

Tax Transparency Report

For the year ended 30 June 2017

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 Statement¹ 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.

The ATO recently performed a Streamlined Assurance Review of GWA as part of their Top 1,000 Tax Performance Program, covering the 30 June 2014, 2015 and 2016 tax periods.

During this process we demonstrated that GWA has a tax control framework which has been designed effectively and is operating effectively in practice (including being a signatory to the Board of Taxation's voluntary Tax Transparency Code). Further, no adjustments to tax payable were required for the tax periods reviewed.

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 2017 in Australia.

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|--|------------------------|------------------------|
| Corporate income tax | 21,252 | 14,924 |
| Net GST | 32,238 | 30,881 |
| Payroll taxes (including FBT) | 5,221 | 5,894 |
| Employee pay as you go ('PAYG') ² | 19,815 | 22,543 |
| Total | 78,526 | 74,242 |

5 Income tax expense and payable

The income tax expense ('ITE') disclosed in GWA's annual reports³ is 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 2017, GWA's consolidated ETR was 28.7% (30 June 2016: 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 Australia⁴.

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 38.5% tax offset (calculated as 38.5% of the eligible expenditure) against tax payable.

5.1 Reconciliation of accounting profit to income tax expense

| 30 June 2017 | Consolidated worldwide group \$'000 | Australian tax consolidated group \$'000 |
|--|--|---|
| Net profit before tax | 75,256 | 73,035 |
| Tax expense using the Australian corporate tax rate of 30% | 22,577 | 21,910 |
| Non-deductible expenses | 135 | 125 |
| Rebateable research and development | (217) | (217) |
| Other items | 158 | 209 |
| | 22,653 | 22,027 |
| Adjustments for prior years | (1,068) | (1,068) |
| Income tax expense ('ITE') | 21,585 | 20,959 |
| Effective tax rate ('ETR') | 28.7% | 28.7% |

| 30 June 2016 | 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 |
| Non-assessable accounting gain on disposal of capital gains tax assets | (629) | (629) |
| Rebateable research and development | (207) | (207) |
| Other items | (168) | (72) |
| | 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 | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|--|------------------------|------------------------|
| Income tax expense ('ITE') | 21,585 | 20,276 |
| Timing differences | (1,222) | (5,120) |
| Current year tax instalments payable next year | (7,346) | (1,706) |
| Prior year tax instalments paid this year | 1,771 | 6,086 |
| Income tax paid per cash flow statement | 14,788 | 19,536 |

The above timing differences largely related to the utilisation of accounting provisions leading to their deductibility for tax purposes. Refer to Note 10 of GWA's 2017 Annual Report.

⁵ Comprises of ITE for continuing and discontinued operations. Refer to Note 10 of the 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 24 of GWA's 2017 Annual Report.

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

- Sale of stock to a subsidiary in New Zealand;
- Royalty, management and procurement service fees charged to a subsidiary 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 OECD⁶ guidelines.

7 ATO tax transparency disclosures

The ATO publishes discrete taxation information of large Australian taxpayers⁷ 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 2017 has been published by the ATO:

| | 30 June 2017 | 30 June 2016 |
|----------------|--------------|--------------|
| | \$ | \$ |
| Total income | 496,806,865 | 490,747,368 |
| Taxable income | 74,893,049 | 53,877,772 |
| Tax payable | 21,251,664 | 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 customers⁸. 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.

⁶ Organisation for Economic Co-operation and Development.

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.