Australian tax booklet for Australian-domiciled iShares ETFs

1. Introduction

1.1 The iShares Australian Tax Booklet ("Booklet") provides a general summary of the main Australian income tax implications of an investment in the Australian iShares funds by an Australian investor. (Refer to a separate tax Booklet for tax implications of an investment in the International iShares funds.)

1.2 "Australian iShares" refers to iShares Exchange Traded Funds ("ETFs") that are domiciled in Australia and listed for quotation on the Australian Securities Exchange ("ASX").

1.3 The information in this Booklet is of a general nature only and does not address all of the taxation issues which may be relevant to a particular investor. Accordingly, this Booklet does not constitute legal, financial or tax advice and may not be relied upon as such.

1.4 Australian taxation laws are complex and may change over time. Accordingly, it is recommended that each investor obtains their own independent professional taxation advice applicable to their own individual facts and circumstances.

2. Assumptions

2.1 The comments outlined in this Booklet assume that the investor:

(a) is an Australian resident for income tax purposes with an income year ending on 30 June 2017;

(b) is an individual taxpayer or a complying superannuation fund;

(c) does not carry on a business of either trading or dealing in shares or otherwise hold investments on revenue account – any subsequent disposal of the investment in an Australian iShares ETF will therefore be subject to the capital gains tax regime; and

(d) returns fund distributions from holding Australian iShares ETFs on an entitlement basis.

2.2 This Booklet is based on the Australian taxation laws in force and the administrative practices of the Australian Taxation Office generally accepted as at 30 June 2017. Taxation laws may change in the future without notice. Furthermore, legislation introduced to give effect to any announcements regarding tax may contain provisions which were not contemplated at the time of the announcements.

2.3 Taxation Reform

The Australian government has enacted legislation introducing a new regime for taxing funds the attribution managed investment trust (AMIT) rules. The responsible entity intends to make an election for eligible funds to enter the AMIT regime, from 1 July 2017. The AMIT rules include a new attribution method that provides a formal mechanism to allocate taxable income to unitholders that is not dependent on the amount of income distributed. Reforms to taxation of funds are generally ongoing and investors should seek their own advice and monitor the progress of such legislative changes.

2.4 This Booklet includes an appendix with information to assist you to complete your tax return.

3. iShares – Background

3.1 Your investment consists of a class of units issued by BlackRock Investment Management (Australia) Limited, the responsible entity (the "Manager") which are listed for quotation on the ASX. Each Australian iShares ETF is an Australian managed investment scheme registered with Australian Securities & Investments Commission.

3.2 Computershare Investor Services Pty Limited ("Computershare") is the registrar of the iShares ETFs. Computershare is not responsible for any information contained in this Booklet.

3.3 On March 18, 2010 the United States Congress enacted The Foreign Account Tax Compliance Act ("FATCA") as a part of the Hiring Incentives to Restore Employment Act ("HIRE").FATCA requires financial institutions and certain non-financial institutions to identify and disclose their US account holders. The goal of FATCA is to combat offshore tax evasion through increased tax transparency.

Australia has entered into an intergovernmental agreement ("US-Australia IGA") with the United States ("US") to implement FATCA in Australia and increase tax transparency between the two countries. Under the US-Australia IGA, Reporting Australian Financial Institutions will have identification and reporting obligations with regard to FATCA (effective 1 January 2017 for Australian-domiciled iShares ETFs). An iShares ETF is expected to be a Reporting Australian Financial Institution under the US-Australia IGA and intend to fully comply with their FATCA obligations.

These obligations include, but are not limited to, each iShares ETF identifying and documenting the FATCA status of its investors. The iShares ETFs must also report certain information on applicable investors to the Australian Taxation Office which will in turn report this information to the US Internal Revenue Service.

4. Distributions

4.1 Frequency and payment of fund distributions

Distributions declared by a iShares ETF are usually paid quarterly or semi-annually or at such other time as the Manager sees appropriate depending on the iShares ETFs distributions calendar. You must be a registered unit holder in a iShares ETF to which a distribution is payable as of the iShares ETFs record date to receive a distribution. The distributions calendar will be available on iShares.com.au ("Website"). There is no guarantee that any distributions will be declared in the future, or that if declared, the amount of any distributions will remain at current levels or increase at any time.

Distributions will typically be paid (i.e. in cash or reinvested as additional units) by Computershare approximately 10 business days following the record date of the respective iShares ETF. Payments will be made to entitled unit holders in Australian dollars.

4.2 Assessability of fund distributions

As a unit holder, you will be assessed on all applicable distributions from each iShares ETF in the financial year in which you are entitled.

The taxable income to which you are entitled may include various amounts as described below.

Types of income

Depending on the types of investments made, the iShares ETF can derive income in the form of dividends, interest, gains on the disposal of investments and other types of income.

Generally speaking, such income derived by the iShares ETF is taxable, but tax credits (e.g. franking credits and foreign income tax offsets) may be available to unit holders to offset part or all of any resulting tax liability.

Capital gains tax

In broad terms, under the capital gains tax ("CGT") provisions of the Income Tax Assessment Acts, net gains arising on the disposal of iShares ETF investments will be included in the iShares ETFs taxable income.

The iShares ETF will generally calculate taxable capital gains based on half the nominal gain made on the disposal of an asset, if that asset was held for 12 months or more. Capital gains distributed may include some gains where eligible investors are able to claim concessional treatment.

4.3 Withholding tax – non-Australian residents

If you are not an Australian resident for tax purposes and are entitled to taxable income of the iShares ETF, the Manager may withhold an amount of tax in respect of your distribution. You may be entitled to a credit for Australian income tax paid by the Manager in respect of your tax liability.

Distributions to you of amounts attributed to Australian franked dividends will not be subject to withholding tax. Any distribution of unfranked dividends, interest or amounts in the nature of interest will, however, be subject to withholding tax. This is irrespective of whether distributions are paid in cash or reinvested as additional units.

Further, any distribution of other Australian income or capital gains from assets that are taxable Australian real property will be subject to withholding tax. The rate of tax will depend on whether the iShares ETF is eligible for MIT status and your country of residence or address.

Your Distribution Payment Advice from Computershare will show the net amount in Australian dollars of any distribution. It will also show the rate and amount of any withholding tax deducted (if applicable) from your distribution payment in Australian dollars. Electronic copies are sent by email on the afternoon of the payment date. Hard copies are posted on the evening of the payment date.

4.4 Tax deferred amount

From time to time, some Australian iShares ETFs may return capital to their investors. A tax deferred amount is a return of part of the cost which you outlaid in making your original investment in the iShares ETF.

As soon as practical, following a distribution, the Website will disclose estimated distribution components, including the tax deferred amount. The Website will also show any Fund payment included in a distribution that is subject to withholding tax pursuant to Subdivision 12-H of Schedule 1 of the *Tax Administration Act 1953*.

Please note that the Distribution Payment Advice you will receive from Computershare will disclose each distribution payment only as a distribution.

To check that none of this payment is a tax deferred amount, please refer to your annual tax statement before you complete your annual income tax return. You should do this because dividends are treated differently to tax deferred amounts, for Australian tax purposes (please refer to section 5.2).

5. Capital Gains/Losses

5.1 General

The sale or other disposal of your units in an Australian iShares ETF will constitute a capital gains tax ("CGT") event for Australian tax purposes. You will make a capital gain if the capital proceeds you receive as a result of the CGT event are greater than the cost base of the units. Subject to the comments at 5.2 below, the cost base (or reduced cost base) of your units is generally the amount that you paid for the investment and any incidental costs you incur on its acquisition and disposal (e.g. broker's fees).

If you are eligible for the discount capital gains concession, you may reduce the realised nominal capital gain by 50.00% if you are an individual, or by 33.33% if you are a complying superannuation fund. This concession will apply if you have held the units for 12 months or more prior to the CGT event.

If the capital proceeds you receive on the disposal of your units are less than their reduced cost base, the difference is treated as a capital loss. Such losses can be offset against capital gains arising in the current or future income years, but cannot be used to reduce the tax payable on your ordinary income (such as interest, dividends, etc).

5.2 Tax deferred amount

For the purposes of calculating a capital gain/loss, you should reduce the cost base of your units by any amount you received which was a tax deferred amount. You can obtain the tax deferred component from the Annual Tax Statement provided shortly after the end of the financial year to 30 June 2017. **If you sell your units many years after you receive a tax deferred amount, you must ensure you keep appropriate records so you can reduce your cost base in the year you sold your units.**

Where the total tax deferred amounts exceed the cost base of your units – i.e. the cost base has been reduced to zero, the excess is assessable as a capital gain, even if you have not sold your units.

6. Pay As You Go (PAYG)

6.1 You may be required to pay tax instalments on your iShares ETF distribution under Australia's PAYG system. If this applies, you should include your distribution in your personalised Business Activity Statement ("BAS") or Instalment Activity Statement ("IAS") which is lodged on a monthly, quarterly or annual basis (depending on your circumstances).

Your tax adviser can assist you with your PAYG obligations.

6.2 If you are liable to PAYG instalments, the Distribution Payment Advice sent with each distribution payment will show you the amount of your iShares distribution to include in your BAS or IAS.

Appendix A

INFORMATION TO ASSIST YOU TO COMPLETE YOUR 2017 INCOME TAX RETURN

The information in this appendix will assist an Australian resident individual or an Australian resident complying superannuation fund which has invested in Australian iShares ETFs, to complete their Australian tax return for the financial year ended 30 June 2017. All references to the Individual Instructions Supplement form are to the 2017 paper version of each form.

You should be aware that distributions from the iShares ETF need to be included in the tax return for the year of entitlement, not the year of receipt. This means that distributions for the year ended 30 June 2017 should be included in your 2017 income tax return, even though you may not have physically received the distributions until July 2017.

It assumes that the units in the iShares ETFs are held on capital account and subject to the capital gains tax regime when they are sold. If the units are held on revenue account or as trading stock, please consult your tax adviser.

It also assumes that the investor returns fund distributions from holding the units in the iShares ETFs on an entitlement basis.

The information in this appendix should be read in conjunction with the general information which comprises the "Australian Tax Booklet for Australian iShares Funds".

The information in this appendix is of a general nature only and does not address all of the taxation issues which may be relevant to a particular investor. Accordingly, it does not constitute legal, financial or tax advice and may not be relied upon as such. Australian taxation laws are complex and may change over time.

It is recommended that each investor obtains their own independent professional taxation advice applicable to their own individual facts and circumstances.

Part A – Summary of 2017 Tax Return Information (supplementary section) items

To complete the investment income categories of your income tax return, you or your tax adviser will need to combine the figures provided in Part A with any income you have received from other sources.

Non-Primary Production Income (13U of your Income Tax Return)

This amount includes your share of net income from trusts (e.g. unfranked dividends and interest). It excludes net capital gains, foreign income and franked distributions.

Non-Primary Production Income (13C of your Income Tax Return)

This amount includes your share of franked distributions from trusts, together with any share of franking credits referable to those franked dividends. The franking credits are also shown at item 13Q.

Franking Credits (13Q of your Income Tax Return)

This amount is your share of franking credits attached to the income derived from non-primary production income shown at 13C.

TFN Withholding Credit (13R of your Income Tax Return)

This amount is withholding tax that has been deducted from your distribution or income paid on redemption where you have not provided your TFN, ABN or claimed an exemption in relation to your investment at BlackRock. Tax is deducted at the top marginal rate.

Total Current Year Capital Gains (18H of your Income Tax Return)

This amount includes capital gains derived from the disposal of assets held for less than 12 months, capital gains using the Frozen Indexed Cost Base method and capital gains calculated under the Discount Method without applying the 50% discount. This amount will also include any foreign capital gains.

Net Capital Gains (18A of the Individual Instructions 2017 Supplement)

This amount includes the same capital gain amounts that are included in Item 18H, except that the capital gains calculated under the Discount Method are included after applying the 50% discount.

If you have derived capital gains or losses from other investments, these amounts need to be adjusted in order to take these additional gains/losses into account. If capital losses are to be applied to a Discount Capital Gain, you are required to offset the loss against the gross capital gain and then apply the 50% discount to the net amount.

Please note that if you have redeemed, switched or transferred any units in an iShares ETF during the year, you need to include any capital gain or capital loss in your income tax return calculations.

Assessable Foreign Source Income (20E of the Individual Instructions 2017 Supplement)

This amount includes assessable foreign income.

Other Net Foreign source income (20M of the Individual Instructions 2017 Supplement)

If you have foreign income deductions you should follow the instructions in the 2017 Tax Pack Supplement. If you have foreign income deductions the amount you insert at 20M is the amount at 20E less your foreign income deductions. If you have no foreign income deductions then the amount at 20M will be the same as 20E.

If you have derived foreign income or losses from other sources, the amounts above need to be adjusted in order to take this additional income and loss into account.

Foreign Income Tax Offset (20O of the Individual Instructions 2017 Supplement)

Foreign income tax offsets represent tax that has been withheld from foreign income you have received. The amounts provided for Question 20 above are grossed up to include foreign income tax offset amounts.

SUMMARY OF USEFUL AUSTRALIAN TAX OFFICE (ATO) BOOKLETS

The following references may be useful to you and are available at **ato.gov.au.**

- You and your shares 2017
- Guide to foreign income tax offset rules 2016-17
- Introduction to Pay As You Go income tax instalments

Want to know more?

blackrock.com/au/ishares

iShares.Australia@blackrock.com 1300 474 273

IMPORTANT INFORMATION

Before investing in an iShares exchange traded fund, you should carefully consider whether such products are appropriate for you, read the latest product disclosure statement or prospectus available at www.blackrock.com.au and consult an investment adviser.

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