(56)	-	-	-	(14)	(8)	-
Payments relating to prior income years	(92)	(58)	-	-	-	-	-	-	(32)	(2)	-
Other movements ⁽²⁴⁾	78	1	77	-	-	-	-	-	-	-	-
Net closing current tax payable/(receivable)	172	98	73	-	7	-	-	-	(7)	1	-

(23) Payments of US\$8 million in the United Kingdom relate to dividend withholding tax payable in South Africa incurred by the holding company in the UK.

(24) Other movements in Brazil relate primarily to the reclassification of tax liabilities deferred under government incentives until profits are repatriated (SUDENE) from non-current to current. Other movements in Australia relate to current tax movements relating to employee share schemes recognised in equity.

A reconciliation of the tax payments disclosed in the 2019 Annual Report, 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⁽²⁶⁾.

	US\$M
Income tax paid per 2019 Annual Report and Table 5 of this report ⁽²⁵⁾	(345.7)
Include: Our share of payments related to Equity Accounted Investments	(200.4)
Include: Canadian withholding tax reported in Hermosa acquisition cost	(10.6)
Corporate Income Taxes paid per Table 1 and Table 2 of this report ⁽²⁶⁾	(556.7)

(25) Refer to the Consolidated Cash Flow Statement in the 2019 Annual Report. Total income tax payments for the year of US\$346 million (rounded) is calculated as payments relating to current income years (US\$254 million) plus payments relating to prior income years (US\$92 million).

(26) Refer to pages 6 to 9.

OUR EQUITY ACCOUNTED INVESTMENTS TAX EXPENSE

South32’s 2019 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 2019 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 per cent ownership basis⁽²⁷⁾.

The table below provides a reconciliation between the manganese statutory profit and income tax expense for the year ended 30 June 2019.

Table 6 Reconciliation of manganese statutory profit to income tax expense and current tax payable for the year ended 30 June 2019

	Manganese	Australia	Singapore	South Africa
	US\$M	30%	10%	28%
Profit subject to taxation	(1,363)	(1,026)	(37)	(300)
Tax on profit at standard rate of 30 per cent	409	308	11	90
Tax rate differential on non-Australian income	(13)	-	(7)	(6)
Exchange variations and other translation adjustments	(22)	(23)	-	1
Non-recognition of future tax benefits	28	27	-	1
Permanent differences	(3)	(4)	-	1
Income tax expense	399	308	4	87
Royalty related tax	153	153	-	-
Total tax expense	552	461	4	87
<i>Temporary Differences</i>				
Depreciation	(29)	(27)	-	(2)
Closure and rehabilitation	6	1	-	5
Royalty tax	(14)	(14)	-	-
Other	7	2	-	5
Current income tax payable	522	423	4	95
Effective tax rate excluding royalty related taxes⁽²⁸⁾	29.3%	30.0%	10.8%	29.0%
Cash effective tax rate excluding royalty related taxes⁽²⁹⁾	28.1%	27.7%	10.8%	31.7%

(27) 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.

(28) Total tax expense less royalty tax divided by profit before taxation.

(29) Current income tax payable less royalty tax divided by profit 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 2019. It shows payments made during the year, other movements and any outstanding income tax/royalty tax owing or receivables pending as at 30 June 2019. As noted previously, all manganese balances are presented on a 100 per cent ownership basis⁽²⁷⁾.

Table 7 Reconciliation of manganese current tax balances for the year ended 30 June 2019

	Manganese	Australia	Singapore	South Africa
	US\$M	30%	10%	28%
Income Tax				
Opening current tax payable	33	24	3	6
Current income tax payable	319	220	4	95
Payments relating to current income year	(343)	(238)	(3)	(102)
Closing income tax payable/(receivable)	9	6	4	(1)
Royalty Related Income Tax				
Opening royalty tax payable	113	113	-	-
Current royalty tax payable	204	204	-	-
Payments relating to current income year	(220)	(220)	-	-
Closing royalty tax payable	97	97	-	-

INTERNATIONAL RELATED PARTY DEALINGS

Being a globally diversified mining and metals company, we have operations and support functions located in a number of countries across the globe.

This operating model leads to cross border inter-company 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 will continue to hold non-operating offshore companies while 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.

Table 8 Subsidiaries incorporation and tax residency by country

Country	Number of subsidiaries incorporated	Number of subsidiaries tax resident
Australia ⁽³⁰⁾⁽³¹⁾⁽³²⁾	23	28
Brazil	1	1
British Virgin Islands ⁽³⁰⁾	4	-
Canada	2	2
Colombia	4	4
Jersey ⁽³²⁾	1	-
Mozambique	1	1
Netherlands ⁽³³⁾	3	2
Singapore ⁽³¹⁾	2	1
South Africa ⁽³³⁾	27	28
Sweden	1	1
United Kingdom ⁽³⁰⁾	2	3
United States	4	4
Total	75	75

(30) 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.

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

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

(33) 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, principal activity and South32's ownership interest can be found in the Annual Reporting Suite section at 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. 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 Organisation for Economic Cooperation and Development (OECD) guidelines and local laws. We obtain independent expert advice confirming our sales and purchasing 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.

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.

The liquidation of the Swiss company which historically conducted our jointly controlled Manganese operations marketing activities was completed in August 2019.

SERVICE, FINANCING AND INSURANCE ARRANGEMENTS

South32 entities located in Australia, South Africa and the UK 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, South Africa or the UK).

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 (primarily Australia and South Africa) and service receiver's tax jurisdictions.

We have recently established a captive insurance company in Singapore which will provide commercially available insurance options to assist the Group to manage business risks. Whilst incorporated in Singapore, the company is an Australian tax resident and will be subject to tax in Australia.

We prepare significant documentation to support the intra-group 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 FOR YEAR ENDED 30 JUNE 2019

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 our Hillside Aluminium (South Africa), Brazil Alumina, Mozal Aluminium (Mozambique), equity accounted Australian Manganese Alloy, equity accounted South Africa Manganese Alloy operations 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 taxation.

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 taxation.

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, alloy and alumina operations.

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.

IFRS (International Financial Reporting Standards)

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

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 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 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 recognised 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 IFRS and presented in the Consolidated Income Statement in the South32 2019 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; and
- The income tax impact of the above items.

A reconciliation of our Underlying earnings to our Statutory earnings can be found in our 2019 Annual Report.

Underlying Effective Tax Rate

Underlying Income Tax Expense divided by Underlying profit/(loss) subject to taxation.

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 2019 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 6 to 9 of South32 Limited Tax Transparency and Payments to Government Report 2019 (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 2019.

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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



INDEPENDENT AUDITOR’S 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

KPMG
Perth
17 September 2019



SOUTH32.NET