28 May 2021

Daniel Mulé
Policy Lead, Extractive Industries Tax and Transparency
Oxfam America
Washington DC
USA

Via email: daniel.mule@oxfam.org

Dear Daniel,

Thank you for providing Glencore with the opportunity to review the draft report on Mopani’s tax. We have reviewed the report and set out our response below.

**Glencore’s approach to fiscal transparency:**

Glencore is a major investor and partner in the developing world. Wherever we operate, we make a commitment to create value in an ethical and sustainable manner. We pay all relevant taxes, royalties and levies required by local and national regulation in our host countries. The payments we make to the governments of the countries in which we operate include local, national, sales and employment taxes, government royalties and licence and permitting fees. These payments are set out in our Payment to Governments Report and our Group Tax Policy is also publicly available.

In addition, we contribute to local economies through our use of local suppliers, wages and employee benefits, voluntary support of socio-economic initiatives such as health and education projects and infrastructure development.

We welcome fiscal transparency, as it encourages the responsible management of revenues from extractive activities. We are a supporter of the Extractive Industries Transparency Initiative (EITI) and its principles of transparency and accountability. We participate in in-country forums supporting the EITI.

**Comments on the Oxfam report:**

At the outset, please note that the Zambian Revenue Authority (ZRA), completed a comprehensive tax audit of Mopani for the years 2012-17 in March this year. Some adjustments were made (not uncommon for large enterprises like Mopani) and no additional tax was required to be paid for any of these years. This finding is completely at odds with the ‘profit shifting’ estimates / assertions, contained in the Oxfam report.

For the period of your review, and existing at the conclusion of the sale to ZCCM in March 2021, ZRA owed Mopani almost USD$500 million in legally due VAT refunds, built up over the past decade. As a result, Mopani overpaid taxes during this period, equivalent to, as you note on pg. 12, Zambia’s entire national healthy budget for 2020.
On the report itself, we believe that report is fundamentally flawed as it is based on materially incorrect or unreasonable assumptions and ultimately, grossly misleading conclusions and / or assertions. There are very few pages on which we have no comments and / or concerns, as the report contains numerous factual inaccuracies and reflects a very limited understanding of Mopani’s operating and financial drivers. We address some of the most egregious errors below.

**Method 1 CUP Method:**

In relation to exhibit 24, actual Mopani revenue per its Deloitte audited statutory financial statements is set in the table below, followed by 2018’s extract for reference:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,152</td>
<td>1,052</td>
<td>1,240</td>
<td>1,336</td>
<td>1,120</td>
<td>594</td>
<td>670</td>
<td>861</td>
</tr>
</tbody>
</table>

**MOPANI COPPER MINES PLC**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2018

<table>
<thead>
<tr>
<th>US Dollar '000</th>
<th>NOTES</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6</td>
<td>861,010</td>
<td>670,780</td>
</tr>
<tr>
<td>Mineral royalties</td>
<td>7</td>
<td>(22,227)</td>
<td>(15,486)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>838,783</td>
<td>655,294</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>8</td>
<td>(1,206,555)</td>
<td>(801,882)</td>
</tr>
<tr>
<td>Gross loss</td>
<td></td>
<td>(367,772)</td>
<td>(146,588)</td>
</tr>
</tbody>
</table>

*Source: Glencore*

In the earlier years, this aligns closely with the ZCCM referenced information, with material differences later on. It is unclear how this information has been compiled. It is also critical to note that in 2011, 2012 and 2013, Mopani ‘toll treated’ a portion of its ‘other’ sourced (non-mined) material. In this regard, it took NO title to such purchases / sales and merely received a processing fee for its conversion / treatment services (copper concentrates into cathodes). Tolled material for these years was 86kt, 69kt and 63kt respectively.

These tolling units need to be mathematically removed from the Exhibit 22 aggregate copper production volumes for the purposes of a like-for-like reasonableness comparison of ‘counterfactual revenue’ assessment with Mopani’s actual reported revenue noted above. In doing so, taking your annual average copper price and USD$300/t freight adjustment assumptions, the revenue gap changes from the **Oxfam deficit of USD$388m p.a. to a surplus of around USD$100m p.a.**
Method 2 TNMM Method:

We have multiple questions / concerns in relation to the tables and calculations in 5.3, however the whole section is fundamentally flawed in that Mopani is not comparable with the entities selected in Exhibit 40, on account of multiple factors. The three key ones are:

1. As seen in Exhibit 22, Mopani’s total production derives approximately 50/50 from its own sources (mining) and from treating other mines’ material (smelting). The economics and margin structure are completely different between mining and smelting. Mopani’s 50/50 hybrid business mix, on its own, makes it not usefully comparable with most, if not all, of the entities listed in Exhibit 40.

2. Over the last 10 years, Mopani’s cost structure has progressively increased with its deep underground mining advancing ever further away from its surface infrastructure. Against this backdrop, Glencore approved an investment program more than USD$1 billion to extend the life of Mopani via sinking new shafts and building a new concentrator, without which, Mopani was heading towards the end of its economic life. In your Box 5 pg. 37, you note this project completed in late 2017/early 2018. The project is still not complete. It is important to note that Mopani’s operating and financial parameters (high costs, low volumes) in recent years is not remotely comparable with your Exhibit 22 universe, which includes some of the most productive, large scale copper operations in the world, belonging to Rio Tinto, Anglo American, Southern Copper, Antofagasta, Freeport and Codelco.

3. Another key factor to take into account is that most of the companies in Exhibit 22 produce by-products, in addition to copper, such as gold, silver, molybdenum etc. These by-products can significantly enhance their margins / financial returns. Mopani does not benefit from any by-products.

Section 6:

We have highlighted the following wording from this section, “beyond the scope of current international tax rules”. We have concerns / observations on the analysis performed. We believe it is counterproductive to be engaging on these, still yet to be properly developed, laboratory methodologies.

Selective other comments:

- Various references have been made to a 2011 leaked draft tax audit report that was unofficially circulated in Zambia. The draft provisional report contained fundamental factual errors (including in relation to a proper understanding of toll treated material, as discussed above) and both Mopani and Glencore have publicly refuted its “conclusions” on numerous occasions.
- Exhibit 13: DRC does have an excess profits tax and a top royalty range of 10%
- Exhibit 15: Having removed impairments from net profit, it is necessary to remove the impairment related tax credits within ‘income tax expense’
- Pg.44 - update: On 21 May 2021, the Australian High Court denied the ATO’s application for leave to appeal.
- Pg.47: Katanga Mining Ltd is not and has never been a DRC tax resident. It is an offshore holding company, with shares previously listed on the Toronto Stock Exchange (TSX) until Glencore assumed full control in 2020. Its debt expense is / was not deductible in the DRC.
• Zambia’s tax treaty with Switzerland allows for full exchange of information, which are relevant for carrying out the provisions of the treaty, whereby Glencore discloses its transfer pricing affairs and country-by-country reports to tax administrations, according to domestic and international law.

**Glencore’s Investment in Mopani:**

In 2000, Glencore acquired its shareholding in Mopani in a competitive tender as part of a general privatisation, supported by the World Bank. Following years of under-investment, the business was in a parlous financial and physical condition and its 10,000 jobs at risk.

For over 20 years, until the sale to ZCCM in March 2021, Glencore made a very substantial contribution to the local, regional and national economic well-being and growth of Zambia:

- Over USD$1 billion in taxes and royalties paid
- USD$3 billion employee salaries paid
- Over USD$200 million spent on social investment

Glencore invested almost USD$4 billion to redevelop and improve the efficiency and environmental footprint of the operations. Until the sale to ZCCM, Glencore received no dividends, while continuing to invest and secure Mopani’s long-term future. ZCCM acquired Mopani for USD$1, leaving USD$1.5 billion of debt owing to Glencore, representing a significant loss/write-down of Glencore’s cumulative, historical investment.

We trust that you will take these comments into account and, if you decide to proceed with the report, ensure that they are appropriately reflected.

Yours sincerely,

Charles Watenphul