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Building Public Trust Awards 2014

Tax is increasingly becoming a reputational issue as companies are being asked to explain their tax affairs and in the process expected to be more transparent, as well as maintain trust with both their stakeholders and the wider public.

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We wish to thank the Department of Taxation at the University of Pretoria which was responsible for the initial assessment of the top 50 JSE listed companies and the determination of the short list of contenders for the awards which were then considered by the judging panel. An extraordinary amount of effort and dedication is required to get to the short list of potential winners and the University's contribution in this regard is greatly appreciated.

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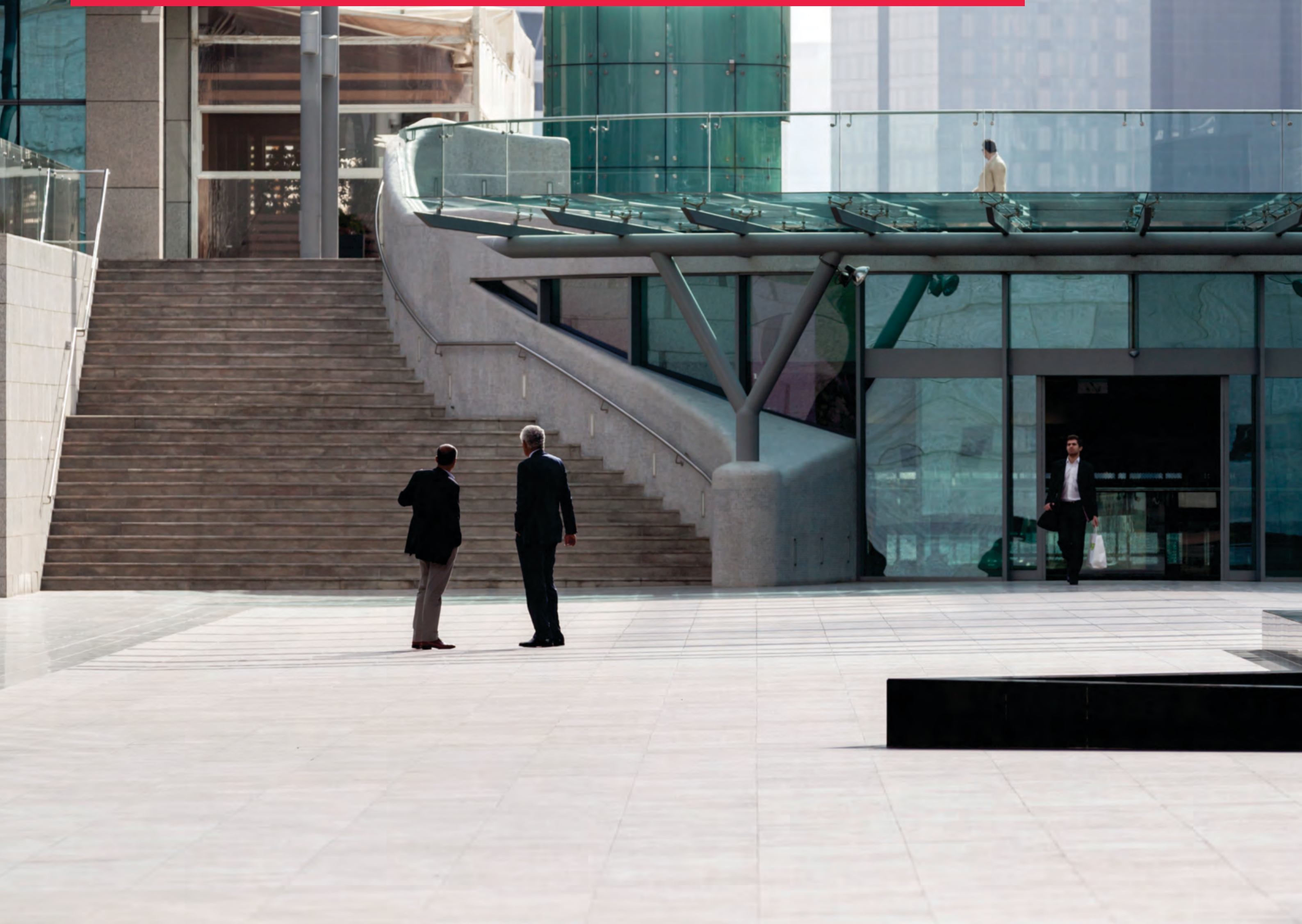
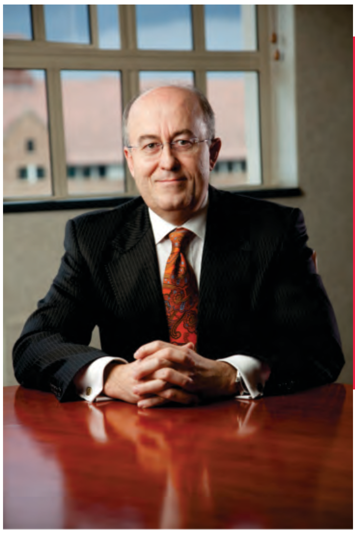


Foreword by Paul de Chalain, Head of Tax Services, PwC Africa



Globally, a number of events this year have continued to challenge the public's trust in business, but for international businesses, the standout in 2014 has been the substantial interest in multinational companies' tax affairs.

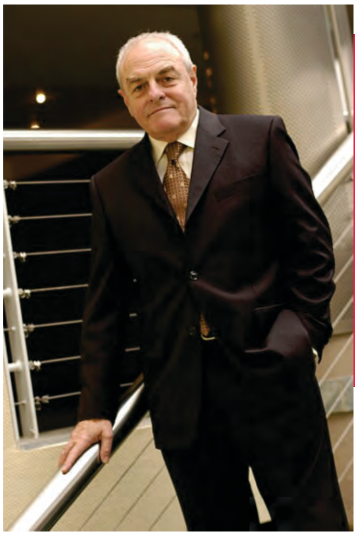
In the current climate of economic austerity, public interest in tax has never been greater. Revenue authorities, regulators, shareholders, the media and other stakeholders are asking questions as to whether companies are paying the 'right amount' of tax and more companies are being asked questions about their tax affairs. Tax is increasingly becoming a reputational issue as companies are being asked to explain their tax affairs and in the process expected to be more transparent, as well as maintain trust with both their stakeholders and the wider public.

Companies are increasingly recognising that tax transparency is vital in forging trust, and the awards celebrate the achievements of leaders in the field of tax reporting. PwC is proud of its long history in supporting the disclosure of meaningful and relevant tax information through voluntary reporting.

This is the first year that these awards will be presented in South Africa. An independent panel of judges has reviewed the annual reports of the Top 50 Companies listed on the JSE by market capitalisation as at 31 December 2013. Tax transparency is not about providing technical details and numbers on performance – it requires a more insightful analysis and in-depth look at tax strategy, risk management, and the effect tax has as a whole on the organisation.

I congratulate the winners for their achievements in communicating their companies' tax affairs in such a transparent and accessible way. They must be commended for their commitment and achievement.

Introduction by Professor Mervyn King SC



The EU Competition Commissioner, Joaquin Almunia said at the beginning of October 2014, that investigations were being launched into the tax affairs of several multi-national enterprises against the "crackdown on tax evasion. At a time when public budgets are tight, citizens are being asked to make efforts to help balance public finances. In this context it is important for large multi-nationals to pay their fair share of taxes."

It is significant that the Commissioner used the word "evasion" and not "avoidance". As it is well known to evade the payment of tax invariably carries a criminal sanction and penalties whereas avoidance is the lawful arrangement of a company's affairs so that it pays a lower rate of income tax.

But worldwide there is a growing attitude by citizens that companies, particularly multi-national enterprises, are making profits in a particular country but paying less tax than the citizen who is a customer of the company's product or service.

Consequently there are probes into Apple's tax structure in Ireland, Starbucks structure in the Netherlands, Fiat's tax arrangements in Luxembourg and Amazon's arrangements in Luxembourg.

The EU is labelling these arrangements as illegal subsidies. The US has an aversion to inversion. The OECD has issued its suggested reformation of international tax systems to stop a company moving its profits to a country with lower tax rates. Almost 3,000 tax treaties are being studied and could change substantially. There is no place to hide in a flat, borderless, electronic world with radical transparency.

More importantly, however, than this attack on lawful avoidance is the attitude of society. There is a new energised activism among the group of individuals making up society. The premise is simple: as a citizen I pay as I earn and this great multi-national company operating in my country pays no tax but profits from selling its products to me and all my fellow citizens. This is unfair as they should be paying their proportionate share of tax in a country in which they are using its infrastructure and facilities, financed by the individual citizens as taxpayers.

Thus the Starbucks case is well-known. Starbucks with a perfect product, an excellent cup of coffee, was boycotted by its customers because the customer concluded that he or she was paying more tax than the numerous Starbucks coffee shops in the United Kingdom. As a result of the boycott Starbucks made a healthy voluntary contribution to Her Majesty's coffers. The boycott ended.

The market cap of listed companies consists of about 20% of the value being represented by additives in a balance sheet according to international reporting standards. The other 80% is made up, inter alia, of intangibles such as reputation which in turn is created by the perception of the company's stakeholders. The consequence of this is that a company, on

Introduction by Professor Mervyn King SC continued

excellent professional advice, could conclude a perfectly lawful tax avoidance scheme but it could be one which society rejects with the consequence that the company might save a hundred million dollars in tax but its market cap might be reduced by 500 million dollars. The result is that boards today have to consider, as part of their strategic thinking, whether the company's tax policy will meet the greater expectations of its stakeholders.

Even five years ago boards did not concern themselves from a strategic point of view with tax policy. They looked at the amount of tax payable in compliance with legislation and regulation and considered any avoidance scheme whether there were positive professional opinions in favour of the scheme. The driver was to pay as little tax as possible, the belief being that to be in the best interests of the company. Today, however, the board has to take account of the impact of its tax policy on its intangible assets. A negative response from stakeholders to a tax policy could reduce a company's market capitalisation and consequentially the raising of capital with its own paper would be at greater cost.

In the context of the above, the creation by PwC of awards to companies for their tax reporting is timeous and provides an incentive for the boards of South African companies to apply their collective minds to their tax policies in the context of the negative impact that it could have on value creation.

The Judging Panel

Ansie Ramalho

Ansie Ramalho is the King IV Project Lead at the Institute of Directors in Southern Africa (IoDSA). She is a member of the King Committee, the Committee for Responsible Investing in South Africa (CRISA) and the Integrated Reporting Committee (IRC SA).

Edward Kieswetter

Edward Kieswetter is the Group Chief Executive of Alexander Forbes Group Holdings Limited. He was previously the Deputy Commissioner at SARS and a member of the South African National Treasury Tax Revenue Committee.

Elmar Venter

Elmar Venter is associate professor in the Department of Taxation in the Faculty of Economic and Management Sciences at the University of Pretoria.

Madeleine Stiglingh

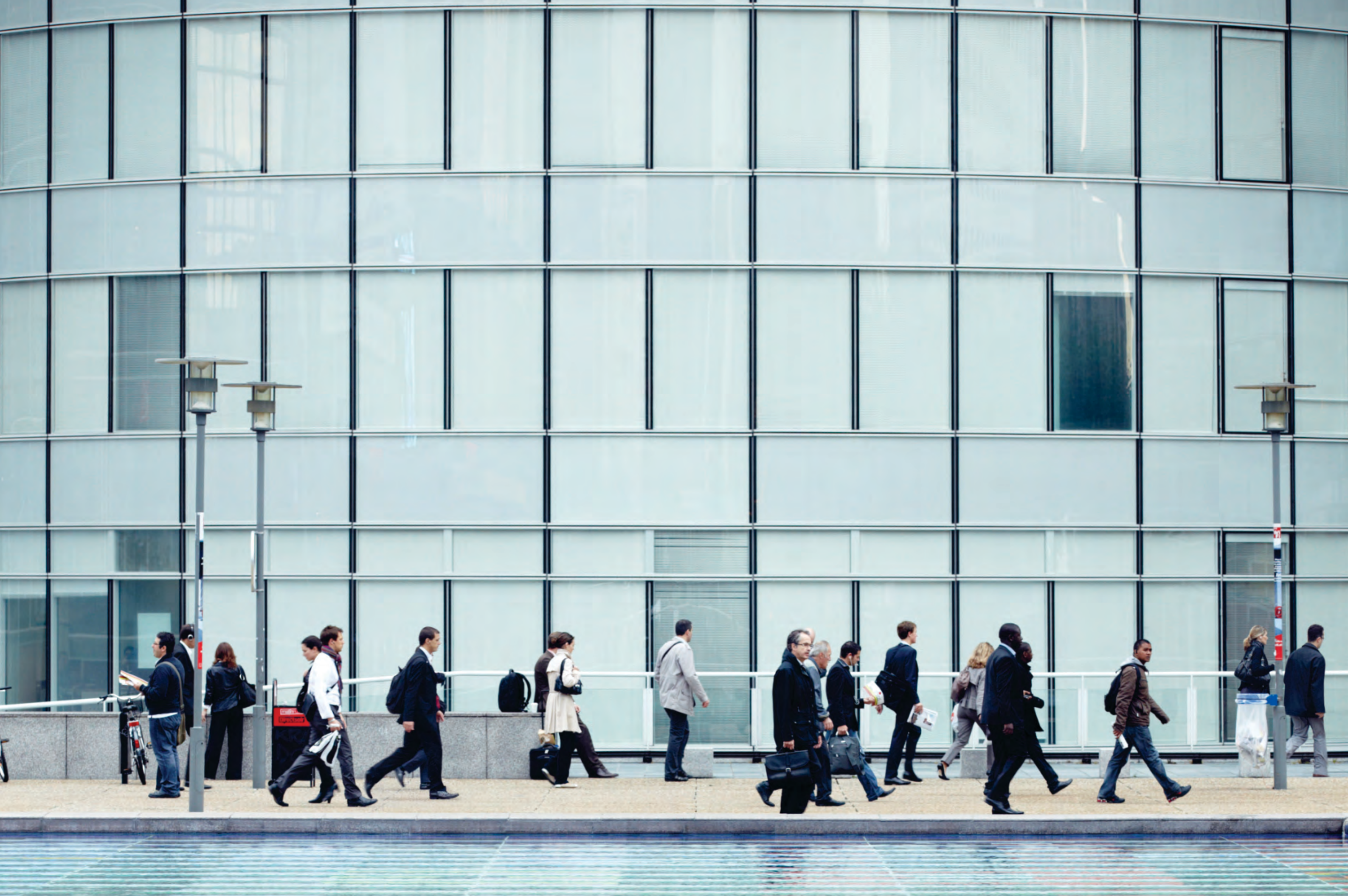
Madeleine Stiglingh has been employed as the Head of Department (Taxation) at the University of Pretoria since 2004. She is the editor of *Silke on South African Tax*.

Mervyn King

Mervyn King is a Senior Counsel and former Judge of the Supreme Court of South Africa. He is Chairman of the King Committee on Corporate Governance in South Africa, which produced King I, II and III.

Sue Ludolph

Sue Ludolph is SAICA's Project Director for Financial Reporting. Sue represents South Africa at the International Accounting Standards Board (IASB)'s World standard-setters and at the International Forum of Standard-setters.



Judging criteria

The criteria for assessing the awards for 'Excellence in Tax Reporting' were based on PwC's Tax Transparency Framework, under which the judges were looking for excellence in three key areas. First, a clear and accessible discussion of tax strategy and risk management, including disclosure of policies in key areas of the business, responsibilities for governance and oversight, and material risks; second, transparent tax numbers and performance, including clear reconciliation of the tax charge to the statutory rate, and forward-looking measures for tax; and third, a discussion of Total Tax Contribution and the wider impacts of tax, showing how tax influences the business strategy, results and shareholder value. This could include a discussion of the company's approach to advocacy and lobbying activities on tax, together with communication of the economic contribution of all taxes paid by the company.

Tax reporting for companies with primary listing in South Africa

Winner

Sasol Limited

Sasol's tax reporting was comprehensive, useful and easy to follow, enabling a reader to quickly get an understanding of its tax position. Aspects of its reporting that differentiated Sasol included the disclosure of a breakdown by country and business segmentation, the use of graphs, discussions of the effect of carbon tax on the business, the linkage of tax to social value added, consideration of the effectiveness of the tax function and discussion of its approach to the management of tax risk. One judge had the following comment to make in nominating Sasol for the award: "The differentiating factor [is] the thread of how tax is treated as permeating every aspect of its business."

Highly commended

Kumba Iron Ore

Kumba produced very good tax reporting. In particular, its acknowledgment that its approach to tax should reflect a balancing act between different stakeholders impressed the judges. Other aspects of its reporting that were highlighted by the judges included its disclosure of tax paid as part of a value-added statement and the disclosure of taxes borne and collected on behalf of government, supplemented by a global split.

However, it was pointed out that future reports of Kumba could benefit from more detail on how tax risk is managed.

Tax reporting for companies with primary listing outside South Africa

Winner

SABMiller Plc

A comment by one of the judges succinctly summarises the excellent tax reporting produced by SABMiller: "SAB has been transparent in its disclosures in the sense not of 'nakedness' but of balanced reporting with positive and negative factors. They set out group revenue, total tax contribution, group effective tax rate, taxes on production and taxes on profit. The picture of revenue and taxation is further clarified by showing economic value generated, economic value distributed and economic value retained. Also, there is a clear disclosure of how much and where tax is paid. Further, the flow of tax has been set out diagrammatically.They deal with transfer pricing, their operations in tax havens and their tax incentives. In addition, their key tax principles have been set out in clear, concise and understandable language."

Highly commended

Anglo American Plc

The tax reporting by Anglo American was outstanding and it was just pipped by the winner of the award. Anglo produced tax reporting with a number of distinguishing features. These included the disclosure of a weighted average statutory corporate tax rate, a table of taxes generated over the life of a mine, a visual disclosure of the contribution of tax to the economic impact their operations have in different regions, details of taxes paid by category and by country, and comprehensive disclosure of taxes borne and collected by country and by developed or developing country, including actual amounts, percentages and graphical representations.

Although Anglo discloses tax fact sheets for a number of countries in which it operates, these are for the 2012 financial year and were accordingly not taken into consideration for the awards. Anglo would benefit by imbedding the update of the tax fact sheets into its reporting processes.

Building Public Trust Awards

Please refer all queries to:

Paul de Chalain
Email: paul.de.chalain@za.pwc.com
Telephone: 011 797 4260

Kyle Mandy
Email: kyle.mandy@za.pwc.com
Telephone: 011 797 4977

Sonja Nel
Email: sonja.nel@za.pwc.com
Telephone: 011 797 4207

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