



Washington H. Soul Pattinson and
Company Limited

2018 Tax Transparency Report



Introduction

Washington H. Soul Pattinson and Company Limited (“WHSP”) was incorporated on 21 January 1903 having previously traded as two separate companies, Pattinson and Co. and Washington H. Soul and Co.

Following a public offering of shares, WHSP was listed on the Sydney Stock Exchange (now the Australian Securities Exchange) on 21 January 1903.

Today, WHSP is a significant investment house with an investment portfolio encompassing its traditional field of pharmaceuticals, as well as telecommunications, natural resources, building materials, financial services, equity investments and property.

WHSP is a long-term investor with a focus on providing its shareholders with capital growth and increasing fully franked dividends.

Our values are central to our culture and to the long-term investment success of the company. These values have existed since before WHSP became a listed company in 1903. At the core of our investment approach are three values:

- **We are custodians of shareholder wealth** – we aim to deliver superior returns to our shareholders in a cost efficient manner. We also aim to influence and encourage our investees, where possible, to be cost effective in what they do.
- **We are long-term and disciplined investors** – we believe that shareholders wealth is enhanced by investing for the long-term, which requires making disciplined investment decisions which will perform strongly over the long-term. This may require investment decisions which are contrarian and/or countercyclical in nature.
- **We value our reputation** – trust and reputation are at the heart of our brand. Our reputation as an ethical, trusted and respected company underpins our long-term success. We seek to be an investor of choice to create sustainable investments which make a positive contribution to their stakeholders.

As with its investment approach, WHSP approaches tax governance in a transparent and principled manner.

This report has been prepared on a voluntary basis and in accordance with the Board of Taxation’s Voluntary Tax Transparency Code.

It is important to note that this report is focuses on the WHSP tax consolidated group. Accordingly, the tax contributions for non-wholly owned subsidiaries – for example New Hope Corporation Limited – are not within this report, as they are separate taxpayers in their own tax consolidated groups.

WHSP’s approach to tax governance

The WHSP Board has approved the WHSP Tax Governance Framework, which has been prepared in accordance with the Australian Taxation Office’s (“ATO”) published tax governance guidance.

The Tax Governance Framework assists WHSP in identifying tax uncertainties and integrates tax governance policies, internal controls and processes to achieve strong tax risk management that aligns with WHSP’s established tax risk appetite.

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To ensure tax risks are governed and managed appropriately and that WHSP complies with taxation legislation, the Tax Governance Framework is supported by robust policies and procedures. These policies and procedures outline the various controls imbedded into the tax compliance and general governance processes of WHSP.

WHSP has a low tax risk appetite, which is reflected in the following general principles that are adopted in relation to tax matters:

- WHSP is transparent in its tax disclosures and open in its dealings with tax authorities;
- WHSP seeks to pay the correct amount of tax as determined in accordance with legislation;
- WHSP enters transactions or structures that exhibit commercial outcomes without reliance on their tax impact for their viability; and
- WHSP seeks external tax opinions and general advice on all qualitative, or quantitative, material matters.

WHSP does not engage in tax planning that goes beyond support for genuine commercial activities and optimisation of returns to our investors. All proposed transactions or arrangements are reviewed as part of WHSP's established transaction approval procedures to ensure WHSP does not engage in aggressive tax planning.

WHSP does not undertake any tax planning/management activities in respect of its transactions with its international related parties.

Engagement with the Australian Taxation Office

WHSP's relationship with the ATO (or any other relevant tax authority) is managed through representatives of WHSP undertaking the following:

- Pro-active management of relationships with tax authorities with the aim of minimising the risk of challenge, dispute or damage to WHSP's credibility arising in the instance that tax matters are inadvertently incorrect;
- Participation in any formal ATO consultation process where it is expected that the matter under consultation will have a material impact on WHSP's liability, or where a significant change in practice is being proposed that will impact on WHSP's tax compliance management; and
- Ensuring transparency in all dealings with the ATO.

Contribution to the Australian tax base

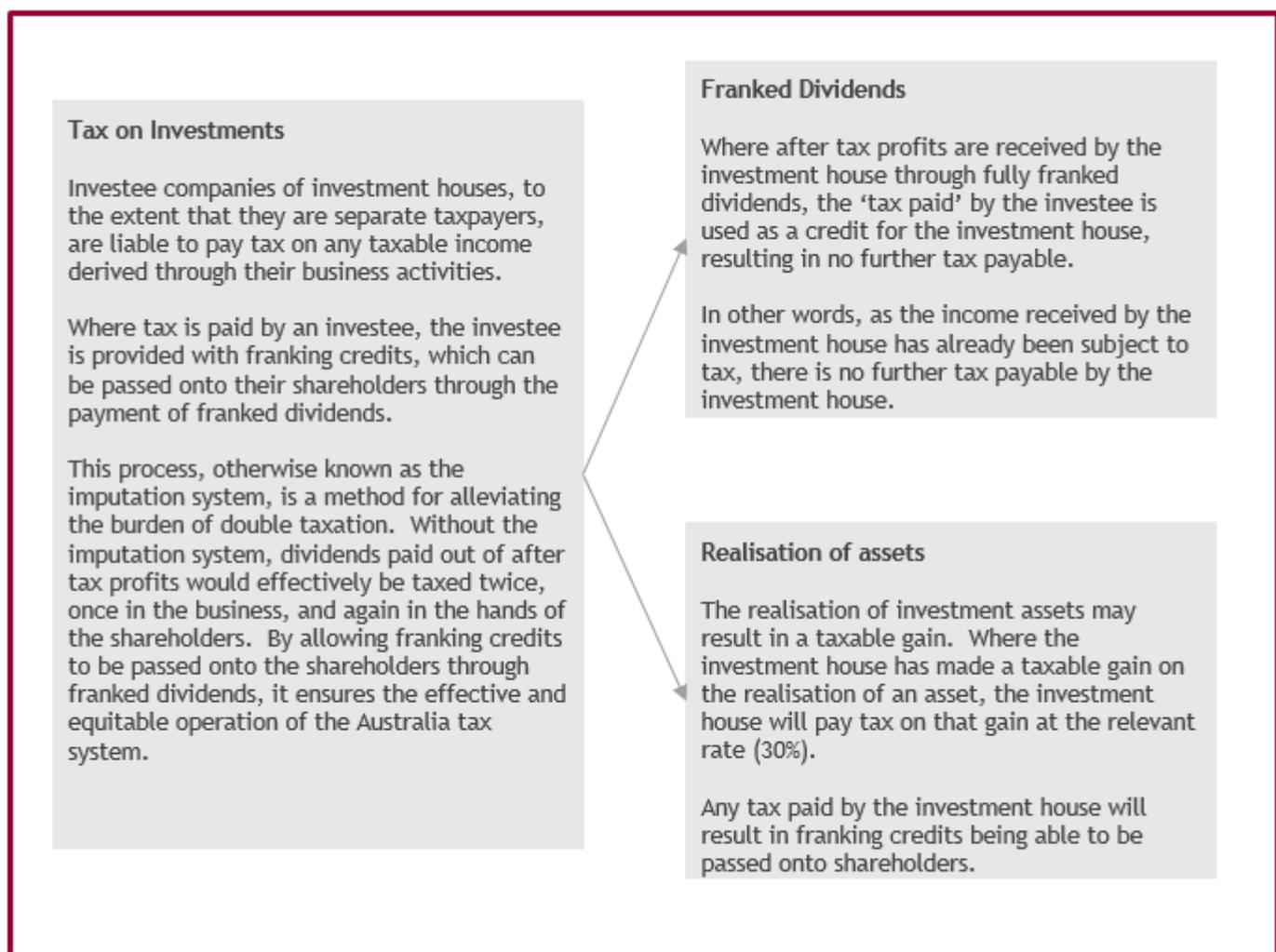
WHSP receives dividends and distributions from its investments, interest income and gains and losses on its investments.

As WHSP is an investment house, tax payments for such businesses generally are irregular, and usually only arise when investments are realised at a profit. Losses made on investments, as well as unused franking credits, can be carried forward to offset gains in future years.

Franked dividends received by WHSP on its investment portfolio represent income where the tax has effectively already been paid, through the operation of the dividend imputation system.

Therefore WHSP will generally only pay income tax in its own right when an investment is disposed of and a capital gain is made.

The two ways in which investment houses ordinarily contribute to the Australian tax base are illustrated below.



In the 2018 financial year WHSP did not, in itself, make any tax payments. However, WHSP did still contribute to the Australian tax base. During the income year, WHSP received franked dividends totalling \$141,270,651, which had franking credits attached of \$59,365,778. The franking credits represent tax paid by the investments held by WHSP.

Reconciliation of reported revenue to tax paid

The below table reconciles the consolidated revenue as published in WHSP’s annual report, to the tax paid by the WHSP tax consolidated group.

The WHSP tax consolidated group is made up of WHSP (as the parent entity), and all of its wholly owned subsidiaries.

This reconciliation removes the financial results of controlled non-wholly owned subsidiaries who are not members of the WHSP tax consolidated group, and reverses any of the associated consolidation accounting entries prior to reconciling to the WHSP tax consolidated group’s tax expense and tax paid.

Reconciliation of consolidated revenue in the WHSP annual report to the WHSP income tax return	FY2018 \$m's
Revenue from continuing operations	1,175
Other income	99
Exclude revenue from entities not in the WHSP tax consolidated group ¹	(1,090)
Include intra group dividends received by WHSP	117
Include gain on sale of New Hope Corporation Limited shares as it is taxable	173
Reverse the accounting gain on de-recognition of associate companies previously equity accounted as it is not a taxable gain	(72)
Include trading stock adjustment ²	70
Other	(2)
Total revenue for WHSP tax consolidated group	470
Less: expenses for WHSP tax consolidated group	(147)
WHSP tax consolidated group accounting profit before tax	323
Tax at the Australian tax rate of 30%	97
Other non-deductible amounts for tax	14
Franking credit offset from dividends received by WHSP	(59)
Utilisation of prior period tax losses	(52)
Taxable income	Nil
Income tax paid	Nil

¹ Primarily New Hope Corporation Limited. These entities are removed as they are separate taxpayers in their own right

² WHSP discloses profit and loss on equities held as trading stock as a net amount in the financial statements. This is grossed up for the purposes of disclosing sales proceeds and respective cost of sales in the tax return.



Other taxes paid

In addition to the contribution to the Australian tax base through corporate taxation, WHSP pays a range of different state, territory and federal taxes. The table below outlines the other taxes paid by the WHSP tax consolidated group during the 2018 income year.

Tax paid	Amount (\$m's)	Description
Withholding taxes	6.1	Tax withheld on salary and wages
Payroll tax	1.1	States taxes payable on salary and wages
Fringe benefits tax	0.1	Tax paid on benefits provided to WHSP employees
Mining royalty payments	2.1	State government mining royalties

The other taxes paid (listed in the table above) does not include payments to government made by New Hope Corporation Limited, which total \$145.8m in the 2018 financial year. While New Hope Corporation is a subsidiary of WHSP, it not part of the WHSP tax consolidated group.

Further information

Further information regarding WHSP and its activities are available at WHSP's website <https://www.whsp.com.au>