



**Downer**  
Relationships creating success

# TAX REPORT 2018

For the year ended 30 June 2018 | 21 December 2018





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# 1. CHIEF FINANCIAL OFFICER'S INTRODUCTION

On behalf of the Board, I am pleased to present the 2018 Tax Report for the Downer Group (Downer or the Group). This is Downer's fourth Tax Report and continues Downer's commitment to the global view that transparency and effective tax risk management is an essential part of good corporate governance.

While Downer had acquired an interest in Spotless of 87.8% as at 30 June 2018, it remains a separate consolidated group for income tax purposes. As a result, the 2018 Downer Tax Report does not include information in relation to Spotless unless otherwise specified.

Downer makes a wide range of tax-related payments to tax authorities in the various jurisdictions in which it operates and pays the appropriate amount of tax in each jurisdiction under the relevant tax laws. Downer's tax liability is primarily payable in Australia and New Zealand. The profits earned by Downer are taxed at the applicable tax rate. Franking credits are generated from the payment of Australian income tax by Downer, which are passed on to shareholders on the payment of franked dividends.

Downer is also subject to fringe benefits tax (FBT), goods and services tax (GST), payroll tax, land tax, stamp duty and other taxes. As well as being subject to the above taxes, Downer also collects and remits 'pay as you go' (PAYG) taxes on behalf of its employees and withholding tax.

In the 2018 financial year total taxes paid, collected and remitted by Downer to the tax authorities was \$1.2 billion.

Additionally, Downer has signed up to the voluntary tax transparency code (TTC) as released by the Board of Taxation in May 2016. This 2018 Tax Report complies with the disclosure requirements of the voluntary TTC.

This report provides information on Downer and in particular, the following:

- Section 2 Downer Group overview;
- Section 3 Tax strategy and governance;
- Section 4 Taxes paid, collected and remitted by the Downer Group;
- Section 5 Income taxes disclosed in Downer's 2018 Annual Report;
- Section 6 International related party dealings; and
- Section 7 Australian Taxation Office (ATO) tax transparency disclosures.

The information in this report is additional to information already published in the Notes to Downer's 2017 and 2018 Annual Reports, which were prepared in accordance with Australian Accounting Standards and comply with the International Financial Reporting Standards.

Downer has a strong commitment to tax governance and compliance and supports the principles of transparency with respect to its tax strategy and tax compliance in Australia and globally.

Signed

Michael Ferguson  
Chief Financial Officer

## 2. DOWNER GROUP OVERVIEW

Downer Group is a leading provider of integrated services to customers in the following markets:

- Transport;
- Utilities;
- Engineering, Construction and Maintenance (EC&M);
- Mining; and
- Rail.

Downer employs about 20,000 people across more than 200 sites and projects, mostly in Australia and New Zealand, but also in the Asia-Pacific, South American and Southern African regions.

The majority of Downer's profits are earned in Australia and New Zealand. Downer also earns profits in various overseas jurisdictions, which contribute to less than 1% of the Group's revenue. Refer to Note F4 "Controlled entities" of the 2018 Annual Report for details of the Group's controlled entities.

Downer reports its results under the following five service lines:

- Transport – comprises the Group's road, rail infrastructure, bridge, airport and port businesses;
- Utilities – comprises the Group's power, gas, water, renewable energy, fibre, copper and radio network infrastructure businesses;

- EC&M – comprises the Group's industrial and commercial construction and maintenance businesses and resource based consultancies;
- Mining – comprises the Group's open cut mining, underground mining, mine planning, blasting and tyre management businesses; and
- Rail – comprises the Group's total rail asset solutions including passenger build, operations and maintenance, component overhauls and after-market parts to a range of customers.

For Australian income tax purposes, Downer elected to form a tax consolidated group (the Downer Tax Consolidated Group). The Downer Tax Consolidated Group includes Downer EDI Limited (as the Head Company) and its wholly owned Australian subsidiaries. The members of the Downer Tax Consolidated Group are treated as a 'single taxpayer' for Australian income tax purposes.

While Downer had acquired an interest in Spotless of 87.8% as at 30 June 2018, it remains a separate consolidated group for income tax purposes. As a result, the 2018 Downer Tax Report does not include information in relation to Spotless unless otherwise specified. For example, Section 5 relates to income taxes disclosed in Downer's 2018 Annual Report, with references to the Downer consolidated group under the accounting concepts.

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## 3. TAX STRATEGY AND GOVERNANCE

The objective of Downer's tax strategy is to deliver value to shareholders, whilst ensuring a high standard of integrity and acting as a responsible taxpayer.

Downer implements the tax strategy having regard to the tax risk management principles within the Group's overall risk management framework. This framework is approved by Downer's Board and is supported by the Group's governance processes, which ensure the framework is implemented effectively. The framework and supporting governance processes outline key tax risks and the appropriate controls required to ensure that all tax risks are managed appropriately and effectively.

The Board does not sanction or support any activities that seek to aggressively structure Downer's tax affairs. Downer adopts a low risk approach to its tax affairs.

Given the size of Downer, the ATO has undertaken various tax risk reviews, which have been conducted in an open, cooperative and transparent manner.

As mentioned, Downer operates in a number of overseas jurisdictions. New Zealand is the only jurisdiction in which Downer has significant operations. The corporate tax rate of 28% in New Zealand is lower than Australia's corporate tax rate. Accordingly, Downer discloses the impact of the different tax rates in Note B4 to the 2018 Annual Report ("Effect of tax rates in foreign jurisdictions").

Downer's corporate governance framework, including tax governance framework, provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Group;
- Downer management is accountable to the Board;
- The risks to Downer's business are identified and managed; and
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

Additionally, Downer is committed to maintaining high standards of corporate governance by voluntarily adopting the transparency principles in the TTC.

## 4. TAXES PAID, COLLECTED AND REMITTED BY THE DOWNER GROUP

The majority of Downer's operations are in Australia and New Zealand. The table below illustrates the types of taxes paid, collected and remitted by Downer (excluding Spotless) in the 30 June 2018 and 30 June 2017 financial years to the Australian (Federal and State) and New Zealand tax authorities.

Tax Authorities	Taxes paid			Taxes collected / remitted			Total taxes paid, collected / remitted
	Corporate income tax \$m	Employer / payroll taxes <sup>1</sup> \$m	Total taxes paid \$m	GST (net of recoveries) \$m	Employee taxes remitted <sup>2</sup> \$m	Total taxes collected / remitted \$m	
<b>2018</b>							
Australia (Federal)	41.7	4.2	45.9	223.7	590.9	814.6	860.5
Australia (State)	-	108.2	108.2	-	-	-	108.2
NZ <sup>3</sup>	6.2	3.8	10.0	73.2	99.0	172.2	182.2
<b>Total</b>	<b>47.9</b>	<b>116.2</b>	<b>164.1</b>	<b>296.9</b>	<b>689.9</b>	<b>986.8</b>	<b>1,150.9</b>
<b>2017</b>							
Australia (Federal)	29.8	5.6	35.4	258.7	610.9	869.6	905.0
Australia (State)	-	109.0	109.0	-	-	-	109.0
NZ <sup>3</sup>	13.0	3.8	16.8	63.2	85.0	148.2	165.0
<b>Total</b>	<b>42.8</b>	<b>118.4</b>	<b>161.2</b>	<b>321.9</b>	<b>695.9</b>	<b>1,017.8</b>	<b>1,179.0</b>

### Notes

- Note 1. Consists of payroll and employer taxes paid resulting from Downer's role as an employer including Australian and NZ FBT. Figures represent payroll tax and NZ FBT for the 30 June year and Australian FBT for the 31 March year.
- Note 2. Employee taxes remitted to tax authorities for the 30 June year.
- Note 3. Taxes paid in NZ have been presented in Australian dollars.

## 5. INCOME TAXES DISCLOSED IN DOWNER'S 2018 ANNUAL REPORT

### INCOME TAX EXPENSE

Income tax expense (ITE) is an accounting concept, which represents the amount of income tax accrued for accounting purposes. Usually, there will be differences between the ITE and the amount of income tax paid for the period to relevant tax authorities. This is due to the ITE including amounts which are not likely to be paid / received in the current period (commonly referred to as deferred tax expense). The ITE may also be affected by the impact of overseas jurisdictions, whether it is due to differential tax rates or the inability to recover tax losses from these jurisdictions. Further, for accounting purposes, ITE includes only taxes on profits and excludes other types of taxes such as GST, FBT and PAYG tax paid on behalf of employees.

Downer reported a global ITE expense of \$52.6 million for the 2018 financial year, inclusive of Spotless. The reported effective tax rate (ETR) of 42.5% represents the ITE as a percentage of Downer's total profit before tax. The primary drivers of the ITE and ETR are outlined below (split into Australian and international operations).

2018	Australia \$'m	International \$'m	Global \$'m
Profit before income tax	37.6	86.1	123.7
Tax using Downer's corporate tax rate <sup>1</sup>	11.3	25.8	37.1
Effect of tax rates in foreign jurisdictions <sup>2</sup>	-	(1.3)	(1.3)
Non-deductible expenses	1.0	-	1.0
Profits and franked distributions from joint ventures (JV) and associates <sup>3</sup>	(5.0)	(0.6)	(5.6)
Non-taxable government grant <sup>4</sup>	(2.6)	-	(2.6)
Impairment of goodwill	22.9	-	22.9
Non-taxable gains / losses	(1.8)	-	(1.8)
Other items	(0.3)	1.5	1.2
(Over) / under provision of income tax in previous year	1.7	-	1.7
<b>Total ITE</b>	<b>27.2</b>	<b>25.4</b>	<b>52.6</b>
<b>ETR</b>	<b>72.2%</b>	<b>29.5%</b>	<b>42.5%</b>

#### Notes

Note 1. Australian corporate tax rate is 30%.

Note 2. NZ profits taxed at 28%; profits from other foreign jurisdictions taxed at different tax rates to the Australian corporate tax rate of 30%.

Note 3. Represents JV profits that have already been subject to tax.

Note 4. Represents Research & Development (R&D) grant income in Downer's Profit & Loss that is not subject to tax (recognised within EBIT in "Other Revenue").



## RECONCILIATION OF ITE TO INCOME TAX PAID

2018	\$'m
Income tax expense (per Profit & Loss in the Annual Report)	52.6
Adjusted for:	
Deferred tax (expense) / benefit	(3.4)
Tax payments greater / (less) than current tax expense	6.8
<b>Income tax paid</b> (agrees to Cash Flow Statement in the Annual Report)	<b>56.0</b>

### Notes

- The deferred tax expense for the 2018 financial year primarily consists of movements in the following deferred tax balances (due to differences in varying tax treatments):
  - Inventories of \$9.8m: Items of inventory immediately deductible for tax purposes.
  - Trade and other payables of \$12.9m: Accrued expenses not deductible for tax until incurred.
  - Property, Plant and Equipment (PPE) of (\$19.3m): PPE being depreciated faster for tax than accounting.
  - Intangible assets of \$19.0m: Amortising intangible assets non-deductible for tax purposes.
  - Provisions of (\$33.2m): Provisions not deductible for tax until incurred.

## 6. INTERNATIONAL RELATED PARTY DEALINGS

Generally, Downer operates in foreign jurisdictions through legal entities and is subject to the tax regimes in those jurisdictions. These entities and foreign jurisdictions are disclosed in the Annual Report (Note F4 “Controlled entities”).

Downer reports its income in the country where the services are performed and reports expenses in the country where the costs are incurred. As the Group predominantly operates in Australia and New Zealand, the Group’s main international related party dealings (IRPD) impacting the Australian taxable income of the Downer Tax Consolidated Group is the management fee charged to New Zealand, which is summarised below.

Main IRPD	2018 \$'m
Management fee to NZ	9.0
<b>Total</b>	<b>9.0</b>

Downer EDI Limited, as the holding company of the Downer Group, is required to charge a management fee in relation to costs incurred and services performed referable to managing and supporting the business portfolio.

The recovery of corporate head office costs referable to supporting the business portfolio is a requirement to comply with tax legislation.

The approach adopted in calculating and charging the management fee is in accordance with relevant transfer pricing legislation and ATO and Organisation for Economic Cooperation and Development transfer pricing rulings and guidelines and has been signed off by external tax advisors.

## 7. ATO TAX TRANSPARENCY DISCLOSURES

In December 2018 the ATO published tax information for large taxpayers in respect of the 2017 tax year in accordance with the ATO's tax transparency measures.

The information published by the ATO includes taxable income and tax payable, which are based on concepts outlined under Australian tax law. Taxable income is generally based on accounting profit with adjustments for tax timing differences, and for amounts included in accounting profit that are not included in taxable income. Unused tax losses from prior years can also be deducted from taxable income in later years. Tax payable is generally 30% of taxable income but this amount is then reduced for available tax offsets. These offsets include franking credits and the R&D tax offset.

For the 2017 tax year, the Downer Tax Consolidated Group's taxable income was \$241.3 million and tax payable was \$21.2 million. This is principally due to the following items:

	Taxable income / (deduction) \$'m	Tax payable / (offset) \$'m
Taxable income	241.3	72.4
The investment of \$100.0 million in R&D for innovation programs <sup>1</sup>	(128.3)	(38.5)
The exclusion of income, which had already been taxed at Downer's JV level <sup>2</sup>	(17.0)	(5.1)
Tax offsets for tax prepaid in 2016 applied in the 2017 year <sup>3</sup>	(22.5)	(6.8)
The exclusion of foreign income which had already been taxed in foreign jurisdictions <sup>4</sup>	(2.9)	(0.8)
<b>Tax payable</b>	<b>70.6</b>	<b>21.2</b>

### Notes

1. Tax offset Downer was eligible for under the R&D incentive program (tax offset capped at \$38.5 million).
2. Franking credits received from Downer's JV distributions that had already been subject to corporate tax.
3. Franking deficit tax (FDT) paid which resulted in a tax offset.
4. Foreign income tax offset for foreign tax already paid on the foreign profits included in Downer's taxable income.

The following table provides a comparison of the information published by the ATO against information contained in Downer's 2017 Annual Report.

2017	ATO published information	2017 Annual Report	Explanation
Total Income	5,984,214,119	7,324,300,000	<ul style="list-style-type: none"> <li>The total income published by the ATO is based on the lodged income tax return for the Downer Tax Consolidated Group for the year ended 30 June 2017, which only includes the results of the Australian entities.</li> <li>The income in the Annual Report includes income of New Zealand and other overseas jurisdictions. This comprises 'Total revenue and other income', 'Share of net profit of joint ventures and associates' and 'Finance income' in the Annual Report.</li> </ul>
Taxable Income (Downer profit before tax as comparative)	241,250,346	251,000,000	<ul style="list-style-type: none"> <li>The taxable income published by the ATO is the accounting profit for the Downer Tax Consolidated Group adjusted for the following material tax adjustments: <ul style="list-style-type: none"> <li>Tax timing differences;</li> <li>Non-deductible R&amp;D expenditure; and</li> <li>Recoupment of carried-forward and acquired tax losses.</li> </ul> </li> <li>The profit in the Annual Report is the consolidated profit for Downer which includes the results of New Zealand and other overseas jurisdictions.</li> </ul>
Tax payable (Downer income tax paid (per cash flow statement) as comparative)	21,166,026	49,000,000	<ul style="list-style-type: none"> <li>The Australian tax payable published by the ATO was reduced to \$21.2 million as a result of the utilisation of tax offsets and credits (the R&amp;D offset of \$38.5 million, franking credits attached to dividends received from JVs of \$5.1m million, franking deficit tax offset of \$6.8 million and foreign income tax offset of \$0.8 million).</li> <li>Income tax paid per the Cash Flow Statement in the Annual Report includes Downer's global tax payments primarily relating to Australia of \$29.8 million and other overseas jurisdictions of \$19.2 million.</li> </ul>

## 8. BASIS OF REPORT PREPARATION

### SECTION 4

Taxes and other payments to Australian and New Zealand tax authorities are presented in this Report in Section 4 on a cash paid and cash received basis for the years ended 30 June 2017 and 30 June 2018. This Report includes all such payments by controlled entities within the Downer Group (excluding Spotless). Tax payments made by equity accounted investments and joint ventures are excluded.

Taxes paid to Australian and New Zealand tax authorities, net of refunds, are referred to in this Report and include the following categories:

#### Corporate income tax

Payments to tax authorities based on taxable profits determined in accordance with income tax laws, including withholding taxes on dividends and interest.

#### Employer / payroll taxes

Payments to tax authorities resulting from Downer's role as an employer, including payroll tax, Australian FBT and New Zealand FBT. Figures shown represent payroll tax and New Zealand FBT for the 30 June 2017 and 30 June 2018 years and Australian FBT for the 31 March 2017 and 31 March 2018 years being the most recent annual data.

#### GST (net of recoveries)

GST payments made to, or received from, Australian and New Zealand tax authorities.

#### Employee taxes remitted

Tax payments remitted to tax authorities on behalf of Downer's employees.

### SECTION 5

The financial statement disclosures in Section 5 have been extracted from the 2018 Annual Report which was prepared under Australian Accounting Standards and complies with International Financial Reporting Standards.

### SECTION 7

ATO tax transparency disclosures in Section 7 reflect total income, taxable income and tax payable contained in the 30 June 2017 tax return lodged by the Downer Tax Consolidated Group.



# Independent Auditor's Report

To the Directors of Downer EDI Limited

## Opinion

In our opinion, Downer EDI Limited's ("Downer") Tax Report 2018 (the "Tax Report") presents fairly, in all material respects, the tables presented in Sections 4 to 7 (the "Tables") in accordance with the basis of preparation set out in Section 8 of the Tax Report, for the year ended 30 June 2018.

The **Tax Report** comprises:

- Section 4 – Taxes paid collected and remitted by the Downer Group
- Section 5 – Income taxes disclosure in Downer's 2018 Annual Report
- Section 6 – International related party dealings
- Section 7 – ATO Tax Transparency disclosures

## 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 the Tables* section of our report.

We are independent of Downer 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 the Tables in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Section 8 to the Tax Report, which describes the basis of preparation.

The Tax Report has been prepared to assist the Directors of Downer for the purpose of disclosing certain information regarding Australian and International taxes paid, collected and remitted by Downer for the year ended 30 June 2018.

As a result, the Tax Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Directors of Downer and should not be used by or distributed to parties other than the Directors of Downer. We disclaim any assumption of responsibility for any reliance on this report, or on the Tax Report to which it relates, to any person other than the Directors of Downer or for any other purpose than that for which it was prepared.

## Other Information

Other Information is financial and non-financial information in Downer's Tax Report which is provided in addition to the Tables and the Auditor's Report. Management is responsible for the Other Information.

Our opinion on the Tables does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Tables, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with Tables 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.

## Responsibilities of Management for the Tax Report

Management are responsible for:

- the preparation and fair presentation of the Tax Report and have determined that the basis of preparation described in Section 8 of the Tax Report is appropriate to meet the needs of the Directors of Downer for the purpose of disclosing certain information regarding Australian and International taxes paid, collected and remitted by Downer for the year ended 30 June 2018
- implementing necessary internal control to enable the preparation of the Tax Report that is free from material misstatement, whether due to fraud or error

## Auditor's responsibilities for the audit of the Tables

Our objective is:

- to obtain reasonable assurance about whether the Tax Report as a whole is free from material misstatement, whether due to fraud or error; and
- to 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.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Tax Report.

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 Tax 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 our 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.

- Obtain an understanding of internal control 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 Downer EDI Limited's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the Tax Report, including the disclosures, and whether the Tax Report represents the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- We also provide management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

KPMG

Stephen Isaac

Sydney

21 December 2018







# Downer

Relationships creating success

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