



Tax Report 2015

For the year ended 30 June 2015

8 December 2015

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1 Chief Financial Officer's Introduction



I am pleased to present Downer Group's (Downer or the Group) Tax Report for 2015.

Downer makes a wide range of tax-related payments to tax authorities in the various jurisdictions in which it operates. Downer's tax liability is primarily payable in Australia and New Zealand (NZ). The profits earned by Downer are taxed at the applicable tax rate. Imputation credits are generated from the payment of Australian income tax by Downer which are then passed on to shareholders on payment of dividends (franking credits).

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 pays 'pay as you go' (PAYG) taxes on behalf of its employees and withholding tax.

In the 2015 financial year, Downer paid \$431.3 million in taxes while \$648.8 million in employee taxes were remitted to tax authorities.

This report provides information on Downer and in particular:

- Section 2 – Downer Group;
- Section 3 – Tax strategy and governance;
- Section 4 – Taxes paid by the Downer Group;
- Section 5 – Income taxes disclosed in Downer's 2015 Annual Report; and
- Section 6 – Australian Taxation Office (ATO) tax transparency disclosures.

The information in this report is additional to information already published in the Notes to Downer's 2014 and 2015 Annual Reports which were prepared in accordance with Australian Accounting Standards and comply with the International Financial Reporting Standards.

Signed

A handwritten signature in black ink, appearing to read 'Kevin Fletcher'.

Kevin Fletcher
Chief Financial Officer

2 Downer Group

Downer is a leading provider of services to customers in markets including: Transport Services; Rail; Mining; Utilities Services; Technology and Communications Services; and Engineering, Construction & Maintenance (EC&M). 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 region, South America and Southern Africa.

The majority of Downer's profits are earned within Australia and New Zealand. Downer also earns profits in various overseas jurisdictions although the contributions are not material.

Downer reports its results under the following six service lines:

- Transport Services – comprises the Group's road, rail, airport and port infrastructure businesses;
- Technology and Communications Services – comprises the Group's fibre, copper and radio network infrastructure businesses;
- Utilities Services – comprises the Group's power, gas and water network infrastructure businesses and also its renewable energy business;
- EC&M – comprises the Group's industrial and commercial construction and maintenance businesses and resource based consultancies;
- Mining – which includes open cut mining, underground mining, mine planning, blasting and tyre management; and
- Rail – provides total rail asset solutions including freight and passenger build, operations and maintenance, component overhauls and after-market parts to a range of public and private sector customers.

For Australian tax law, Downer has elected to form a tax consolidated group (the Downer Tax Consolidated Group). The Downer Tax Consolidated group is made up of Downer EDI Limited (as the Head Company of the Tax Consolidated Group) and its wholly owned Australian corporate subsidiaries. For income tax purposes, the members of the Downer Tax Consolidated Group are treated as if they were a 'single taxpayer'.

Where Downer operates in foreign jurisdictions, it generally operates through legal entities in those jurisdictions and is subject to the local tax regime. These entities and foreign jurisdictions are disclosed in the Annual Report. Downer reports its income in the country where the services are performed and reports expenses in the country where the costs are incurred. Downer has minor cross border charges.

3 Tax strategy and governance

Downer's tax strategy is focused on providing high quality tax management and tax governance which results in building sustained shareholder value.

Downer implements this strategy through the tax risk management principles within the Group's Risk Management Framework. This framework is approved by Downer's Board and is supported by governance processes which ensure the framework is implemented effectively. The framework and supporting governance processes outline key tax risks and the appropriate courses of action required to ensure that all tax risks are managed appropriately and effectively.

Further, Downer's Board does not sanction or support any activities which seek to aggressively structure Downer's tax affairs. As Downer operates in overseas jurisdictions, it is required to consider the appropriate structures to enter the jurisdictions. This includes balancing the commercial, cost (including tax), investor and legal factors. Downer ensures that the appropriate tax is paid in each jurisdiction. Outside of Australia, New Zealand is the only country in which Downer has significant operations and its corporate tax rate of 28% is lower than Australia's corporate tax rate. Downer discloses the impact of this in the Tax Note of the Annual Report ("Effect of tax rates in foreign jurisdictions") to highlight the impact of the different tax rates applied in relation to the profit from offshore activities.

Given the size of Downer, the ATO has undertaken various tax risk reviews which have been undertaken in an open, cooperative and transparent manner. In completing these reviews, Downer has provided all information requested and the ATO has not made any adjustments to submitted tax returns based on these reviews.

4 Taxes paid by the Downer Group

The tables below illustrate the types of taxes paid by Downer in the 30 June 2015 and 30 June 2014 financial years to the Australian (Federal and State) and New Zealand tax authorities. The majority of Downer's operations are in Australia and New Zealand.

2015

Tax Authorities	Corporate income tax \$'m	Employer / payroll taxes ¹ \$'m	GST (net of recoveries) \$'m	Total taxes paid \$'m	Employee taxes remitted ² \$'m
Australia (Federal)	33.0	8.5	214.1	255.6	581.3
Australia (State)	-	104.4	-	104.4	-
NZ ³	14.7	3.5	53.1	71.3	67.5
Total	47.7	116.4	267.2	431.3	648.8

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 2015 year and Australian FBT for the 31 March 2015 year.

Note 2 – Employee taxes remitted to tax authorities for the 30 June 2015 year.

Note 3 – NZ taxes paid have been presented in Australian dollars.

2014

Tax Authorities	Corporate income tax \$'m	Employer / payroll taxes ² \$'m	GST (net of recoveries) \$'m	Total taxes paid \$'m	Employee taxes remitted ³ \$'m
Australia (Federal)	11.5 ¹	9.0	202.5	223.0	522.5
Australia (State)	-	97.0	-	97.0	-
NZ ⁴	24.5	3.3	54.9	82.7	63.3
Total	36.0	109.3	257.4	402.7	585.8

Notes

Note 1 – The Downer Tax Consolidated Group recommenced payment of PAYG tax instalments on a monthly basis from February 2014 (\$11.5 million total instalments paid in FY14).

Note 2 – 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 2014 year and Australian FBT for the 31 March 2014 year.

Note 3 – Employee taxes remitted to tax authorities for the 30 June 2014 year.

Note 4 – NZ taxes paid have been presented in Australian dollars.

5 Income taxes disclosed in Downer's 2015 Annual Report

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 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 an ITE expense of \$69.6 million in the 2015 financial year and \$82.1 million in the 2014 financial year. The reported statutory effective tax rate (ETR) of 24.9% in 2015 and 27.5% in 2014, constitutes the ITE as a percentage of Downer's total profit before tax. The primary drivers of the ITE and ETR are as follows:

	2015		2014	
	%	\$'m	%	\$'m
Profit before income tax		279.8		298.1
Tax using the Company's statutory tax rate ¹	30.0%	83.9	30.0%	89.4
Effect of tax rates in foreign jurisdictions ²	(0.4%)	(1.2)	(0.6%)	(1.9)
Non-deductible expenses	0.8%	2.3	0.2%	0.6
Profits and franked distributions from joint ventures (JV) and associates ³	(2.5%)	(6.9)	(2.0%)	(5.8)
Non-taxable government grant ⁴	(2.7%)	(7.5)	(1.2%)	(3.5)
Other items	0.1%	0.1	0.3%	0.9
(Over)/under provision of income tax in previous year	(0.4%)	(1.1)	0.8%	2.4
Total income tax expense	24.9%	69.6	27.5%	82.1

Notes

Note 1 – Australian statutory tax rate is 30%.

Note 2 – NZ profits taxed at 28%; other foreign jurisdictions taxed at different tax rate.

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").

6 ATO tax transparency disclosures

In December 2015 the ATO will publish tax information for large taxpayers in respect of the 2014 tax year (ATO tax transparency measures). The following table provides a comparison of the information to be published by the ATO against information contained in Downer's Annual Report.

The information to be 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 (40% of eligible R&D expenses).

For the 2014 year, Downer's taxable income was \$344.4 million. However, Downer's tax payable was NIL. This is principally due to the following items:

	Taxable income / (deduction) \$'m	Tax payable / (offset) \$'m
Taxable income	344.4	103.3
The investment of \$209.8 million in R&D for innovation programs ¹	(279.8)	(83.9)
The exclusion of income which had already been taxed at Downer's JV level ²	(36.6)	(11.0)
Tax offsets for tax prepaid in prior years applied in the 2014 year ³	(27.3)	(8.2)
The exclusion of foreign income which had already been taxed in foreign jurisdictions ⁴	(0.7)	(0.2)
Tax payable	Nil	Nil

Notes

Note 1 - Under the tax legislation, this is the tax offset Downer was eligible for under the R&D incentive program.

Note 2 - Franking credits received from Downer's JV distributions that had already been subject to corporate tax.

Note 3 - Franking deficit tax (FDT) paid in prior years which results in a tax offset (FDT is essentially prepaid tax).

Note 4 - The foreign income tax offset for foreign tax already paid on the foreign profits included in Downer's taxable income.

2014	To be published ATO information (ATO)	2014 Annual Report (Annual Report)	Explanation
Total Income	\$6,572,665,959	\$7,391,538,000	ATO – The total income to be published is based on the Downer Tax Consolidated Group's lodged tax return (which only includes Australian entities). Annual Report – The income is Downer's Consolidated income which includes NZ and other overseas income. This consists of 'Total revenue and other income', 'Share of net profit of joint ventures and associates' and 'Finance income'.
Taxable Income (Downer profit before tax as comparative)	\$344,429,247	\$298,063,000	ATO – The taxable income to be published is the accounting profit for the Downer Tax Consolidated Group adjusted for the following material tax adjustments: <ul style="list-style-type: none"> • Tax timing differences; • Add back of non-deductible R&D expenditure; and • The recoupment of carried-forward tax losses. Annual Report – The profit is Downer's Consolidated profit which includes NZ and other overseas profit.
Tax payable (Downer income tax paid [per cash flow statement] as comparative)	\$0	\$41,709,000	ATO – The Australian tax payable to be published was reduced to NIL as a result of the utilisation of tax offsets and credits (the R&D offset - \$83.9 million, franking credits from JV dividends - \$11 million, FDT offset - \$8.2 million and foreign income tax offset - \$0.2 million). Annual Report – Downer's income tax paid per the cash flow statement of the Annual Report includes Downer's global tax payments primarily relating to Australia (\$11.5 million), NZ (\$24.5 million) and other overseas jurisdictions (\$5.7 million).

7 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 2014 and 30 June 2015. This Report includes all such payments paid by controlled entities within the Downer Group. 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 include the following categories:

Corporate income tax

Payments to tax authorities based on taxable profits under legislated income tax rules, 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 2014 and 30 June 2015 years and Australian FBT for the 31 March 2014 and 31 March 2015 years being the most recent annual data.

GST (net of recoveries)

Tax payments made to, or received from, Australian and New Zealand tax authorities in the nature of Value Added Tax and Goods and Services Tax.

Employee taxes remitted

Tax payments remitted to tax authorities on behalf of our employees. These payments have been presented in this Report for information purposes only.

Section 5

The financial statement disclosures in Section 5 have been extracted from the Downer Annual Report for 2015 and 2014 which have been prepared under Australian Accounting Standards and comply with International Financial Reporting Standards.

Section 6

ATO tax transparency disclosures in Section 6 reflect total income, taxable income and tax payable contained in the Downer 30 June 2014 Australian tax consolidated group annual return submitted to the ATO.



Independent Audit Report to the Directors of Downer EDI Limited

Opinion: What we found

In our opinion, the tables presented in Sections 4 to 6 of Downer EDI Limited's ("Downer") 'Tax Report 2015' (the "Report") are prepared, in all material respects, in accordance with the Basis of Report Preparation, for the years ended 30 June 2015 and 30 June 2014.

What we did and our responsibility

We performed an audit in order to express an opinion as to whether the tables presented by Downer in Sections 4 to 6 (the "Tables") of the Report, were prepared in accordance with the Basis of Report Preparation, for the years ended 30 June 2015 and 30 June 2014.

We conducted our work in accordance with Australian Auditing Standards.

According to those Standards, we must:

- Comply with relevant ethical requirements; and
- Plan and perform the audit to obtain reasonable assurance that the Tables are free from material misstatement.

We performed procedures to obtain audit evidence about the information contained in the Tables. We used our judgement to select procedures, including our assessment of the risks of material misstatement of the Tables, whether due to fraud or error.

We do not express an opinion on Downer's internal controls. However, we do consider relevant internal controls in the design of our audit procedures.

We also evaluated the appropriateness of the Basis of Report Preparation in relation to the Tables.

We believe that the evidence we obtained provides a sufficient and appropriate basis for our opinion.

Management's responsibility for the Report

Management of Downer is responsible for:

- Determining that the Basis for Report Preparation (Section 7) meets the needs of the Directors of Downer and that the Report is prepared in accordance with the Basis of Report Preparation; and
- For establishing internal controls that enable the preparation of Report that is free from material misstatement, whether due to fraud or error.

Use of this audit report

This independent audit report has been prepared for the Directors of Downer in accordance with our engagement letter and is intended solely for the Directors of Downer and Management. We disclaim any assumption of responsibility for any reliance on this audit report, or the Report to which it relates, to any person other than the Directors of Downer, or for any purpose other than that for which it was prepared.

Basis of Report Preparation

The Basis of Report Preparation, contained in Section 7 of the Report, is of such importance that it is fundamental to your understanding of the Tables. This has not caused us to modify our opinion.

Malcolm Ramsay
Partner

KPMG
Sydney

8 December 2015