



2019 Tax Transparency Report

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BAE SYSTEMS

Chief Financial Officer's Introduction

BAE Systems Australia is Australia's largest defence company and has a proud history of supporting the Australian Defence Force (ADF). Our prime customer is the Commonwealth of Australia represented by the Department of Defence. Our history dates back to 1953 when predecessor companies tested air defence missile systems at the Woomera Test Range in South Australia.

Today we are a trusted partner of the ADF engaged in many projects including:

- the mid-life upgrade of the ANZAC Class frigates;
- building the Hunter Class frigates for the Royal Australian Navy;
- upgrading the Jindalee Operational Radar Network (JORN), a network of three over-the-horizon radars monitoring Australia's northern approaches;
- providing in service support to the Hawk Lead in Fighter; and
- maintaining the airframe on the F-35 for the South Pacific region.

These big defining programs are each unique and demonstrate the company's breadth of skills, capability and technologies that are incredibly important in BAE Systems' support of the men and women of the ADF.

In more than 65 years our company has grown significantly and developed a unique domestic capability. We currently employ over 4,500 people across 25 locations around the country. We also support local industry and have nearly 1,500 local businesses in our supply chain. These numbers will grow as our subsidiary, ASC Shipbuilding, prepares to build the new Hunter Class Frigates, with over 1,000 companies pre-qualified.

BAE Systems Australia is committed to meeting its taxation responsibilities at all levels of Government within Australia. This includes meeting statutory obligations, lodgement deadlines, payment deadlines and disclosure requirements. We have a record of transparency with the Australian Taxation Office (ATO). We voluntarily entered into Annual Compliance Arrangements with the ATO from 2012 to 2016 and recently completed a streamlined assurance review and have been entered into its TOP 1000 Program which is a key part of the Justified Trust methodology.

BAE Systems Australia paid more than \$39 million in corporate income tax to the Australian Government for the year ended 31 December 2019 and over \$28 million for the year ended 31 December 2018. This information is published as part of the ATO's publication of corporate tax information.

The following pages set out further information about BAE Systems Australia's tax contribution to Australian State and Commonwealth Governments. They also set out information about our tax strategy and governance. This information is released on a voluntary basis following the Board of Taxation's Voluntary Tax Transparency Code.

Andy Cornfield
Chief Financial Officer
BAE Systems Australia



Part A

Effective Company Income Tax Rate

The corporate income tax rate in Australia is 30%. The effective tax rate for a company is calculated by dividing the total income tax expense by the total accounting profit before tax. We would normally expect the effective tax rate to be close to the corporate income tax rate. BAE Systems Australia's effective tax rate was 32.07% for the year ended December 2019. The effective tax rate was calculated as follows:

Total income tax expense	\$39,827,000
Total Profit before Tax	\$124,176,000

Reconciliations under Part A of the Tax Transparency Code

Part A of the Code requires a reconciliation of accounting profit to tax expense and to income tax paid or income tax payable. BAE Systems Australia Holdings Limited is the consolidated entity which reports under the Australian Accounting Standards. The consolidated entity includes BAE Systems Australia Ltd and its subsidiary ASC Shipbuilding Pty Ltd. The tax consolidated group differs from the consolidated group under the Australian Accounting Standards. The tax consolidated group does not include ASC Shipbuilding Pty Ltd as the Commonwealth of Australia retains a partial ownership of this company and therefore the requirements for the consolidation of ASC Shipbuilding Pty Ltd under the Income Tax Assessment Act 1997 are not met.

The difference in the composition of the consolidated group for accounting purposes and the tax consolidated group means that accounting profit cannot be reconciled to tax paid without first removing the accounting profit of ASC Shipbuilding. The information below sets out the consolidated groups' accounting information and the accounting information for ASC Shipbuilding. The subtraction of the ASC Shipbuilding accounting information from the consolidated groups accounting information then allows the reconciliation to the relevant tax related information for the tax consolidated group.

Reconciliation of Accounting Profit to Income Tax Expense

We have set out the tax note from the statutory accounts lodged for BAE Systems Australia Holdings Limited and the tax note that was prepared for ASC Shipbuilding Pty Ltd. These disclosures were prepared in accordance with the relevant Australian Accounting Standards.

We have subtracted the amounts reported for ASC Shipbuilding from the amounts reports for BAE Systems Australia Holdings Limited so that we can reconcile the reported accounting profit for the Australian tax consolidated group to the income tax expense.

The information set out below also includes the tax note from the statutory accounts for the year ended 31 December 2018. This information is provided for comparison purposes. Separate information relating to ASC Shipbuilding has not been provided for this period as this company was only acquired in mid-December 2018 and relevant amounts were not material.

The income tax expense is calculated by multiplying the accounting profit, adjusted for non-temporary differences, by the corporate tax rate of 30%.

Numerical Reconciliation between pre-tax profit and tax expense

	Year Ended December 2019			Year Ended December 2018
	Consolidated BAESA Holdings \$'000	ASC Shipbuilding \$'000	BAESA Holdings \$'000	Consolidated BAESA Holdings \$'000
Profit before tax	134,128	9,952	124,176	98,044
Income tax using the domestic corporation tax rate of 30% (2017: 30%)	40,239	2,986	37,253	29,413
Increase in income tax expense due to:				
Non-deductible expenses	1,993	(14)	2,007	1,407
Non-deductible expenses - Goodwill impairment				11,167
Non-deductible employee share payments	229		229	105
Increase/(decrease) in income tax expense due to:				
Recognition of DTA	616	24	592	(6,937) *
	43,077	2,996	40,081	35,155
Adjustments relating to prior years	(335)	(51)	(284)	4,427
Income tax expense on pre-tax net profit	42,742	2,945	39,797	39,582

*\$6.9 million change in the 2018 deferred tax asset (DTA) arose due to the re-recognition of a DTA under AASB 112 following the disposal of previously impaired fixed assets.

Reconciliation of Income Tax Expense to Current Year Income Tax Payable

The amounts reported below for BAE Systems Australia for December 2018 and December 2019 relating to tax payable are reported to the ATO in the relevant income tax returns.

	Year Ended December 2019			Year Ended December 2018
	Consolidated BAESA Holdings \$'000	ASC Shipbuilding \$'000	BAESA Holdings \$'000	Consolidated BAESA Holdings \$'000
Income tax expense on pre-tax net profit	42,742	2,945	39,797	39,582
Deferred tax (benefit)/expense	854	2,409	(1,555)	(10,632) **
Prior year tax adjustments	1,062	(42)	1,104	
Current year tax payable as per note 13(c)	44,658	5,312	39,346	28,950

** Prior year R&D offsets that have been carried forward and applied in this year.

Part B

Reconciliation from Current Year Income Tax Payable to Income Tax Paid

	Year Ended December 2019			Year Ended December 2018
	Consolidated BAESA Holdings \$'000	ASC Shipbuilding \$'000	BAESA Holdings \$'000	Consolidated BAESA Holdings \$'000
Current year tax payable as per note 13(c)	44,658	5,312	39,346	28,950
Less current year tax payable next year	(27,005)	(1,363)	(25,642)	(28,950)
Add prior year tax paid in current year	28,917	42	28,875	0
Tax paid during year as per statement of cash flows	46,570	3,991	42,579	0 ***

*** Income tax payable during a particular year is based on the tax instalments payable and any tax payable or refund due when the tax return is lodged. The tax instalments payable are determined by the Australian Taxation Office and are based on the most recent tax return lodged. For the year ended 31 December 2018 no tax instalments were payable because no tax was payable for the year ended 31 December 2017. No tax was payable in the year ended 31 December 2017 because carried forward R&D offsets reduced tax payable to nil. Tax payable for the year ended 31 December 2018 was correctly paid by the due date in June 2019.

Effective Company Income Tax Rate

Tax Policy, Tax Strategy and Governance

BAE Systems Australia's approach to tax strategy and tax governance is set out in our Tax Policy. This Tax Policy has been established under our internal governance framework and has been approved by BAE Systems Australia's Board.

The Tax Policy sets out BAE Systems Australia's approach on how to manage its tax affairs and its tax risk management. Our strategy is to act as a model citizen in our approach to tax compliance. We maintain an open and transparent relationship with revenue authorities and other fiscal regulators and specifically:

1. We will comply with all tax laws and regulations.
2. We will interpret tax laws in a manner consistent with the policy intent.
3. We will adopt tax concessions that are legally available.
4. We have a low risk, no surprises approach to tax compliance, planning and advice and will not covertly adopt a position opposite to a revenue authority's published position.
5. We will disclose any mistakes identified to the relevant tax authority.
6. We encourage voluntary compliance with all taxation requirements throughout the business.
7. We will not use structures designed to achieve a tax benefit, contrary to the intentions of relevant tax law, and will not engage in activities to avoid tax.
8. We will price any overseas dealings with related parties at arm's length prices.

Where tax risks are identified, they will be reported to the Board. A comprehensive strategy to address identified tax risks has been developed and may include seeking external advice and initiating discussions with the ATO.

Engagement with Revenue Authorities

BAE Systems Australia promotes a collaborative professional working with all tax authorities in order to build open, transparent and trusted relationships. BAE Systems Australia has developed a strong relationship with revenue authorities in Australia over many years. We voluntarily entered into an Annual Compliance Arrangement with the ATO from 2012 until 2016 when this program was closed by the ATO. Under this agreement the ATO reviewed our income tax returns prior to lodgement. The new ATO program under the Justified Trust framework is the TOP 1000 Program. We have completed the ATO's Streamlined Assurance Review process and have entered the ATO's Top 1000 Program. We continue to have regular contact with the ATO to assist us in addressing issues as they arise. We see this as a foundational relationship that we will maintain into the future.

BAE Systems Australia's contribution to the Australian tax base

BAE Systems Australia and its associated entities paid or collected taxes of more than \$206 million in the year ended 31 December 2018. The taxes we pay to the ATO or collect for the ATO are set out below:

Taxes we collect on behalf of ATO		Taxes we pay to ATO	
Tax Type	Amount	Tax Type	Amount
GST	\$49,650,889	GST	\$2,312,475
PAYG Withholding	\$112,456,751	PAYG Withholding	\$42,579,160
Total	\$162,107,640	Total	\$44,891,635

International related party dealings

BAE Systems Australia is predominantly a defence company supplying products and services of critical national importance to governments. Those governments often place restrictions on the operational activities of the company for national security reasons. The consequence of this is that the cross-border flows of products and services are relatively small in comparison with many other multinational businesses.

BAE Systems Australia has some business interactions and transactions with our international related businesses predominantly in the United Kingdom and the United States of America. These are disclosed to the ATO as part of our tax return process and the country by country reporting process. Our related party dealings were reviewed by the ATO under our Annual Compliance Agreement. As part of the Top 1000 program these will continue to be provided to the ATO as needed.

The main activities with related parties overseas are summarised below:

1. Management and administration services
2. Interest charged / received on intercompany loans
3. Use of technology and personnel globally
4. Sales of materials, goods and services

Globally BAE Systems has policies that govern pricing of transactions with related parties. These policies take into account transfer pricing principles and stipulate that arm's length pricing is to be used when dealing with related parties. This policy is adhered to in Australia.