Tax Transparency Report
For the year ended 30 June 2016

GWA Group Limited ('GWA'), a member of the ASX 200 index of listed Australian companies, is a leading supplier of building fixtures and fittings to household and commercial premises in Australia and New Zealand.

1 Introduction

GWA has a strong commitment to financial and regulatory compliance and transparency, and welcomes the opportunity to present a report on its taxes paid and provide detail on its tax strategy.

In this respect, we have followed the recommendations outlined in the Board of Tax's Tax Transparency Code. We support the adoption of this voluntary code and believe it provides stakeholders with a comprehensive understanding of GWA's tax activities.

2 Tax strategy and governance

The Board believe that GWA's corporate governance framework, of which taxation is an important element, is critical in maintaining high standards of corporate responsibility and fostering a culture that values ethical behaviour, integrity and respect. These principles are reflected in GWA's Corporate Governance Statement[1] and guide GWA's approach to its tax compliance, reporting and payment obligations.

GWA's Board Tax Corporate Governance Policy requires GWA to pursue a tax strategy that is transparent and sustainable in the long term. In conducting its activities, GWA:

- Does not shift and/or accumulate profits in low or zero-tax jurisdictions;
- Does not use the secrecy rules of jurisdictions to hide assets or income;
- Pays tax where the underlying economic activity occurs; and
- Manages tax affairs in a pro-active manner that seeks to maximise shareholder value, while operating in accordance with the law.

3 Approach to engagement with the ATO

GWA, together with its Australian subsidiaries has formed a tax consolidated group for Australian tax purposes with GWA Group Limited as the head company of the Australian tax consolidated group.

GWA's approach to engagement with the Australian Taxation Authority ('ATO') is to be compliant with tax legislation, and maintain open and honest dialogue to ensure efficient and collaborative hearing of tax matters.

[1] http://www.gwagroup.com.au/corporate-governance

4 Tax contribution summary

Over 95% of GWA's corporate income tax is paid in Australia consistent with more than 95% of GWA's profit before tax being recognised in Australia.

The below table summarises Federal and State taxes GWA has paid pertaining to the year ended 30 June 2016 in Australia.

	30 June 2016 $'000
Corporate income tax	14,924
Net GST	30,881
Payroll taxes (including FBT)	5,894
Employee pay as you go ('PAYG')[2]	22,543
Total	**74,242**

5 Income tax expense and payable

The income tax expense ('ITE') disclosed in GWA's annual reports[3] are calculated based on International Financial Reporting Standards ('IFRS'). In any one year there may be a difference between the ITE calculated to the total cash taxes paid to a relevant taxation authority during that same year. This is attributed to:

- The timing of corporate tax instalment payments made to the relevant tax authorities; and
- Timing differences between IFRS and tax legislation regarding when a transaction is assessable or deductible.

GWA's Effective Tax Rate ('ETR') is calculated as ITE divided by accounting profit before income tax. For the year ended 30 June 2016, GWA's consolidated ETR was 27.4%. The ETR deviates from the Australian corporate tax rate of 30% due to:

- Transactions with a permanent accounting tax difference i.e. when there is a difference in treatment between IFRS and tax legislation of the assessability and deductibility of transactions;
- Differences in tax rates for overseas operations compared to the Australian corporate tax rate (e.g. New Zealand's corporate tax rate is currently 28%); and
- The additional tax benefit arising from Research and Development ('R&D') expenditure under the ATO's 'Research and Development Tax Incentive' scheme to encourage R&D activity in Australia[4].

[2] PAYG is withheld and paid to tax authorities on behalf of GWA's employees.
[3] http://www.gwagroup.com.au/investor-relations/annual-reports/
[4] R&D tax offsets are calculated by adding back to taxable income 100% of the eligible expenditure incurred on R&D as non-deductible, and taking a 40% tax offset (calculated as 40% of the eligible expenditure) against tax payable.

5.1 Reconciliation of accounting profit to income tax expense

	Consolidated worldwide group $'000	Australian tax consolidated group $'000
Net profit before tax	**73,957**	**71,403**
Tax expense using the Australian corporate tax rate of 30%	22,187	21,421
Non-deductible expenses	94	82
Deductible net share based payment expense	(72)	(72)
Effect of tax rate in foreign jurisdictions	(40)	-
Non-assessable accounting gain on disposal of capital gains tax assets	(629)	(629)
Carried forward tax losses utilised	(56)	-
Rebateable research and development	(207)	(207)
	21,277	20,595
Adjustments for prior years	(1,001)	(1,001)
Income tax expense ('ITE')[5]	**20,276**	**19,594**
Effective tax rate ('ETR')	**27.4%**	**27.4%**

5.2 Reconciliation of income tax expense to cash tax paid

	Consolidated worldwide group $'000
Income tax expense ('ITE')	**20,276**
Timing differences	(5,120)
Current year tax instalments payable next year	(1,706)
Prior year tax instalments paid this year	6,086
Income tax paid per cash flow statement	**19,536**

The above timing differences largely related to the utilisation of accounting provisions leading to their deductibility for tax purposes. Refer to Note 16 of GWA's 2016 Annual Report.

6 International related party dealings

GWA's operations overseas are conducted through a combination of subsidiary legal entities and independent third parties, all of whom are subject to local tax regimes. These subsidiary legal entities and their foreign jurisdictions are disclosed in Note 30 of GWA's 2016 Annual Report.

GWA's Australian tax consolidated group has the following international related party dealings with these subsidiary operations overseas:

- Sale of stock to subsidiaries in New Zealand;
- Royalty, management and procurement service fees charged to subsidiaries in New Zealand; and
- Support services provided by a subsidiary in China.

All of GWA's international related party dealings reflect arm's length terms (i.e. as though the companies are independent of each other) in accordance with Australia's transfer pricing requirements and OECD[6] guidelines.

[5] Comprises of ITE for continuing and discontinued operations. Refer to Note 10 of the 2016 Annual Report.
[6] Organisation for Economic Co-operation and Development.

7 ATO tax transparency disclosures

The ATO publishes discrete taxation information of large Australian taxpayers[7] which includes GWA. Information published about GWA is sourced from GWA's Australian tax consolidated group income tax return.

The following information pertaining to GWA's Australian tax consolidated group for the year ended 30 June 2016 is yet to be published by the ATO:

	30 June 2016 $
Total income	490,747,368
Taxable income	53,877,772
Tax payable	14,923,619

A description of the terms in the table above and their application to GWA are:

- Total income pertains to income (e.g. sales, interest) derived during the period, prior to deduction of expenses which include rebates GWA provides to customers[8]. Tax is not calculated on total income;
- Taxable income is calculated based on total income less expenses incurred, adjusted for tax timing differences and tax permanent differences as described in Section 5 of this report; and
- Tax payable is then calculated at the corporate income tax rate (30%) of taxable income, reduced by available tax offsets including rebateable R&D as described in Section 5 of this report.

[7] Large Australian taxpayers are those with total income greater than $100m for Australian public corporations and foreign-owned corporations, or greater than $200m for Australian-owned resident private companies.
[8] For IFRS purposes, the cost of rebates is recognised within income.