

Boeing in Brief

Boeing is the world's largest aerospace company and leading manufacturer of commercial jetliners, defense, space and security systems, and service provider of aftermarket support. The company supports airlines and U.S. and allied government customers in more than 150 countries. Boeing products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, performance-based logistics and training.

With corporate offices in Chicago, Boeing employs about 153,000 people across the United States and more than 65 countries. This represents one of the most diverse, talented and innovative workforces anywhere. Our enterprise also leverages the talents of hundreds of thousands more skilled people working for Boeing suppliers worldwide.

Boeing is organized into three business units: Commercial Airplanes; Defense, Space & Security; and Global Services, which began operations July 1, 2017. Supporting these units is Boeing Capital Corporation, a global provider of financing solutions.

In addition, functional organizations working across the company focus on engineering and program management; technology and development-program execution; advanced design and manufacturing systems; safety, finance, quality and productivity improvement and information technology.

Boeing completed the acquisition of KLX Inc. (now known as Boeing Distribution Services Inc.) in October 2018 to enhance its growing services business and deliver greater value to its customers. Headquartered in Miami in the U.S., Boeing Distribution Services Inc. (BDSI) is a leading supplier and distributor of aerospace hardware, consumables, and chemicals along with innovative inventory management solutions, engineering services, technical support, and design assistance. The acquisition is aligned with Boeing's organic growth strategy, with no change to Boeing's capital deployment strategy or commitment to returning approximately 100 percent of free cash flow to shareholders. BDSI will be part of Boeing Global Services and fully integrated with Aviall. With approximately 2,300 employees globally, BDSI will continue to operate from Miami with customer service centers located in over 15 countries including Australia.

Boeing in Australia

Boeing Australia is the company's largest operational footprint outside the United States. With more than 3,500 employees and a heritage stretching back 90 years, Boeing plays an integral role in Australia's aerospace and defence industry.

The Boeing team in Australia has the broadest portfolio of products and services in Australian aerospace, including advanced manufacturing for commercial aircraft, defence systems design and development, modelling and simulation, research and development, support and training, and unmanned systems.

In 2016, according to an economic impact study, Boeing generated nearly \$1.3B for the Australian economy, supported more than 9300 Australian jobs (direct and

indirect) and spent more than \$400M with more than 1,500 Australian suppliers/partners.

Throughout 2018 Boeing invested over A\$98 million or 7.2% of total expenditure in eligible research and development (“R&D”), as defined by the requirements set out in the Australian *Income Tax Assessment Act 1997*. In the increasingly competitive global environment, the current R&D tax offset available in Australia is critical to Boeing both continuing, and increasing, investment in research and development in the Australian market. Boeing continues to strongly advocate for measures aimed at encouraging innovation investment in Australia, which has significant talent and technical capability important to our industry.

Boeing is unique in the Australian aerospace industry based on its history, presence, mix of commercial and defence business, original research and development activities, and supplier network.

Background

This document, while published in the context of Australia, describes the global tax policies of Boeing which are applied consistently in all territories in which we do business.

This tax strategy document is intended to satisfy a majority of the principles and standards of the Voluntary Tax Transparency Code, recommended in February 2016 by the Australian Government’s Board of Taxation in ‘*A Tax Transparency Code: A report to the Treasurer*’. Consideration has also been given to the recommendations provided in the Consultation Paper dated February 2019 from the Board of Taxation in ‘*Post-Implementation Review of the Tax Transparency Code*’. This document forms part of Boeing Australia’s broader corporate reporting set, and should be read in conjunction with our Financial Statements for a full picture of the company’s operations and activities.

The Boeing Australia Holdings Pty Ltd Board and Senior Leadership Team has overall responsibility for the tax strategy in Australia and is supported by the Group Head of Tax.

Basis of preparation

The below Tax Transparency Report disclosures were sourced from the Boeing Australia Holdings consolidated financial statements and lodged consolidated Income Tax Return for the years ended 31 December 2017 and 2018.

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001*.

The financial report covers Boeing Australia Holdings Pty Limited and its controlled entities (‘the Group’). Boeing Australia Holdings Pty Limited is a for-profit proprietary Company, incorporated and domiciled in Australia. Each of the entities within the Group prepare their financial statements based on the currency of the primary environment in which the entity operates (functional currency). The consolidated

financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

As stated in the standards disclosed the Australian Government's Board of Taxation in 'A Tax Transparency Code: A report to the Treasurer', it is recommended that groups produce disclosures in a manner which best matches the natural accounting and reporting systems of the organisation. This includes choosing the level of aggregation or group of entities for disclosure.

Boeing Distribution Services (BDS Pty Ltd) Pty Ltd is an Australian subsidiary of BDSI. BDSI and BDS Pty Ltd do not form part of the Boeing Australia Holdings consolidated group and have not been aggregated for the purposes of the Part A disclosure on the basis that these values are not material in the context of Boeing in Australia.

Part A

Reconciliation Between Statutory Profit/(Loss) Before Income Tax and Income Tax Expense/(Benefit) per Statutory Accounts

	31 Dec 2018	31 Dec 2017 Restated*
Total income	1,510,312,000	1,371,647,000
Total expenses	(1,355,002,000)	(1,228,428,000)
Statutory profit/(loss) before income tax expense/(benefit)	155,310,000	143,219,000
Income tax (expense)/benefit using the domestic corporate tax rate of 30 per cent	(46,593,000)	(42,966,000)
<i>Adjusted for tax effect of:</i>		
Research and development	5,896,000	4,925,000
Other net (non-deductible)/non-assessable items	(2,165,000)	(1,019,000)
Prior period differences	2,832,000	3,729,000
Income tax (expense)/benefit per statutory accounts	(40,030,000)	(35,331,000)

Reconciliation Between Statutory Profit/(Loss) Before Income Tax and Income Tax Payable per Lodged Consolidated Income Tax Return

Statutory profit/(loss) before income tax expense/(benefit)	155,310,000	143,219,000
Income tax (expense)/benefit using the domestic corporate tax rate of 30 per cent	(46,593,000)	(42,966,000)
<i>Adjusted for tax effect of:</i>		
Research and development	8,345,027	5,306,737
Non-temporary differences	(3,117,191)	2,623,161
Temporary differences	(2,457,752)	(7,077,048)
Foreign tax credits applied	820,215	51,524

Tax (payable)/refundable per tax transparency statement	(43,002,701)	(42,061,626)
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Effective tax rate for Boeing Australia Group

Year ended 31 December 2018 and 2017	27.69%	29.36%
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*The Boeing Australia Group adopted AASB 15 *Revenue Contracts with Customers* during the 31 December 2018 year. Changes in accounting policies resulting from the adoption of AASB have been applied retrospectively in the 31 December 2018 Statutory Financial Statements.

The accounting effective tax rate is calculated as the income tax expense divided by profit (including profits from joint ventures) as per AASB112.

Part B

TAX POLICY, STRATEGY AND GOVERNANCE

Boeing's approach to taxes

Our approach to taxes is consistent in all countries in which we operate and is summarized below:

- Ethical business practices and conduct are required by all directors, officers and employees of Boeing
- Effective tax stewardship and governance to meet compliance obligations
- Tax should follow business substance
- Highest level of compliance with tax reporting requirements and timely support for the business
- Develop and maintain open relationships with tax stakeholders

Ethical Business Conduct

The Boeing Company expects all directors, officers and employees to act ethically at all times and adhere to the policies comprising the Company's codes of ethical conduct. Boeing has adopted a code of ethical business conduct for directors as well as a code of conduct for all employees. There is an additional code of conduct applicable to employees in finance roles. Copies of both the employee and finance code of conduct are available at www.boeing.com/corp_gov/.

Effective tax stewardship and governance

Boeing manages its tax risks by applying effective tax governance and applying our tax control framework, making continual adjustments to be compliant with evolving tax obligations globally.

We aim to ensure that we are compliant in our tax filing obligations and are proactively mitigating tax risks to acceptable levels, and undertake all business activities in

compliance with laws and regulations. Boeing will foster long-term sustainability in line with our core aim of realizing value. We have processes and controls to ensure all new business activities are reviewed with a view to compliance by appropriate functional teams and to ensure that new legislative and other compliance developments are monitored and implemented as required.

Material tax issues or risks are elevated through the organizational structure as appropriate. At a global level, Tax issues are considered at the Board/Audit Committee level as appropriate and at a country level, local tax teams will provide updates to the local boards as needed on a regular basis.

Highest level of compliance and timely business support

In order to achieve our commercial objectives, we form active links between tax personnel and the wider business. This ensures sufficient tax knowledge and support is available for Boeing to make good business decisions. There are controls and processes in place to ensure that the businesses keep the Corporate Tax department informed of any changes or new activity/transactions so that they are fully evaluated for any tax consequences. Where appropriate, we will seek advice from external professional advisors to ensure we remain compliant with our obligations, including paying the correct amount of tax in the jurisdictions where we operate.

Develop and maintain an open relationship with stakeholders

In particular, we maintain an open, transparent and pro-active relationship with tax authorities in the jurisdictions where we operate. We engage in fair and transparent business activities. We interpret tax law using relevant guidance and discussing such interpretation with tax authorities where appropriate, to minimize the extent of disputes and review possible risks. We maintain full and timely disclosure of necessary information as required by law, by providing tax authorities with necessary information as part of regular filing or during the course of any review or audit. If any disputes arise, we will maintain an open and constructive relationship with tax authorities to achieve resolution.

In key markets, we support initiatives aimed at tax law modernization, tax law reform or reducing barriers to trade and business either through open and direct dialogue or via participation in trade organizations and working groups.

Boeing takes compliance with global tax requirements as a serious and core obligation of the company. Our ethical codes of conduct require all company directors, officers and employees to ensure that such obligations are met in a timely manner.

The Boeing Australia Group has paid all taxes that it owes and all tax compliance obligations are up to date.

TAX CONTRIBUTION

Significant investment by the Boeing Australia Group has proven to deliver substantial economic benefits to Australia. The concentration on corporate income tax as a contribution measure to the Australian economy offers a limited view, and as such, this section will concentrate on total tax contribution by the Boeing Australia Group.

The Boeing Australia Group collects and pays a range of taxes in Australia on its products and services, including corporate income tax, of which the table below highlights the significant taxes paid/collected in the 2018 year:

<u>Australian Taxes</u>	<u>2018 (\$M)</u>	<u>2017 (\$M)</u>
Paid		
Corporate Income Tax – Australia	43.00	42.06
Payroll Tax ¹	23.62	21.43
Fringe Benefits Tax ²	5.00	6.02
<i>Subtotal</i>	<i>71.62</i>	<i>69.51</i>
Collected		
GST (collected and remitted)	97.62	97.33
GST (paid but reclaimed)	(65.89)	(62.98)
Withholding taxes	-	-
Personal income tax – Employees ³	127.79	112.16
<i>Subtotal</i>	<i>159.52</i>	<i>146.51</i>
TOTAL	231.14	216.02

1 Payroll Tax – paid as per year ended 30 June 2018 and 30 June 2017

2 Fringe Benefits Tax - paid as per year ended 31 March 2018 and 31 March 2017

3 Personal income taxes paid - as per year ended 30 June 2018 and 30 June 2017

Similar to Part A, BDS Pty Ltd does not form part of the above Tax Contribution disclosure.

INTERNATIONAL RELATED PARTY DEALINGS

Boeing has a global presence. Ultimately it is customer, business and operational requirements that are the primary determinants of where activities are undertaken and employees are located. Boeing operates in compliance with tax laws in all countries in which it operates. Transactions are considered taking account of financial, commercial and reputational matters in order to maximise value for all stakeholders.

Boeing does not enter into aggressive tax planning arrangements with the sole purpose of achieving a tax advantage.

All transactions within the organization follow the arm's length principles in line with our Transfer Pricing policies. Furthermore, in line with our values, we remain compliant

by following the principles of the Transfer Pricing regulations globally as well as OECD guidelines.

The vast majority of Boeing's production, development and other core activities continue to occur in the United States. As such, the majority of the Boeing's earnings are reported and taxed in the United States. Following the Transfer Pricing regulations mentioned above, Boeing ensures that appropriate market-based earnings results are reported in the other jurisdictions in which we operate.