

GWA Group Limited ('GWA')

Tax Transparency Report

For the year ended 30 June 2019

GWA's purpose is to make life better through products, services and technologies that create superior solutions for people to enjoy and sustain water, our planet's most precious resource. GWA is a member of the ASX 200 index of listed Australian companies, and the owner and distributor of an extensive range of market leading brands including Caroma, Methven, Dorf and Clark.



METHVEN

CLARK

dorf

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.

In FY18 the ATO 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

In FY19, over 95% of GWA's corporate income tax was 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 2019 in Australia, including in relation to Methven Australia Pty Limited from 10th April 2019 (date of acquisition). The reduction in all taxes is largely attributed to decreased activity following the disposal of the Door and Access Systems' business on 3 July 2018².

	30 June 2019	30 June 2018
	\$'000	\$'000
Corporate income tax	17,064	21,895
Net GST	25,711	32,271
Payroll taxes (including FBT)	3,587	4,725
Employee pay as you go ('PAYG') ³	15,075	19,970
Total	61,437	78,861

5 Income tax expense and payable

The income tax expense ('ITE') disclosed in GWA's annual reports⁴ 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 2019, GWA's consolidated ETR was 17.4% (30 June 2018: 30.2%). 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. In FY19 this included the non-assessable accounting gain on disposal of the Door and Access Systems' business⁵ as well as non-deductible transaction & integration costs on the acquisition of Methven Limited;
- ▶ Differences in tax rates for overseas operations compared to the Australian corporate tax rate (e.g. New Zealand's corporate tax rate was 28%, 19% in the UK, and 25% in China); 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 Australia⁶.

² Additionally, no capital gains tax was payable on the disposal. Refer footnote 5.

³ PAYG is withheld and paid to tax authorities on behalf of GWA's employees.

⁴ <http://www.gwagroup.com.au/investor-relations/annual-reports/>

⁵ Brought forward capital losses were utilised to offset the gain on disposal. Refer to Note 11 of the 2019 Annual Report.

⁶ 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 2019	Consolidated worldwide group \$'000	Australian tax consolidated group \$'000
Net profit before tax	114,943	112,567
Tax expense using the Australian corporate tax rate of 30%	34,483	33,770
Non-deductible expenses	184	109
Effect of tax rate in foreign jurisdictions	(23)	-
Non-deductible transaction & integration costs on the acquisition of Methven Limited	1,454	1,435
Non-assessable accounting gain on disposal of the Door and Access Systems' business	(15,760)	(15,760)
Rebateable research and development	(158)	(158)
Other items	(119)	(197)
	20,062	19,199
Adjustments for prior years	(81)	(99)
Income tax expense ('ITE')⁷	19,981	19,100
Effective tax rate ('ETR')	17.4%	17.0%

30 June 2018	Consolidated worldwide group \$'000	Australian tax consolidated group \$'000
Net profit before tax	77,745	75,831
Tax expense using the Australian corporate tax rate of 30%	23,324	22,749
Non-deductible expenses	147	130
Non-deductible disposal costs	370	370
Rebateable research and development	(200)	(200)
Other items	(52)	(39)
	23,589	23,010
Adjustments for prior years	(96)	(94)
Income tax expense ('ITE')	23,493	22,916
Effective tax rate ('ETR')	30.2%	30.2%

5.2 Reconciliation of income tax expense to cash tax paid

Consolidated worldwide group	30 June 2019 \$'000	30 June 2018 \$'000
Income tax expense ('ITE')	19,981	23,493
Timing differences	(2,494)	(482)
Current year tax instalments payable next year	(947)	(6,622)
Prior year tax instalments paid this year	6,313	7,275
Income tax paid per cash flow statement	22,853	23,664

The above timing differences largely related to the utilisation of accounting provisions leading to their deductibility for tax purposes. Refer to Note 11 of GWA's 2019 Annual Report.

⁷ Comprises of ITE for continuing and discontinued operations. Refer to Note 6 of the 2019 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 for the year ended 30 June 2019 are disclosed in Note 25 of GWA's 2019 Annual Report.

GWA's Australian tax consolidated group for the year ended 30 June 2019 had the following international related party dealings with these subsidiary operations overseas:

- ▶ Sale of stock to subsidiaries in New Zealand, China and the United Kingdom;
- ▶ Purchase of stock from subsidiaries in New Zealand and China;
- ▶ Royalty, management and procurement services charged to and from overseas subsidiaries; and
- ▶ Provision of loans to overseas subsidiaries.

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 OECD⁸ guidelines.

7 ATO tax transparency disclosures

The ATO publishes discrete taxation information of large Australian taxpayers⁹ 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 2019 is yet to be published by the ATO:

	30 June 2019	30 June 2018
	\$	\$
Total income	346,289,162	498,539,752
Taxable income	56,880,595	77,925,158
Tax payable	17,064,178	21,894,546

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 customers¹⁰. 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.

⁸ Organisation for Economic Co-operation and Development.

⁹ 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.

¹⁰ For IFRS purposes, the cost of rebates is recognised within income.