



## Lion's 2016 Taxes Paid Report

### **CFO Statement**

On behalf of the Lion Board, we are pleased to share with you Lion's Taxes Paid Report for the financial year ending 30 September 2016.

At Lion, our core purpose is to enrich our world by championing sociability and helping people to live well. Our values are intrinsically woven into our business operations, as we work together to make a difference, now and for the long-term.

Lion supports the Australian Government's Voluntary Tax Transparency Code ("the Code") as a key platform to better inform public debate about tax policy and to increase transparency to the wider community. We strongly believe that sustainable financial results come from generating genuine societal value and offering full transparency about the way we approach tax risk management.

As one of the largest food and beverage companies in Australasia, Lion employs more than 6,700 people across Australia and New Zealand. In FY16, our total contribution to the economies of both countries was \$5.15 billion (inclusive of \$1.6 billion of taxes paid) and led to additional employment in our local communities, particularly in the agricultural, tourism and hospitality sectors.

In this report, we provide an overview of our tax strategy, governance and policies, all of which align to Lion's overall corporate governance and sustainability frameworks. We also include commentary regarding our total tax contribution and major international related party transactions. Details of Lion's effective tax rate and a reconciliation of the accounting profit to income tax expense and to current year income tax payable is also included.

We see this report as an important step in providing transparency and accountability to our stakeholders, and an opportunity to maintain an open dialogue regarding our tax commitments. We recommend reading this report in conjunction with Lion's Sustainability Report which can be accessed via our website [LINK].

If you would like to provide any feedback, please don't hesitate to contact us at [sustainability.au@lionco.com](mailto:sustainability.au@lionco.com)

Stephanie Nixon  
CFO



# LION OVERVIEW

Lion is one of Australasia's largest food and beverage manufacturers, with 31 production sites across Australia and New Zealand and a rich history of producing some of our most iconic and well-known brands.

We have two, broad-based product portfolios:

- Alcoholic beverages (primarily beer and cider)
- Dairy and drinks products (milk-based beverages, cheese, yoghurt, cream, custard, juice, water ice).

We also export our beer and dairy products internationally, with support from our subsidiary operations in USA, Singapore and Malaysia. To support Lion's long-term international strategy, we recently launched a hospitality venue concept in Hong Kong as a platform to share our Little Creatures beer with Asia and the rest of the world.

## 2016 Financial Results

The Lion Group delivered operating earnings before interest and tax ("EBIT") of \$694.3 million for the year ending 30 September 2016. Operating net profit after tax rose \$11.7 million to \$280.1 million in the same year.

# APPROACH TO TAX STRATEGY AND GOVERNANCE

Lion strongly supports the principle that tax risk management is crucial to good corporate governance and, by extension, part of being a good corporate citizen.

Our tax strategy and governance approach has been approved by the Board and aligns to our Risk Management Framework. The roles, responsibilities and approval structure under Lion's Risk Management Framework have been summarised in the diagram below:

## **Board of Directors:**

- Overall Business strategy and objectives.
- Annual evaluation of the effectiveness of the risk management system.

## **Audit, Finance & Risk Committee (AF&R Committee):**

- Oversee implementation of risk management policies & procedures.
- Review effectiveness of risk management strategies, report to full board on material risk.

## **Lion Risk Assurance (LRA):**

- Review effectiveness of risk management and internal control framework.
- Validate completeness of business unit (BU) risk analysis.
- Work with Risk Champions to identify emerging, group wide risks, formulate actions and embed a consistent approach.

## **CEO, Business Unit & Group Functions:**

- Ownership or risk and establishing effective management of risks.
- Ensure guidelines adhered to and objectivity of management assurance.
- Ensure effectiveness and adherence to internal controls.
- Implement risk management strategy and collaborate with LRA.



Operationally, the Lion Group Tax function is responsible for implementing, maintaining and reviewing the internal control environment to ensure that the identification, evaluation, management and escalation of tax risk to senior management is performed in an effective and timely manner.

Lion's approach to tax governance has been summarised in the diagram below. We believe that our tax governance framework is consistent with 'best practice', as set out in the Australian Taxation Office's (ATO) Tax Risk Management and Governance Review Guidelines.

**Information & Communication:**

- Tax risk reporting: CFO, AF&R Committee.
- Tax training of BU / Tax Team.
- Lion Tax meetings.

**Monitoring:**

- Ongoing reviews.

**Control Activities:**

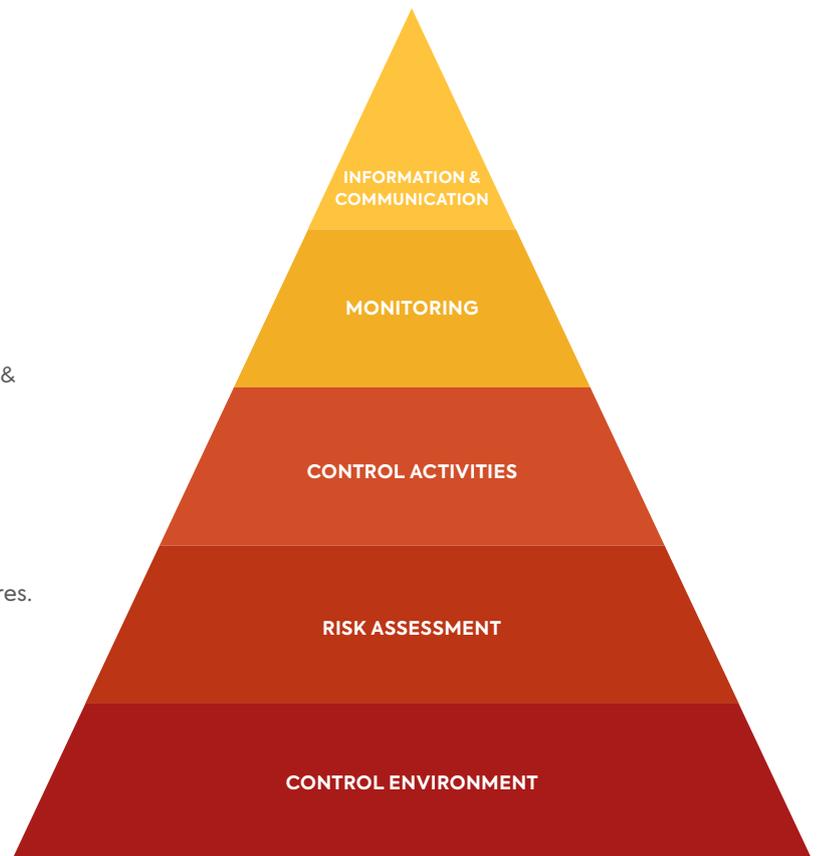
- Policies and procedures:
  - Group policy on tax signoff on transactions & organisational and systems changes.
  - Defined roles & responsibilities.
  - Defined compliance process.
  - Controls around key compliance risk areas.
- Formal tax change implementation procedures.
- Internal / external advisor signoff.
- Reporting controls.

**Risk Assessment:**

- Assessing tax risk by review process for operational compliance.

**Control Environment:**

- Lion Values & Culture.





### Attitude towards tax planning

Lion's approach to tax planning is to operate and pay taxes in accordance with the laws in the relevant jurisdictions. Consistent with Lion's Risk Management Framework, we adopt a conservative approach to tax risk and do not engage in aggressive tax planning.

Tax laws are inherently complex and subject to change and interpretation. With this in mind, Lion regularly seeks independent specialist tax advice to ensure all identifiable tax risks are appropriately managed and documented. This could relate to one-off significant business transactions or day-to-day compliance obligations.

### Engagement with revenue authorities

Lion actively engages with revenue authorities in relevant jurisdictions to ensure compliance with ongoing tax obligations, the provision of significant transaction updates and responding to specific reviews and queries.

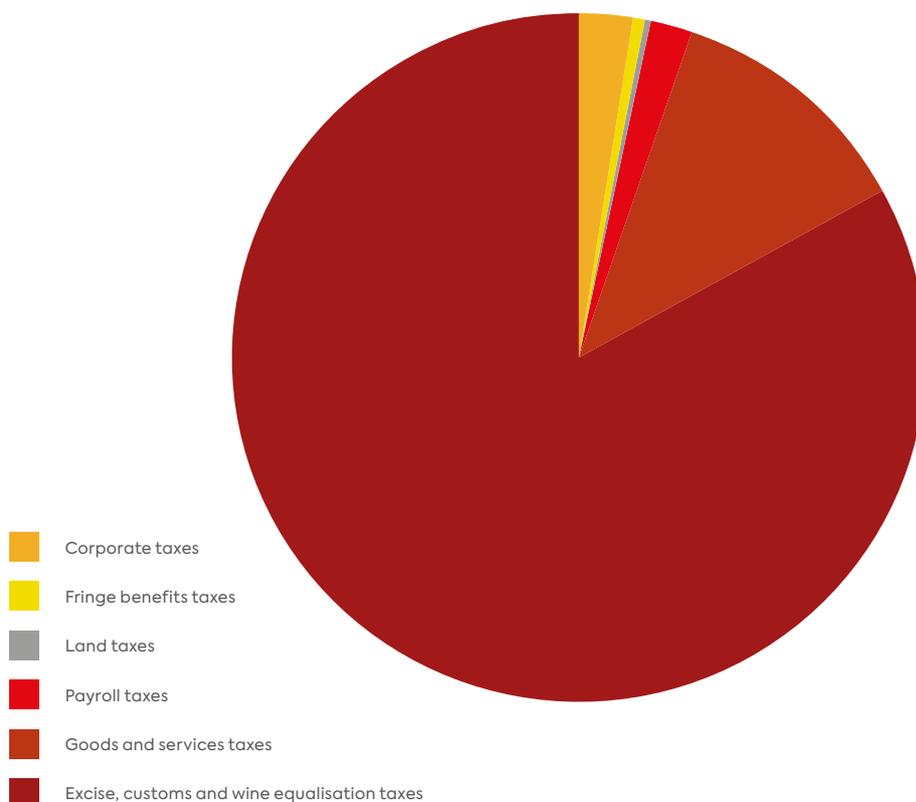
In Australia, we have a constructive relationship with the ATO and are categorised as a Key Taxpayer under the ATO's Risk Differentiation Framework (High Consequence, Low Risk). As a Key Taxpayer, Lion engages regularly with the ATO (including prior to the lodgement of the annual income tax return) to provide ongoing assurance over our tax governance practices and to ensure that tax calculations and payments accord with Australia's tax laws.

## TOTAL TAX CONTRIBUTION

Taxes represent a significant part of our economic contribution to the overall Australian and New Zealand economies. During FY16, Lion paid approximately \$1.6 billion in tax. Of this, \$1.3 billion was paid in Australia, \$337 million in New Zealand with additional taxes paid in other jurisdictions.

### SUMMARY OF LION TAXES (\$ MILLIONS)

	AU	NZ	OTHER	TOTAL
CORPORATE TAXES	28.87 <sup>3</sup>	14.18	0.03	43.08
FRINGE BENEFITS TAXES	7.36	0.98	-	8.34
LAND TAXES	3.88	-	-	3.88
PAYROLL TAXES	30.73	-	0.78	31.51
GOODS AND SERVICES TAX	140.82	49.00	0.13	189.94
EXCISE, CUSTOMS AND WINE EQUALISATION TAXES	1,067.92	272.74	0.87	1,341.53
<b>TOTAL TAXES PAID</b>	<b>1,279.58</b>	<b>336.90</b>	<b>1.81</b>	<b>1,618.28</b>



<sup>1</sup> NZD denominated taxes were converted to AUD using an average daily exchange rate for FY16 of \$1.07 from the Reserve Bank of Australia.

<sup>2</sup> Other jurisdictions include US, Singapore, Malaysia, China and Hong Kong. All tax amounts were denominated in AUD.

<sup>3</sup> The Australian corporate taxes paid during the 2016 financial year include PAYG income tax instalments of \$59.12m in respect of the 2016 financial year, less income tax refunds of \$30.25m in respect of the 2015 financial year.

## LION'S INTERNATIONAL RELATED PARTY DEALINGS

Lion has international related party dealings with its Japanese parent company, Kirin, as well as with its wholly owned subsidiaries in New Zealand, USA, Singapore, Malaysia, Hong Kong and China, all of which are subject to tax in their respective jurisdictions.

During FY16, Lion's international related party transactions comprised mainly the sale and purchase of beer, wine and dairy products; centralised back office support services; customer management and marketing support services; and financing activities.

International related party product and service transactions occur primarily between Australia and New Zealand, and to a lesser extent with other Lion international subsidiaries. Financing transactions relate mainly to Lion and parent company Kirin.

Lion conducts all international related party dealings in accordance with the OECD arm's length principle and local transfer pricing requirements. Lion maintains contemporaneous transfer pricing documentation to support the arm's length pricing of these transactions.



# RECONCILIATION OF ACCOUNTING PROFIT TO TAX EXPENSE AND TO INCOME TAX PAID OR INCOME TAX PAYABLE

RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE	2016 LION ACCOUNTING GROUP <sup>4</sup>	2016 AUSTRALIAN TAX CONSOLIDATED GROUP
INCOME TAX EXPENSE (\$ MILLIONS)	128.39	105.32
PROFIT BEFORE INCOME TAX (\$ MILLIONS)	530.43	399.12
<b>EFFECTIVE TAX RATE<sup>5</sup></b>	<b>24.21%</b>	<b>26.39%</b>
<i>EFFECTIVE TAX RATE RECONCILED AS:</i>		
AUSTRALIAN STATUTORY TAX RATE	30.00%	30.00%
<i>ADJUSTED FOR NON-TEMPORARY DIFFERENCES:</i>		
PRIOR YEAR UNDER/OVER PROVISION:	-0.98%	0.00%
NON-DEDUCTIBLE EXPENSES <sup>6</sup>	3.22%	7.94%
NON-ASSESSABLE INCOME <sup>7</sup>	-7.32%	-11.74%
OTHER	-0.71%	0.19%
<b>EFFECTIVE TAX RATE</b>	<b>24.21%</b>	<b>26.39%</b>

RECONCILIATION OF INCOME TAX EXPENSE TO INCOME TAX PAYABLE (\$ MILLIONS)	2016 LION ACCOUNTING GROUP	2016 AUSTRALIAN TAX CONSOLIDATED GROUP
INCOME TAX EXPENSE	128.39	105.32
<i>ADD BACK:</i>		
NET DEFERRED TAX BENEFIT/(EXPENSE) <sup>8</sup>	3.32	5.96
NZ TAX RATE DIFFERENTIAL	1.24	0.00
PRIOR YEAR UNDER/OVER PROVISION	5.20	0.00
<b>INCOME TAX PAYABLE - CURRENT YEAR</b>	<b>138.15</b>	<b>111.28</b>

<sup>4</sup> The Lion Accounting Group differs from the Australian Tax Consolidated Group as it includes all international subsidiaries and non-wholly owned Australian entities.

<sup>5</sup> Effective tax rate is calculated as income tax expense divided by profit before tax.

<sup>6</sup> Lion's non-temporary non-deductible expenses largely relate to the accounting loss with respect to the write-off of Lion's investments in certain foreign subsidiaries.

<sup>7</sup> Lion's non-temporary non-assessable income is driven by differences in the treatment for accounting and tax purposes of the disposal of certain assets and/or rights, the availability of carried forward capital losses, the treatment of certain investments and non-assessable non-exempt foreign dividend income.

<sup>8</sup> Material temporary differences relate to amounts which are assessable or deductible for tax purposes at a different time for accounting purposes. Lion's material temporary differences are driven by provisions, accruals and different depreciation rates used for tax and accounting purposes.