

Tax Report for 2019

Financial Year

Year ended 31 December 2019

Prepared for:

- WSP Australia Holdings 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 Global 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 2019. 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 nine wholly owned Australian incorporated subsidiaries.

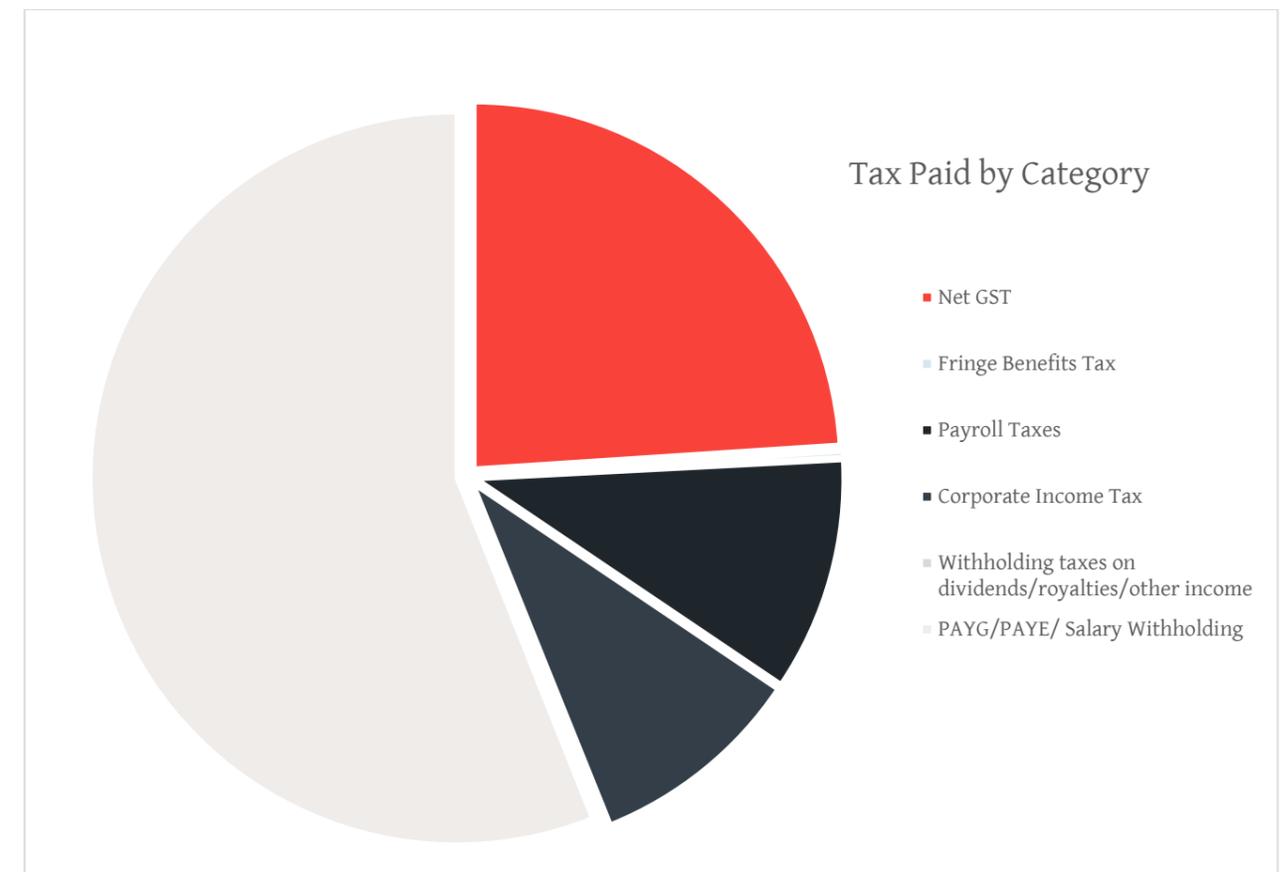
The Australian TCG is ultimately 100% owned by WSP Global Inc., a TSX listed company headquartered in Canada.

Tax payments / contributions

The table and graph below summarises the cash taxes totalling A\$201m remitted to the Australian (Federal and State) tax authorities by WSP Australia during the 2018 financial year.

Description	A\$'000
Corporate Income Tax¹	19,613
Other Taxes	
— Fringe Benefits Tax	443
— Payroll Tax	21,269
— Withholding taxes on dividend/royalties/other income	123
— NET GST ²	49,646
Tax collected by WSP on behalf of others:	
PAYG/PAYE/Salary Withholding	116,098
Total	207,192

- (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 2018 and 2019 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 income tax payable 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).

For FY 2019, the total cash income tax liability payable to the ATO, before the offset of tax losses, R&D tax credits and NRWT, is A\$19.6m.

Drivers for the difference between cash income 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.

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 \$13.04m in FY 2019 on a profit of \$68.24m, giving an ETR of 19.11%. The ETR for FY 2019 was significantly impacted by an intercompany transaction & an audit adjustment on revenue provision (non-deductible on establishment and non-assessable on release). As these group entities were reported in separate financial statements, the revenue of \$20.87m recognised in the WSP Australia Holdings financial statements includes a dividend paid from WSP 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 liability adjustment, the ETR increases to 30.24%.

The WSP Australia normalised ETR is therefore 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 profits/losses

Normalised Effective Tax Rate Calculation	A\$'000
Net Earnings / (Loss) Before Tax (per financial statements)	68,236
Net Earnings / (Loss) Before Tax (excluding the effect of tax consolidated group transactions)	43,108
Tax using the Company's statutory tax rate (30%)	12,932
<i>Adjustments</i>	
Non-deductible expenses	917
(Over)/under provision of income tax in previous year	-812
Total income tax expense	13,037
Normalised Effective Tax Rate	30.24%

The WSP Global Inc effective ETR for FY 2019 is 25.9%. This ETR was impacted by foreign income tax rate differences (reflective of the differing corporate tax rates applicable to the ~ 34 countries in which WSP is based globally), non-deductible expenses/non-taxable income and net unrecognized income tax benefits.

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 around 3,000 local employees.

The ultimate parent is WSP Global Inc, a company incorporated in Canada and listed on the Toronto Stock Exchange (TSX). As at 31 December 2019, WSP comprises ~50,000 employees globally. Our two largest sectors are Transportation & Infrastructure and Property & Buildings, which account for approximately 80% of net revenues globally.

WSP Australia primarily provides engineering and environmental consulting services to the domestic market. Significant projects in FY 2019 included:

- Southern Program Alliance – The Level Crossing Removal Project is removing 18 level crossings and building 12 new stations as part of a \$3 billion upgrade of the Frankston line that will improve safety, reduce congestion and allow more trains to run more often.
- Westconnex 3B – A group of underground tunnels connecting the M4-M5 Link with Victoria Road (just east of the Iron Cove Bridge) and The Crescent, the Anzac Bridge, and the City West Link; this project includes to stubs to eventually connect with the Western Harbour Tunnel.
- Syd Metro Line-wide– Major rail systems in the new twin 15km Sydney Metro tunnels from Chatswood to Sydenham.
- Parramatta Light Rail – The Parramatta Light Rail will connect Westmead to Carlingford via the Parramatta CBD and Camellia with a two-way track spanning 12 kilometres, and is expected to open in 2023.
- Waterloo Station – Waterloo Station is an underground station, about 25 metres below ground level, in the heart of the Waterloo precinct.

- Taswater Capital Delivery Office Alliance – Delivery of quality capital works projects for TasWater that will meet the needs of TasWater’s business and those of the Tasmanian community for years to come.

WSP Australia’s operations delivered organic growth in net revenues in excess of 17% in FY 2019. The acquisition of Elton Consulting in November 2019 added a further 108 employees to the local business, bolstering WSP Australia’s local presence and increasing expertise in the local Advisory 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 align 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 the domestic and international tax laws to which we are subject.
- 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 and continuously 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 and our local tax function has responsibility for the local tax calculation and filing obligations.

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 the highest quality services to local clients.

WSP Australia operates in highly competitive markets and competes with many 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 and nature of the competition varies according to the market and geographic area. The degree and type of competition faced by WSP is also influenced by the type and scope of each project.

WSP Australia’s access to the WSP Global network provides a competitive edge and allows WSP Australia to access 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, growing the skills and experience of the Australian employees.

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

WSP leverages its global size to achieve economies of scale and obtain certain services (including IT and insurance) in the most efficient and cost-effective manner. External services are recharged at cost.

