

Tax Report for 2018

Financial Year

Year ended 31 December 2018

Prepared for:

- WSP Australia Holdings Pty Ltd
- PB Australia Pty Ltd
- WSP Australia Pty Ltd and subsidiaries





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Introduction

The WSP Australia Finance team is committed to meeting the highest standards of tax governance. Our approach to tax governance and our tax strategy aligns with the WSP Code of Conduct.

We are proud to present our third Tax Transparency Report, which details the WSP Australia Group’s tax contributions for the financial year ended 31 December 2018. This report is prepared in accordance with the guidelines set out in the Tax Transparency Code (TTC) recommended by the Australian Board of Taxation and adopted by Australian Federal Government.

WSP Australia is committed to correctly applying the tax laws in all the various jurisdictions in which we operate. We aim to pay the amount of tax legally due in the jurisdictions where taxes fall due.

WSP Australia has systems, processes and controls in place to identify, monitor, manage and escalate tax risks. In addition to internal measures, we regularly use highly qualified external taxation advisers to provide specific advice on significant transactions. These actions intend to ensure our tax affairs are well managed, so that we comply with all our tax obligations and pay the correct amounts of tax in a timely manner.

George McMillan
Chief Financial Officer

Group overview

This report has been prepared on a voluntary basis for the Australian entities within the WSP Australia group.

For Australian tax purposes, WSP Australia elected to form a tax consolidated group (TCG). The WSP TCG is made up of WSP Australia Holdings Pty Ltd (as the Head Company) and eight wholly owned Australian incorporated subsidiaries.

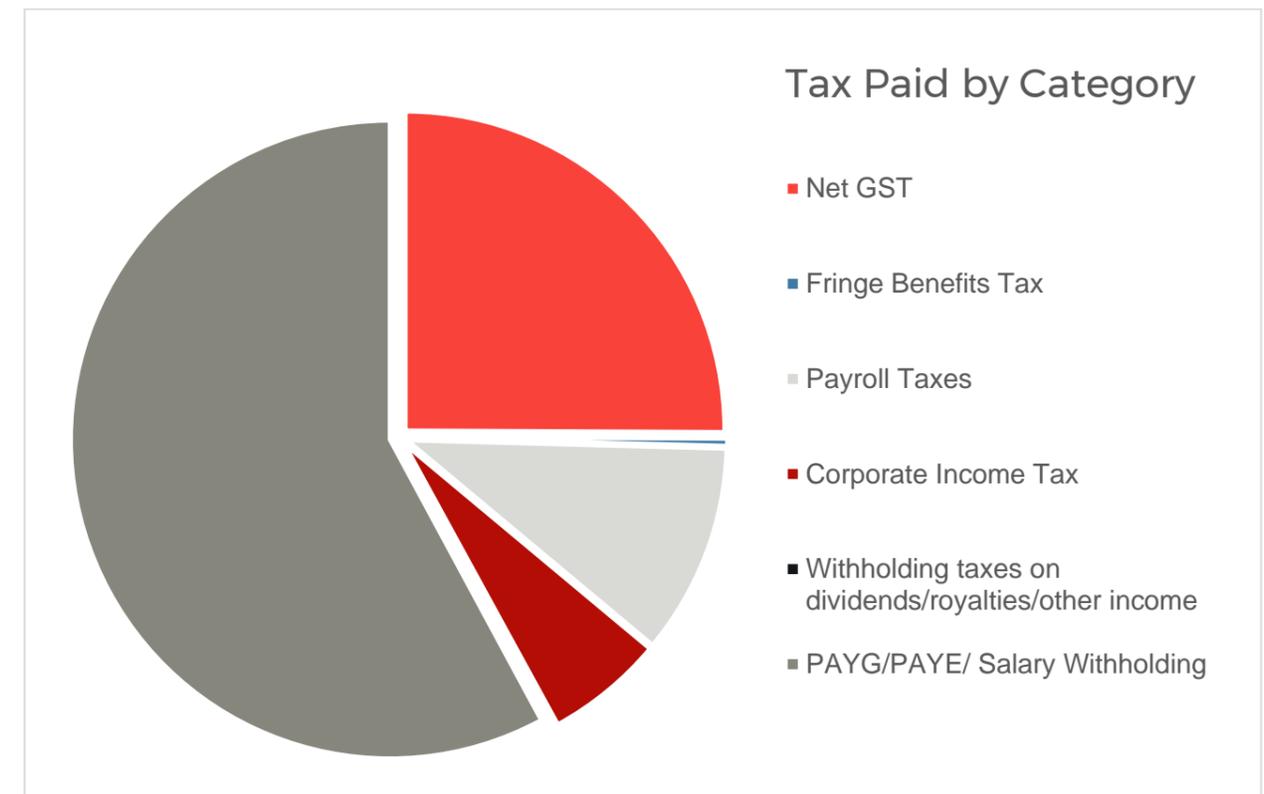
The Australian TCG is ultimately 100% owned by WSP Global Inc., a TSX listed company headquartered in Canada.

Tax payments / contributions

The table and graph below summarises the cash taxes totalling A\$164m remitted to the Australian (Federal and State) tax authorities by WSP Australia during the 2018 financial year.

Description	A\$'000
Corporate Income Tax¹	9,806
Other Taxes	
— Fringe Benefits Tax	563
— Payroll Tax	17,503
— Withholding taxes on dividend/royalties/other income	157
— NET GST ²	41,220
Tax collected by WSP on behalf of others:	
PAYG/PAYE/Salary Withholding	95,132
Total	164,381

- (1) Corporate income tax is net of carried forward tax losses, tax offsets and tax rebates, such as the research and development tax offset and relates to 2017 and 2018 tax payments due.
- (2) Net GST is the GST collected on sales less GST paid on business inputs purchased



Reconciliation of accounting profit to income tax payable

Income Tax Expense (ITE) is an accounting concept, representing the amount of income tax accrued for financial reporting purposes.

It is common for there to be differences between the ITE and the cash tax paid for the period. This is due to the ITE excluding adjustments for amounts that are not likely to be paid or received in the current period (commonly referred to as timing or temporary differences).

Further, ITE only includes taxes on corporate profits, excluding other tax types such as Goods and Services Tax paid and collected, Fringe Benefit Taxes paid on benefits provided to employees and the PAYG taxes collected and paid on behalf of employees.

For FY 2018, the total cash tax liability payable to the ATO, before the offset of tax losses, R&D tax credits and NRWT, is expected to be A\$11.6m.

Drivers for the difference between cash tax and tax expense include:

- Returns on Joint Venture investments
- Employee provisions – leave, FBT, super, bonus
- Operating provisions – bad debts, make good, onerous leases, claims, audit
- Capitalised costs – legal, assets, lease surrender.

These differences arise as the tax recognition criteria differs from the accounting recognition criteria. The general rule for tax purposes is: expenses are recognised when incurred and revenue when derived. Accounting recognises these incomes and expenses in the year to which they relate.

Normalised Effective Tax Rate Calculation	A\$'000
Net Earnings / (Loss) Before Tax (per financial statements)	89,782
Net Earnings / (Loss) Before Tax (excluding the effect of tax consolidated group transactions)	27,025
Tax using the Company's statutory tax rate (30%)	8,108
<i>Adjustments</i>	
Non-deductible expenses	738
Other items	-1,088
(Over)/under provision of income tax in previous year	1,347
Total income tax expense	9,105
Normalised Effective Tax Rate	33.69%

Effective tax rate (ETR)

The Effective Tax Rate is an accounting calculation of the ITE over the accounting profit. It differs from actual tax payable as it references only the non-temporary differences. These are amounts that are only recognised for tax or for accounting purposes, not for both.

WSP Australia reported ITE of \$9.11m in FY 2018 on a profit of A\$89.8m, giving an ETR of 10.14%. The ETR for FY 2018 was significantly impacted by an intercompany transaction, which forgave promissory notes payable between group entities. As these group entities were reported in separate financial statements, the profit of \$60.3m recognised in the WSP Australia financial statements is offset by the loss of \$60.3m recognised in the financial statements of PB Australia, another member of the Group. It follows that there was a net nil economic benefit to the WSP Australia Group from this transaction. If we exclude the effect of this intercompany event, the ETR increases to 33.69%.

The WSP Australia ETR is above the Australian corporate tax rate of 30%. This is logical as the standard non-temporary differences have the effect of increasing taxable income – adjusting for the following non-deductible expenditure:

- Entertainment and employee benefit costs
- Stamp duty
- Branch losses.

The WSP Global Inc effective ETR for FY 2018 is 24.4%. The ETR was impacted by non-deductible business acquisition related expenses across the global group.

Tax policy, strategy and governance

WSP Australia Holdings Pty Limited is the Australian incorporated parent of the WSP Australia group. All legal entities in the WSP Australia group are Australian incorporated legal entities, engaged in providing services domestically and internationally. WSP Australia employs nearly 3,000 local employees.

The ultimate parent is WSP Global Inc, a company incorporated in Canada and listed on the Toronto Stock Exchange. As at 31 December 2018, WSP comprises 48,000 employees globally. Our two largest sectors are Transportation & Infrastructure and Property & Buildings, which account for approximately 80% of net revenues globally.

WSP Australia provides engineering and environmental consulting services, primarily to the domestic market. Significant projects in FY 2018 included:

- Parklands – a significant urban renewal project undertaken in Queensland
- Melbourne Metro – a metropolitan rail infrastructure project undertaken in Melbourne
- Inland Rail – Australia's largest freight rail infrastructure project
- CSL Behring – engineering and consulting services for the AlbuRx Manufacturing facility in Broadmeadows
- Central Park – mixed use urban renewal project in Sydney
- One Shelley Street Sydney – award-winning building raising industry standards for environmental sustainability and wellbeing.

WSP Australia's operations delivered organic growth in net revenues in excess of 16% in FY 2018. The acquisition of IrwinConsult in December 2018 added a further 210 employees to the local business, bolstering WSP Australia's local presence and increasing expertise in the local Property & Buildings sector.

WSP's Code of Conduct sets out what is expected of everyone at WSP and is detailed online [here](#). Our approach to tax and our tax strategy aligns with the code.

Key features of the Code as it applies to our local tax function include:

- Integrity in compliance and reporting – we are committed to complying with tax law
- Enhancing shareholder value – we operate within the tax laws of the countries in which we operate, with a view to managing efficiently the tax costs of doing business.
- Controlling and managing risk – we apply professional diligence and care to actively identify, quantify, monitor and manage risks.
- Approach to engaging with the ATO – we engage with the ATO with honesty, business integrity, respect and fairness, and in a timely and transparent manner.
- Governance – our tax strategy is aligned to the Group Code of Conduct.

The tax function is subject to internal and external audit reviews.

International Related Party Dealings

As WSP Australia is a member of a significant global group, WSP Australia can leverage its international networks to provide highest quality services to local clients.

WSP Australia operates in highly competitive markets and competes with a large number of regional, national and international companies. Some of these competitors have greater financial and specialist resources than WSP. Others are smaller and concentrate their resources in particular areas of expertise. The extent of competition varies according to the particular market and geographic area. The degree and type of competition faced by WSP is also influenced by the type and scope of a particular project.

WSP Australia's access to the WSP Global network provides a competitive edge and allows WSP Australia to specialised resources and experience that would not otherwise be available in the Australian market. WSP Australia employees can also collaborate with their global colleagues to seek out business opportunities and develop premium solutions.

Subcontract transactions with International Related Parties are undertaken on standard commercial terms, whether WSP Australia is providing or receiving engineering services. Pricing is often benchmarked with reference to the commercial appetite of the ultimate client.

