



2012 SUSTAINABILITY REPORT



Lion's core purpose is 'Growing sociability and wellbeing in our world'. So while, like any business, our overall objective is growth, our core purpose requires us to consider more than our economic growth potential; we must also consider the implications of the decisions we make on our people, the environment and our community.

Our business exists within the community, not outside it. As a member of our community it is our responsibility to preserve the natural resources we rely on for current and future generations, and encourage the healthy and responsible enjoyment of our products. And when our products are misused in ways that are fundamentally at odds with our core purpose, we must be part of the solution to tackle this misuse.

Our pursuit of responsible sustainable growth is clearly articulated in the following areas:

Our People + *Our Society* + *Our Environment* = *Sustainable Growth*

Our people

Lion's ability to achieve great results for the long term is underpinned by what we term our 'achievement culture'. We believe that developing strong leaders and encouraging constructive behaviours is key to successful growth. The way we behave is also integral to building trusting relationships, which is why we place as much emphasis on behaviour as we do on results.

We don't value short-term results that are achieved in the wrong way. We develop our people to help them be the

best they can be, really make a difference, and have a great time doing it. To this end, we support them to find ways to enhance their wellbeing and flourish as individuals. By building a company that our people are proud of and a culture that engages them, we can ensure they feel good about working for Lion. And an engaged workforce creates and delivers more positive experiences for others, internally and externally – which in turn, contributes to Lion's long-term growth.

Our society

Our ability to sustain long-term growth is closely linked to the wellbeing of the communities in which we operate. To ensure we are growing sociability and wellbeing in our world, we must produce and market responsible and sustainable products, demonstrate leading governance and marketplace practices, and ensure we source inputs ethically. The industries we operate in also need to be profitable, with balanced and rational regulatory environments.

We are committed to providing consumers with information about our products so they can make healthy lifestyle choices. We also play a role in the community effort to encourage healthy and responsible enjoyment of our products. We engage regularly with our stakeholders to ensure we meet their reasonable expectations.

Our Environment

We are committed to further reducing our environmental footprint, even as we grow our business. We have a strong record of investing in initiatives and programs that reduce our greenhouse gas emissions, water usage and waste; and increase the recycled material in our packaging, as well as its recyclability. We are also committed to environmentally sustainable sourcing of inputs.

We have embedded strong environmental management systems across our various sites and have put in place clear environmental targets. Establishing, monitoring and measuring these targets help to ensure we remain accountable for our sustainability commitments.




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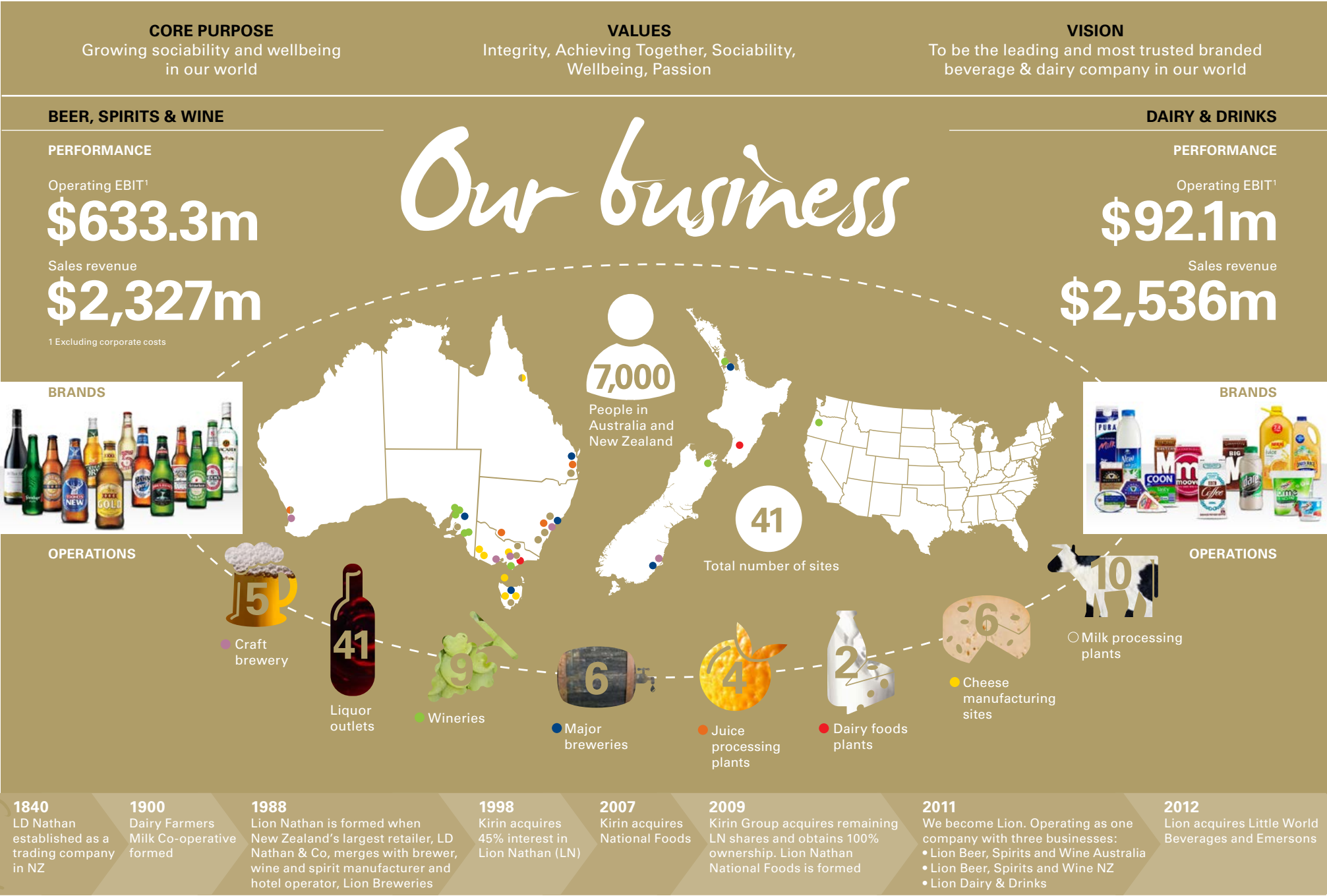
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SCOPE OF REPORT

The information in this report covers all Lion operations in Australia and New Zealand for the Lion financial year 1 October 2011 to 30 September 2012, unless otherwise stated. The operations of our Beer, Spirits & Wine business and our Dairy & Drinks business are detailed in the infographic on page 4. The report does not cover the operations of our parent company Kirin Holdings.

NAVIGATING THIS REPORT

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How will we achieve sustainable growth?

A message from Stuart Irvine, CEO



Welcome to Lion's 2012 Sustainability Report – my first as Lion CEO. Much has been achieved since 2011, which is testament to the leadership of our outgoing CEO, Rob Murray, his senior leadership team, and the commitment of our people. One of the things that first attracted me to this business was that the label matched the practice. There is a strong culture of delivering on our commitments, operating constructively with our stakeholders, and considering our people, the environment and the broader community when making business decisions. I am pleased to see this reflected in this report.

Despite the challenges of increasingly competitive retail, grocery and consumer good sectors in both Australia and New Zealand, in 2012 we continued to invest in our people, brands, production assets and supply chains to deliver on our long-term sustainable growth strategy. Growing our business yields significant societal benefits. The more we are able to

grow value, the more we can share that value with our people, stakeholders, governments and the communities in which we operate.

During FY12, the total direct plus indirect economic contribution Lion made to the Australian and New Zealand economies was an impressive \$5.0 billion.

In our Beer Spirits & Wine businesses, 2012 was a year of new brands and product innovations. In Australia we welcomed some fantastic international premium and craft brands to our portfolio: Corona Extra, Stella Artois, Hoegaarden, Leffe, Belle-Vue Kriek and Little World Beverages brands' Little Creatures, White Rabbit and Pipsqueak. In New Zealand we welcomed an equally great new craft portfolio from Emerson's, and continued to innovate in our Mac's range with two new variants of cider; Mac's Winter Cider and Feijoa, Mac's Alcoholic Ginger Beer and Mac's Shady Pale.

Continuing to build an achievement culture, with high levels of engagement, is critical to Lion

Innovation was also a focus in our Dairy & Drinks business. In this highly competitive marketplace, our ultimate aim is to provide more consumer choice and build value into the supply chain. To this end, we launched permeate-free white milk, a reduced sugar juice range 'be by Berri' and a range of lower-sugar alternatives in flavoured milk.

The year also saw us setting an important benchmark for measuring how effectively we engage with our community. Our first-ever Community Engagement Study canvassed the views of all our stakeholders. These insights have helped shape Lion's Balanced Business Strategy and ensure we are in tune with the reasonable expectations of our community.

Of course none of this would be possible without our most important asset – our people. Continuing to build an achievement culture, with high levels of engagement, is critical to Lion achieving its goals. We were pleased to see our people engagement score jump from 79% in 2011 to an impressive 83% in 2012.

I extend my thanks to all our people and to those stakeholders who have contributed to this next chapter of our sustainability journey. During my first year as CEO, I look forward to building on what we've already achieved.

Stuart Irvine
Chief Executive Officer



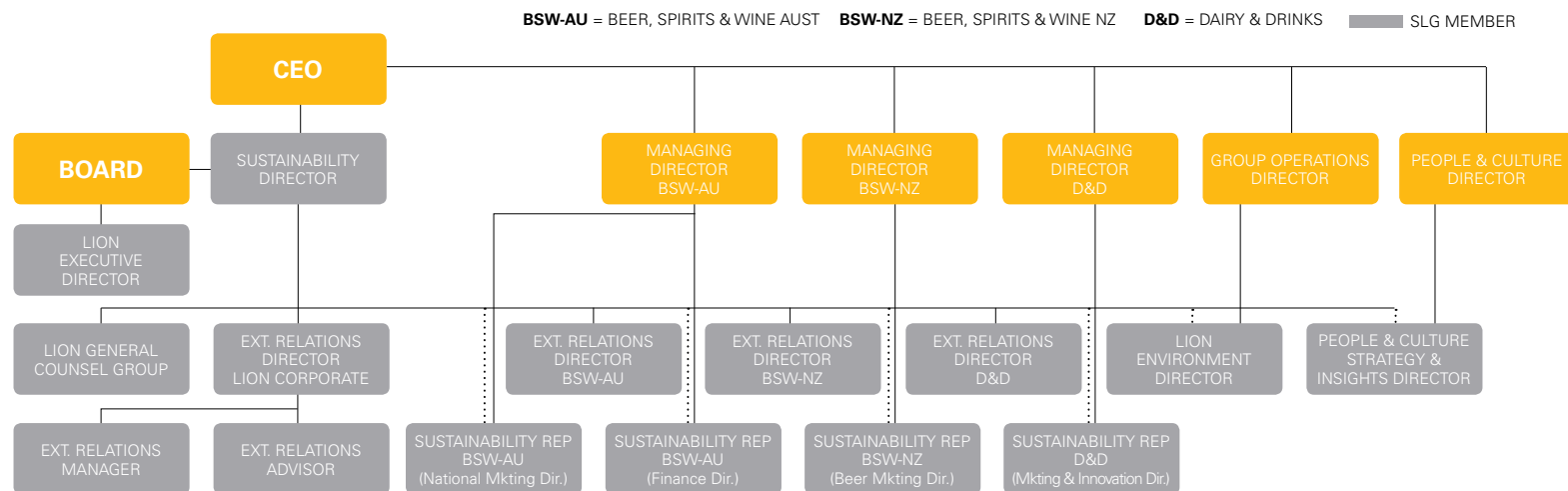
A message from Duncan Makeig, Sustainability Director

In 2012 our Sustainability Leadership Group continued to embed sustainability into our commercial operations, ensuring the appropriate level of focus and resource allocation within our businesses.

We take the view that rather than keeping our sustainability strategy separate to our business strategy, they should be one and the same. We should be considering our people, the environment and our broader community as we seek to grow our business. I am pleased to report that our FY15 Balanced Business Strategy, which details our priority targets and measures as a business for the coming three year period, was developed from this holistic perspective.

We believe that aligning the growth objectives of our business with the needs and reasonable expectations of our community is not only the right thing to do, but is also how we will achieve long-term, sustainable growth.

SUSTAINABILITY LEADERSHIP GROUP



In 2012 we saw a great example of this mutual benefit, when XXXX GOLD became Australia's largest beer. This is not only a fantastic commercial development for our business and those of our customers, but it is also beneficial for the community. At just 3.5% ABV, XXXX GOLD is the first mid-strength beer to take the number one position and is largely responsible for the fact one in four beers consumed in Australia is now lower-than-full-strength.

In our Dairy & Drinks business we know that investing in innovation to build value into our product categories will not only deliver more sustainable results for Lion, it will also increase the value pool available to share with our supply-chain partners, and will expand choice for our consumers. In the dairy industry this focus on innovation, coupled with our continued commitment to sustainable cost reduction, is critical to Lion playing its role in delivering a sustainable dairy industry in the long-term.

Above and beyond our direct commercial operations we've continued to invest in cultural change programs across the Tasman to address misuse and to encourage positive sociability and wellbeing in our communities, consistent with our core purpose. The rollout of product labelling and educational materials on the risks of drinking while pregnant through DrinkWise Australia; the launch of the industry-led alcohol education program, The Tomorrow Project, in New Zealand; and our founding membership of the Australian Food and Grocery Council's Healthier Australia Commitment are just a few of the examples contained in this report.

In Australia carbon was high on the political agenda in 2012 and we're pleased to report that during the year we reduced our Scope 1 & 2 carbon emissions by approximately 108,000 tonnes CO₂-e, or approximately 25% on the previous year, thanks to efficiency gains and some site closures. This is great progress and means we are well on track to achieve our FY14 emission target.

I trust this report will provide you with more detail on our activities and help you learn more about Lion's approach to running a sustainable business.

Duncan Makeig
Sustainability Director

What matters

Listening to the needs and concerns of our stakeholders, and considering these when making business decisions, is how we work to meet the reasonable expectations of our community and, more importantly, is the primary enabler of running a sustainable business. It is also how we determine the material topics we report on each year.

HOW WE DETERMINE MATERIAL MATTERS



At the end of 2011 Lion conducted its first ever Community Engagement study, which has provided us with more insight into the needs and concerns of our stakeholders than ever before. We went to every stakeholder group in our community and asked for their opinions on our business across the topic areas of employment, marketing, sustainability, leadership and sociability and wellbeing. We spoke to our customers, distributors, farmers, industry groups, media, government, NGOs, analysts, thought-leaders, community and sponsorship partners, and other business associates.

The feedback from this study, as well as from our internal People Pulse survey and Customer Engagement survey, provided our Sustainability Leadership Group with the necessary information to analyse and then map issues according to the level of stakeholder concern and impact on our business and the broader community.

For the 2012 financial year, five key material matters were identified and have formed the basis of this report. They are:

- + Responsible business practices
- + Environmental stewardship
- + Supplier sustainability
- + Trusted business partner
- + Building an achievement culture

Responsible business practices

AT A GLANCE

- + Introduced product labelling and information campaign for pregnant women across the Tasman and in NZ launched *Cheers!*
- + Grew mid-strength beer category
- + Helped develop nutrition regulatory and policy frameworks
- + Introduced healthier dairy and juice products
- + Became founding member of AFGC's Healthier Australia Commitment
- + Advocated for a thriving domestic food manufacturing sector to government

Why this is material to our business

Operating our business responsibly and ethically is fundamental to our ability to deliver long-term, sustainable growth. For us, responsible business practices extend from robust governance and risk management right through to the products we sell, how they are marketed, and the efforts we make to encourage people to consume them in a responsible way.

RESPONSIBLE CONSUMPTION

We believe strong brands can play a positive role in helping consumers make educated choices about the food and beverage products they consume. We take great pride in producing a range of products that taste great, use high quality ingredients and have the potential to genuinely benefit the wellbeing of our consumers when consumed as intended.

Through our innovation pipeline we have led the way in delivering products that encourage responsible and positive consumption – including less than full-strength alcohol products and nutrient enriched food and beverage products that meet specific consumer needs.

HELPING PEOPLE ‘GET THE FACTS’ ON ALCOHOL

Placing messages on our labels is one way we help encourage people to make better choices when they drink. Obviously labels alone can’t change behaviour, but if they’re supported by information and cultural change programs that target ‘at risk’ groups, such as pregnant women, we believe they can play a role in helping people make more informed choices.

This is the thinking behind our commitment to voluntarily implement a consumer messaging program that was developed by DrinkWise Australia, an independent, not-for-profit organisation that plays a key role in challenging the Australian drinking culture and tackling alcohol misuse.

Initially, we rotated three different messages across all of our alcoholic beverage products. But after receiving feedback from stakeholders we will now only display the message ‘it’s safest not to drink while pregnant’, to ensure it gains prominence.

We are taking this approach across our portfolio in both Australia and New Zealand.

Cheers.org.nz

**IT IS SAFEST
NOT TO DRINK
WHILE PREGNANT**

Get the facts
**DRINK
WISE**
ORG.AU

**IT IS SAFEST NOT
TO DRINK WHILE
PREGNANT**

The vast majority of our alcohol products already carry these messages, with the balance of our domestic portfolio and the majority of our international brands to be finalised in 2013.

As well as this labelling initiative, DrinkWise has launched a complementary education initiative, in conjunction with the Federal Department of Health and Ageing in Australia, to make educational literature available at major liquor outlets. The aim is to increase awareness and understanding about the risks of women drinking alcohol while pregnant.

ENCOURAGING A POSITIVE DRINKING CULTURE

Each and every day Australians and New Zealanders enjoy alcohol in moderation, as part of a balanced lifestyle. There is however a minority who misuse alcohol. We not only take very seriously the social, economic and healthcare costs associated with this behaviour, but believe we have an obligation to encourage the responsible consumption of our products by taking a leading role in promoting a positive drinking culture.



For us, alcohol misuse and its consequences is a threat, not a benefit, to our business.

The reasons behind misuse are complex. There are no simple answers. However, a review of all the available evidence has led medical and educational experts to advise us that education and targeted intervention, aimed at changing the negative aspects of our drinking cultures, are the keys to minimising alcohol misuse.

As a consequence, we support a number of education, research and cultural change programs that serve to encourage people to take a responsible approach to alcohol consumption (see community investment infographic on page 14 **CS**). These efforts were further boosted in 2012, with the launch of a new cultural change program in New Zealand, *Cheers!* which you can read more about in the case study on page 17. **CS**

For us, alcohol misuse and its consequences is a threat, not a benefit, to our business.

We've also invested heavily in developing and promoting products that still taste great, but make it easier for consumers to moderate their consumption. We were responsible for establishing the light and mid-strength beer categories in Australia. Thanks to our significant investment in light and mid-strength brands, they have grown to the point where one in four beers consumed is now lower-than-full-strength.

And in 2012 we were able to announce that our leading mid-strength beer, XXXX GOLD, had become the country's largest beer by volume – a positive development for Lion, and for the community.

Our latest mid-strength beer, Hahn Super Dry 3.5, is showing impressive growth and in New Zealand we are also now trialling a new Wither Hills wine that is a lighter in alcohol variant.

ENCOURAGING A HEALTHY EATING CULTURE

As the number of Australian children and adults who are overweight and obese grows, so too does the debate about how to address this issue and encourage healthy dietary choices.

Lion believes that providing consumers with product choice, information and supporting education is the most effective way to shape dietary habits.

In the year under review, we've worked with industry, government, consumer and health groups and other stakeholders to contribute to the development of robust, evidence-based nutrition regulatory and policy frameworks.

This work included the review of the Australian Dietary Guidelines and Guide to Healthy Eating; the development of the Nutrition, Health and Related Claims Standard; the development of a new Front of Pack Labelling system; and most recently, the Food Health Dialogue's sodium program.

With our industry partners we also participated in the Nutrition Research Program for Fruit Juice Australia, and the research program for the Dairy Health and Nutrition Consortium, to ensure our products and associated education programs continue to be based on the most up-to-date scientific evidence.

The outcomes from these policies and initiatives will continue to shape our product offering, marketing communications and broader education programs.

From a product portfolio perspective, we continue to tailor our offering to address consumer needs for adequate choice, nutrient composition and serve sizes.

This year alone we have:

- Provided a 98% fat free yogurt in our Yoplait range that's high in calcium and probiotic culture for digestive wellbeing, and has no artificial colours or flavours
- Introduced a range of healthier flavoured milk products, including Big M One, Farmers Union Iced Coffee One, Masters One and Dare Raw flavoured milks, all of which have only 1% fat and no added sugar
- Launched be by Berri fruit drinks, which contain 50% less sugar than a normal juice product and 80 calories or less per 350ml serve
- Introduced a fruited Greek-style high protein yoghurt with no fat
- Extended the Vitasoy Oatmilk range to include Oatmilk Bone Essentials (with calcium and vitamin D), and an on-the-go 250ml flavoured Oatmilk range.



FAT IN OUR HEALTHIER FLAVoured MILK PRODUCT RANGE



SUGAR REDUCTION IN BE BY BERRI FRUIT DRINKS COMPARED TO STANDARD FRUIT DRINKS





To ensure we not only create nutritious product choices, but also encourage the right kind of consumption behaviour, we became a founding member of the Australian Food and Grocery Council's (AFGC) Healthy Australia Commitment (HAC) that was launched in October 2012.



This aims to support the health of Australian families by offering the healthiest possible products; introducing workplace wellbeing programs; and implementing community education and services, such as the newly launched 'Together Counts' program.

This year the focus is on marketplace and product and we are committed to modifying our products' energy, saturated fat and sodium content where appropriate, while at the same time ensuring they are dense in nutrients such as protein, calcium, vitamin D or vitamin C.

TAX AND PRICE CONTROLS

As a matter of principle, Lion believes that broad-based measures to increase the price of alcohol will not significantly change the behaviour of people who are drinking at harmful levels, as those drinkers are relatively non-responsive to price changes. The vast majority of people consume alcohol moderately, and therefore experience the social and health benefits associated with that level of consumption.

Targeting harmful consumption and misuse of alcohol is where government and industry efforts should be focused. We believe this is best delivered through interventions that target those particular groups – not those that impact the whole of society, and disproportionately impact those in lower socio-economic groups. While alcohol price controls exist, we believe they should be structured in such a way as to encourage the consumption of lower-than-full-strength products, such as light and mid-strength beer.

In FY12 the Australian National Preventive Health Agency released a discussion paper on minimum pricing, to which Lion responded in line with this position. ANPHA tabled its preliminary report in November 2011, finding that the case for minimum pricing was as yet unproven due to a lack of compelling evidence as to its effectiveness. The report also noted the anomalies in the taxation system that have resulted in the availability of very cheap wine, and recommended a review of this system. Following a second round of consultation ANPHA will publish a final report on the subject in the coming months, to which the Government will respond during 2013.

RESPONSIBLE MARKETPLACE ACTIVITIES

We take great pride in being a responsible marketer, complying with the letter and spirit of highly effective legislation and self-regulatory best practice codes.

The aim of our marketing is to create the best-loved brands in each market we operate in. To ensure we do this responsibly, we have a Lion Code for Responsible Marketplace Activity that sets out our commitment to marketplace practices that do not in any way contribute to the problems of alcohol misuse, obesity, or excessive consumption. It acts as a guide to our people and establishes standards that ensure a consistent approach to responsible marketplace activity.

Our people and agency partners are trained in the Code when they join our business. Refresher training is rolled out on a regular basis.

All our marketing activity must be approved internally by legal, regulatory, technical and (in the case of our Dairy & Drinks business) nutrition, and R&D representatives before it can enter the marketplace, to ensure it abides by the code.

In our alcohol businesses further approvals are required from external, independent pre-vetters (Australia) and trained internal delegated authorities (New Zealand) before marketing can be executed.

Lion’s Code is channel neutral and consistent with all regulatory, media and industry codes applicable in both Australia and New Zealand. These include:

- the Alcohol Beverages Advertising Code (ABAC)
- the Competition and Consumer Act and state fair trading legislation
- the Australian Association of National Advertisers (AANA) Code of Ethics
- The AANA Code for Advertising and Marketing Communications to Children
- The Australian Food and Grocery Council’s Responsible Children’s Marketing Initiative
- The AANA Food and Beverages Advertising and Marketing Communications Code
- the Commercial Television Industry Code of Practice
- the Commercial Radio Codes of Practice
- the Outdoor Media Association Code of Ethics
- Advertising Standards Authority Code for Alcohol Advertising and Promotion
- New Zealand Fair Trading Act 1986
- New Zealand Gambling Act 2002
- New Zealand Unsolicited Electronic Messages Act 2007
- Australia New Zealand Food Standards Code.

We’re committed to marketplace practices that do not in any way contribute to the problems of alcohol misuse, obesity, or excessive consumption

COMPLAINTS AND ADJUDICATIONS IN FY12

REVIEWED BY	COMPLAINTS	RESULT
Advertising Standards Bureau Australia	Two ads from Beer Spirits & Wine Australia One ad from Dairy & Drinks	All dismissed
Alcohol Beverages Advertising Code Australia	Four ads from Beer Spirits & Wine Australia	All dismissed
Advertising Standards Authority New Zealand	Ten ads from BS&W New Zealand	Nine dismissed and one upheld

The complaint upheld in New Zealand was for a Waikato Draught advertisement placed in a Waikato Chiefs (rugby team) supporters’ pull out magazine in the Waikato Times Newspaper. It said “Our starting 15 is looking pretty good this weekend” and featured a photograph of a box of beers. The artwork had appeared on billboards with no issue. However, its placement in a Chiefs magazine was deemed to breach the ‘heroes of the young’ clause in the code, despite the fact it made no direct reference to the team or their logo.

Lion appealed the decision and while in this instance we didn’t agree that a common sense decision was reached by the Advertising Standards Complaints Board, we abided with the board’s decision and used the experience to inform our training programs.

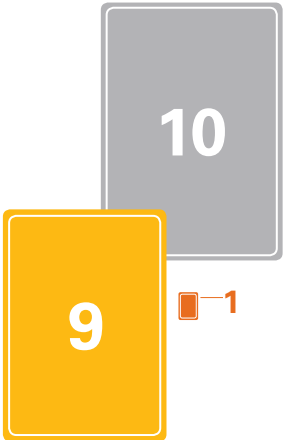
PRODUCT SAFETY

As Australasia’s largest food and beverage manufacturer, we have an important responsibility to ensure our products are of the highest quality – and safe. To this end, each and every one of our products is subject to stringent quality controls.

We continue to strengthen and develop our Quality Management System to ensure our systems remain best practice and that they meet –and exceed – the needs of our business, customers and consumers.

For instance:

- We have introduced an annual review across all Dairy & Drinks manufacturing sites to identify best practice activities and opportunities to improve our Quality Management System. We routinely review our management processes to assess a range of key performance and quality indicators such as customer complaints, cost of quality, conformance to specification and corrective action requests.
- We have reviewed and standardised our sampling and testing standards to provide information that is robust enough to identify any product integrity issues and improvement opportunities.
- We have upgraded our recall and withdrawal processes to ensure recalled or withdrawn products are quickly and efficiently retrieved from customers and/or consumers and have partnered with GS1-Recallnet, which provides an automated service to efficiently notify large customer groups in these situations.



COMPLAINTS AND ADJUDICATIONS

- Total complaints and adjudications in FY12
- Upheld
- Dismissed

Investing in the community

CULTURAL CHANGE AND COMMUNITY INVESTMENT

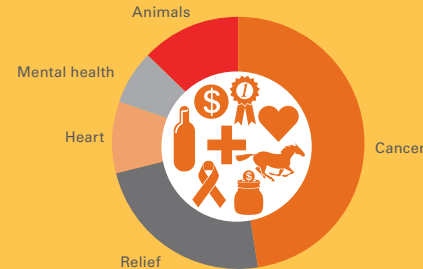
We continued to invest in our communities and in programs that drive real change. We regularly review our community investment strategy to ensure our selected initiatives generate the most beneficial outcomes for the community. In the coming year we intend to conduct a broader assessment of our strategy to evaluate our programs and identify potential opportunities for the future.

TOTAL INVESTMENTS IN 2012

Over \$4.5m



BREAKDOWN OF WORKPLACE GIVING CHARITIES SUPPORTED



GOVERNANCE

Corporate Governance at Lion sets out the framework through which our company is directed and controlled. It governs the relationship between:

- Kirin Holdings and the Lion Board
- The Lion Board and our Group Leadership Team (GLT)
- The GLT and business unit leadership teams

Each level of leadership is aware of its delegated responsibilities and is held accountable for them.

As in all businesses, risk management helps us achieve our objectives.

In a business context a risk could be anything from a market downturn to a fire at a production facility. A strong risk management framework helps us to realise our objectives by:

1. Identifying potential risks before they materialise (eg through workshops with identified 'risk champions' who specialise in specific risk areas and with business unit leadership teams).
2. Putting plans in place to lower the chances of the risk eventuating (eg health and safety procedures).
3. Mitigating the effects of the risk should it eventuate (eg business continuity planning in the event of natural disasters).

The table on the right highlights the roles and responsibilities of the various groups who manage governance and risk at Lion.

In assessing the effectiveness of our governance and risk processes, we review indicators such as whether or not Lion is consistently meeting its objectives, and whether residual risk ratings are reducing through the mitigation strategies we implement.

Our governance framework and risk management processes help us achieve sustainable outcomes for the business, and continually improve accountability and effective decision making by our people.

1	The Board	Directors oversee the management of risk and annually evaluate the effectiveness of our risk management system.
2	Audit finance and risk committee	Helps the board by providing an independent review of our financial reporting processes, audit function, and internal compliance and control systems to ensure key financial and business risks are appropriately and effectively managed and comply with legal and regulatory requirements.
3	Group Leadership Team	Responsible for designing, implementing and monitoring group-wide policies to mitigate financial and business risks and comply with legal and regulatory requirements. This includes: <ul style="list-style-type: none"> • responsibility for ensuring management reports regularly to the Board • a clearly defined organisation structure with approved delegated authority • processes to manage capital expenditure, assets, and liabilities • appropriate due diligence procedures for corporate mergers and acquisitions. CEO and CFO supplement the compliance program by annually certifying the financial statements' integrity to the audit finance and risk committee. This is supported by a sound system of risk management and internal compliance and control systems.
4	Business leaders	Business unit managing directors have primary responsibility for managing their unit's risk. This includes identifying risks, implementing policies and operating procedures to mitigate these risks and aid the business in achieving its objectives. They are supported in their risk management responsibilities by the central functions of legal, finance, treasury, insurance, tax, business solutions and reporting and governance.
5	Risk champions	Risk champions have been identified for the following material risk areas in the business: <ul style="list-style-type: none"> • Business continuity planning • Environment • Sustainability • Tax • Legal • Competition and regulation • Insurance • Safety and wellbeing • Strategy (business risk profiling) • Stakeholder reporting • Treasury • Information technology (IT) • Product integrity – Beer • Product integrity – Wine • Product integrity – Dairy and Juice • People These champions partner with the business units and managing directors to help manage material business risks, implement risk management processes and communicate to business leaders and the Board (via Lion risk assurance) how well they're managing risk in their area of expertise.
6	Lion risk assurance	Lion risk assurance (LRA) is a function, independent of the business units, that promotes a risk management culture. It conducts an annual program of material business risk reviews, assurance reviews, strategic and project reviews and fraud risk assessments. In carrying out its work it has access to all necessary information and people, including the audit finance and risk committee. The leader of LRA meets with the committee to discuss findings from reviews on a regular basis and also has the option to escalate issues to the CFO, CEO and thereafter to the audit finance and risk committee.
7	External audit	Lion's external auditors conduct independent audits of the annual financial reports to express an opinion as to whether they are in accordance with the Corporations Act 2001 and relevant accounting standards. These audits may involve assessing how internal control systems relating to financial reporting are managed.

FOOD REGULATION AND THE FOOD PROCESSING SECTOR

Lion believes the regulatory environment should support a flourishing and sustainable food and beverage production chain, where industry participants make reasonable returns, consumers have access to a wide variety of affordable quality food and suppliers and processors are motivated to invest for the future. Our continued business success is inextricably linked to the success of our agricultural and retail industries. And our ability to innovate and deliver benefits to consumers relies on rational regulatory environments that encourage investment.

To help shape and influence the environment in which we operate, we participated in a number of forums and made representations at various levels of government to convey our views on what's required to ensure a thriving domestic food manufacturing sector.

SENATE SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING SECTOR

Our submission and appearance at this hearing supported the Inquiry's intention, which was to recommend strategy and policy outcomes that support and sustain, rather than constrain, the food product and manufacturing industries. In our submission we highlighted the importance of a regulatory environment that supports domestic viability alongside global opportunities, resources to support innovation and R&D and harmonisation of cross-jurisdictional regulations in order to minimise any duplication in Australia.

FOOD PROCESSING INDUSTRY STRATEGY GROUP

Lion participated as a member of this group, which was established by the former Minister for Innovation, Industry, Science and Research, Senator Kim Carr in January 2011. The group was tasked to report on the status and future of the Australian food processing industry.

The final report was released in 2012 and explores the current operating environment and economic contribution of the food processing sector, opportunities and issues, and transformation strategies and recommendations.

A key recommendation was that government invest in a food innovation hub, harnessing consumer insights, technical food science skills and equipment technologies to enable FMCG businesses to develop new products for the Asian consumer market.

NATIONAL FOOD PLAN GREEN PAPER

We support the government's intent to develop a holistic strategy that addresses the regulatory and sustainability issues faced by the food industry and to deliver coherent, consistent and proportionate policy and regulatory outcomes.

In our submission we reiterated our support for the aim of providing an overarching framework for food policy in Australia to guide and entrench coherent, consistent, balanced and proportionate food industry regulation, on the proviso that it does not add another layer of regulation or complexity.

While we welcomed policymakers' interest in the broad range of issues relating to nutrition, food and the food processing industry, we emphasised the need for a coordinated approach to be taken to the direction, timing,



outcomes and implementation of these efforts to maximise the benefits of this work and minimise duplication or inconsistencies.

To date, there has been little alignment between the direction, timing, outcomes and implementation of food-related policy initiatives emanating from different government portfolios; even where there is cross-portfolio interaction, government agencies by their nature tend to operate independently. This means that the benefits of the work are not fully realised, that the policy outcomes are not always aligned, and that there is significant duplication of effort by industry and other stakeholders in an attempt to participate effectively in these processes.

Lion also presented its views at the Global Foundation Forum, and provided input to submissions prepared by the Australian Dairy Industry Council and the Australian Food and Grocery Council.



Tomorrow
calling

If the statistics are an accurate guide, the Tomorrow Project – a new industry-led alcohol education program in New Zealand – will achieve what many others have failed to do: genuinely engage its audience.

Five days after its launch in late November, the program's aptly named website, *Cheers!*, had received almost 4,000 visitors and 20,046 page views.

The seeds for the project were sown when Lion, along with fellow brewers in New Zealand, decided it was time to refresh the six-year-old drinkresponsibly.co.nz website and 'bring it into the 21st century'. As External Relations Manager Judy Walters explains, after reviewing 15 international websites that provided information on responsible drinking, the brewers decided that the project should be 'bigger than a website refresh' and provided an opportunity to involve the whole liquor industry in a broader social change initiative.

"Sociability and wellbeing is so integral to Lion that we saw it as an opportunity too big to miss, but if the message was to be big and bold, we had to have everyone involved."

With Lion leading the charge, New Zealand Winegrowers, the Distilled Spirits Association and NZ Brewers Association got together in February 2012 to frame the new approach. By early March all had signed on and a working group was established.

The working group understood from the beginning that to be effective, the initiative would have to be seen as 'the drinkers' friend', rather than demonise or preach to drinkers.



To date, says Judy, no responsible drinking programs have spoken directly to their audiences, nor have they acknowledged normal sociable consumption. What's more, most public debate focuses on binge drinking. "The problem with that is most New Zealanders don't identify themselves as binge drinkers," she says. "They see it as someone else's problem . . . and clearly not relevant to them."



"So a 50-year-old man who regularly drinks too much red wine in his own home will not identify as a problem drinker. But just because he's not an 18-year-old out on a big Saturday night on Queen Street in Auckland, it doesn't mean he's not putting himself or others at risk."

The result of their efforts, the ambitious Tomorrow Project – so called because drinkers are encouraged to drink like there is a tomorrow – isn't about producers being seen to do the right thing or encouraging people to drink more, says Judy. It's about talking directly to adults – a group the industry already has a relationship with via their brands – and helping them to think about their own consumption so they make smarter choices.

Long term, the Project aims to change social norms around alcohol consumption. However like drink driving and any other social change initiative, the industry recognises the desired behaviour change won't happen quickly. The initial focus is to create a trusted source of information about alcohol and drinking that consumers can use to reflect on their drinking behaviour.

Central to this is the Cheers.org.nz website.



BUILDING PSYCHOGRAPHIC PROFILES

Most social change programs are built around demographics, explains Judy. But research revealed that although individuals may belong to a particular gender or age group, they don't necessarily all behave the same when it comes to alcohol. So the website's design is based on four psychographic profiles that define the motivators and social 'needs' of different types of drinkers.

"The reality is we can all find ourselves in two or more of these groups depending on the occasion," says Judy. "That's why campaigns that focus on demographics which say you're a 30-year old woman therefore you will drink in a particular way, don't resonate well with consumers."

The site is divided into three main categories: Time to Party, To Good Health and Talking to Teens, with relevant information in each category. It acknowledges the acceptability of abstinence, and provides information on such diverse matters as ideas for high protein snack recipes (which release energy slowly and help the body process alcohol effectively), expert comments from leading parenting and health professionals, tools for hosting work functions, advice for pregnant and breastfeeding women, and setting ground rules for teenagers.

The site is being supported by social media and advertising. All Lion's New Zealand brands will be helping to spread the word, as will a full media relations program. Annual research will be undertaken to keep the program evidence-based, and to track how attitudes are changing.



As well, three major *Cheers!* campaigns will be rolled out this year.

"We're really excited about this initiative and proud that we've led efforts to bring it to life," says Judy. "It's a very public way of displaying Lion's unique culture and it gives us and our industry partners an opportunity to show how committed we are to helping reduce alcohol-related harm."

"We're big believers in the fact that that all New Zealanders have a role to play in developing the solution."

"And now we can say we've stopped talking about it and have actively got on with providing a unique program that supports New Zealanders to make healthy changes," she says.



Environmental stewardship

AT A GLANCE

- + Improved energy and water efficiency
- + Introduced Project Bonsai, an energy master planning project to reduce our energy consumption and carbon footprint
- + Reduced our Scope 1 & 2 carbon emissions by approximately 25% on the previous year, thanks to efficiency gains and some site closures
- + In Australia, worked with industry to increase the national beverage recycling rate from 51.7% in 2011 to 54.8% in 2012 and reached 1 billion away-from-home visits through industry recycling initiatives
- + Raised \$704,215 to support glass recycling through NZ's Glass Packaging Forum

Why this is material to our business

Lion seeks to be an industry and brand leader. Setting targets to reduce our environmental footprint and then publicly reporting our progress are key indicators of leadership. Our commitment to environmental stewardship extends right across our value chain – from the sourcing of raw materials and manufacturing and distribution of products to the design and disposal of packaging.

PACKAGING RECYCLING AND LITTER

COUNCIL OF AUSTRALIAN GOVERNMENTS – REVIEW OF NATIONAL POLICY OPTIONS

During 2012 the public debate over packaging waste continued, and we respect the fact that views on this topic are varied and that the debate is rigorous. When it comes to our packaging, we share the community's objective of increasing recycling and reducing litter – we simply differ in our view on the best way to achieve this.

At present State and Federal Ministers, through the Council of Australian Governments (COAG), are reviewing a range of national solutions aimed at increasing recycling and reducing litter. Container deposit schemes (CDS) and industry-funded product stewardship schemes – including the industry created alternative, the National Bin Network (www.nationalbinnetwork.com.au) – are



among the options being considered. We believe this is an important process, because it ensures the appropriate rigour is applied and the costs and benefits of all solutions are appropriately assessed for the benefit of the Australian community.

When it comes to increasing recycling and reducing litter, we believe the solution should be:

1. Holistic

Our solution, the National Bin Network (NBN), focuses on the whole product lifecycle, across all waste and litter. The NBN is an initial \$100m industry investment over five years focusing on packaging design, kerbside recycling, away from home recycling and litter education. It will boost beverage container recycling rates from 56% to at least 70% over five years and 80% over 10 years. It will also decrease the total volume of litter by 15–20% over the next decade.

Comparatively, CDS focuses on beverage containers only – and beverage containers make up approximately 4% of the total waste stream and around 10% of litter. That means these schemes do nothing to address 96% of total waste and the remaining 90% of litter. Despite South Australia having had a CDS since 1977, the latest litter data shows South Australia still has a higher litter rate than Victoria, despite Victoria not having a CDS*. We believe we can do much better.

2. Complementary

The NBN respects the things that are working – like kerbside recycling – while addressing the things that need improvement – like litter behaviour and away-from-home recycling. We know that 98% of Australians already recycle at home because it is easy to do – making it just as easy to recycle out of home is the biggest area of opportunity.

With CDS, successful kerbside recycling schemes become less efficient as waste is diverted from kerbside bins to collection depots.

3. Tailored

The NBN is tailored to local communities. It is flexible and can be adapted to 'plug the gaps', rather than duplicating existing infrastructure that is working well. A one-size-fits-all approach doesn't respect the diversity of Australian communities. What works in a metropolitan city may not work in a regional town.

4. National

The NBN is a national approach, tailored to individual states and territories. We currently have separate CDSs in SA and NT.

*SA has a rate of 57 items per 1,000 m², whereas Victoria has the lowest national litter rate at 36 items per 1,000 m². The national rate is 58 items per 1,000 m².

NORTHERN TERRITORY CONTAINER DEPOSIT SCHEME

At the start of 2012 the Northern Territory Government decided to move ahead of the COAG process and introduce its own CDS. At the conclusion of 2012, Lion joined a Federal Court challenge to the legal underpinnings of the scheme, specifically asking the court whether it conflicted with the *Mutual Recognition Act*.

We joined this action because we believe a national and holistic approach is required to effectively address all packaging recycling and litter. Our concerns were validated by the court, which ruled that the Territory CDS conflicts with the Act.

At the time of writing this report there is considerable uncertainty surrounding the scheme's future. Lion has closely consulted its Territory stakeholders in order to determine an appropriate response, with the objective of ensuring an orderly transition and giving our customers and Territory consumers a reasonable opportunity to adjust to the rollback of the scheme.

We are not simply exiting the CDS, we want to put a more effective one in place.

On Tuesday March 11 we communicated to our customers that we would cease to reflect deposit and handling fee costs associated with the scheme in our wholesale pricing. We also advised we would provide consumers a two week period to redeem deposits on any Lion products already purchased.

But we are not simply exiting the scheme – we want to put a more effective one in place.

Together with our industry partners, we have announced that we are ready and willing to roll out an NT version of our national solution – the *NT Bin Network* – should the government support its implementation. This includes an initial industry investment of \$5 million over five years to deliver significant recycling and litter reduction benefits for the Territory and at no cost to consumers.

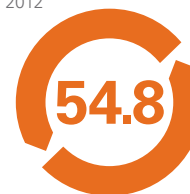
We're proud that the *NT Bin Network* is supported by Keep Australia Beautiful (NT) and, with the support of Australian governments, would form part of an integrated national model. Lion and its partners are ready to implement the *NT Bin Network* as a compelling alternative to narrow container deposit schemes, which focus on beverage containers only – our program focuses on all waste and all litter

PACKAGING STEWARDSHIP FORUM – AUSTRALIA

Through the Packaging Stewardship Forum (PSF) we work with other industry members and the Australian Food and Grocery Council to deliver voluntary industry recycling, litter reduction and education programs. The programs target Australia's major away-from-home venues – places where large numbers of people gather and consume beverage packaging that can readily be recycled.

New installations are now reaching more than 1 billion away from home visits annually, making it just as easy for people to recycle when they're away from home as it is when they're at home through their kerbside recycling bins. The Australian Packaging Covenant, a commitment by governments and industry to the sustainable design, use and recovery of packaging, has confirmed that the overall recycling rate for post-consumer packaging in Australia was 63.8% for 2012, which represents a 71.9% increase in tonnes recycled since 2003 –

2012



2011

OVERALL NATIONAL BEVERAGE CONTAINER RECYCLING RATE (%)

achieved through collaborative product stewardship actions. Furthermore, a report compiled for the PSF on the consumption and recycling of beverage containers found the overall national beverage container recycling rate was 54.8% in 2012, up from 51.7% in the previous year¹. PSF initiatives include:

- Away from home recycling systems and signage in many well-known stadia and entertainment venues throughout Australia, including the Melbourne Exhibition and Conference Centre, the WACA in WA, The Gabba and Dairy Farmers Stadium in QLD, and ACER Arena and Sydney Opera House in NSW
- Away from home recycling systems in higher education institutions across Australia, including University of Melbourne, University of Canberra, Queensland University of Technology and Macquarie University, to name a few
- The Shopping Centres Program which targets packaging waste generated in food courts throughout Australia and encourages people to recycle the correct materials. Centres include Westfield, Mirvac, Lend Lease Retail, Colonial and GPT
- Targeted campaigns in remote areas of Australia. For example, we have been working with Keep Australia Beautiful in the Northern Territory to support indigenous communities in their clean-up efforts, by helping to improve the way waste is collected and stored and the logistics required to transport that waste to recycling depots. We have further, regionally-tailored programs in place in the Cape York and Cherbourg communities in QLD and the East Kimberley and Shire Exmouth communities in WA.

For more detail see <http://www.afgc.org.au/psf.html> ➡

¹ Compilation of contestable data for 2011-12 financial year on the consumption and recycling of aluminium, glass, LPB, PET and HDPE beverage containers, March 2013, Industry Edge Pty Ltd, p.3.

GLASS PACKAGING FORUM – NEW ZEALAND

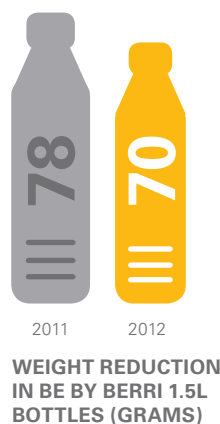
Our leadership in the Glass Packaging Forum (GPF) in NZ has contributed to two out of three glass containers being recycled, or around 626 million bottles a year.

Through the GPF, Lion contributes to an industry voluntary levy totalling \$3.90 per tonne to support initiatives to increase glass recycling. In 2012, the GPF raised \$704,215 and distributed these funds in the following way:

- \$248,212 allocated to community and recycling groups to assist with glass recovery
- \$135,000 allocated to consumer awareness initiatives including promoting recycling at the Classic Hits Winery Tour; Auckland's Lantern Festival; Tauranga's National Jazz Festival ; Waikato's Splore Festival and the nationwide Smokefree Rockquest
- \$63,140 allocated to projects which recovered 10726 tonnes of glass.

In 2012 we continued our work with other industry partners on 'Love NZ', a Central Government owned public place recycling initiative to reduce litter and improve public place recycling. We are currently setting targets with the central and local governments for the next three years.

For more information on this and our other initiatives through the GPF see <http://www.glassforum.org.nz/index.html> ➡



TRACKING AGAINST LAST YEAR'S TARGETS

Lion maintained its focus on reducing its environmental impact in FY12 and achieved its desired targets for energy usage and energy efficiency. Water efficiency also improved during FY12 as a result of reduction strategies as well as site closures and volume reductions.

LIGHT WEIGHT PACKAGING

Working with suppliers to light-weight our packaging continues to be a priority in our efforts to minimise our packaging's environmental impact. Last year we reported on various initiatives across each business unit, including the assessment and reengineering of packaging materials in our Beer, Spirits & Wine businesses under Project Evergreen.

This work has continued, with the following highlights in FY12:

- Corrugate Board – in FY11 we light weighted the corrugate board in our packaging of beer, and we are now trialling a different corrugate flute to further reduce the weight.
- Glass – we are partnering with our glass suppliers to continue to lightweight bottles, optimising their manufacturing processes to achieve this without reducing glass strength.
- Crowns – we are partnering with the supplier of crown seals to produce bottle closures that are lighter in weight and still provide an effective seal.
- Cans – we are working with our can supplier to change the aluminium cans and ends that we use to reduce overall weight.
- Labels – last year we reported that our label suppliers had been working with us to reduce the backing paper of self-adhesive labels and this work continues.

In Dairy & Drinks this year we undertook several packaging activities including:

- Transitioning the corrugated carton box (which is the final external packaging on our products) from a 'lid over carton' to a 'bikini tray' at Smithfield. This enabled us to achieve a significant reduction in board use.
- At our Smithfield, Bentley and Lytton sites our 3L juice PET bottle was light-weighted from 90 to 78 grams. We have also reduced the 350ml Berri and 'Be' range PET bottle from 32 to 26 grams and the 1.5L 'Be' bottles from 78 to 70 grams.
- Transferring the 'Best Before' inkjet code onto the existing apply labels for juice cartons at our Lytton, Bentley and Leeton sites has reduced the use and cost of ink, which can be costly to store and dispose of.
- Ongoing implementation of Project Frost – reviewing all carton sizes and palletisation patterns for new equipment to minimise packaging and optimise pallet utilisation.

These developments are enabling us to continually reduce packaging, production costs and environmental impacts, and in doing so, creating more value within our supply chain.

Environmental performance

Result

ISO 14001 Accreditation

All Kirin's subsidiary companies implement the ISO 14001

BSW

All manufacturing sites in Australia and New Zealand are now accredited

80%

DAIRY & DRINKS
target % of sites to be accredited by FY14

2 sites accredited in FY12.



ENVIRONMENTAL
MANAGEMENT
SYSTEMS



One environmental reporting system, Envirochart, underway for entire Lion business to provide transparency and 'one way' tracking and reporting internally and externally



ENVIRONMENTAL
REPORTING
SYSTEMS

Report submitted to National Pollutant Inventory (Australian Government requirement)

Our emissions derived from:

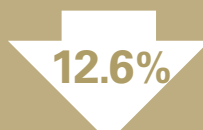
- fuel combustion to generate steam and energy
- fugitive alcohol losses during beer production
- vehicle emissions

Emissions reduced

over past 12 months



NATIONAL
POLLUTANT
INVENTORY



Total water used 885,000 KL, 12.6% less than 2011

▲ 3.8%

Water efficiency ratio 2.70 L/L, 3.8% up on FY09 baseline but short of 2.47 L/L target)



WATER



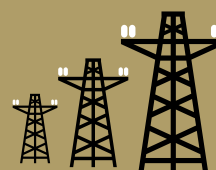
Total energy used 2,424,985 GJ, 11% less than last year

▲ 1.2%

BSW (AU & NZ)
Total energy used 1,028,417 GJ, 1.2% less than last year

▲ 20%

DAIRY & DRINKS
Total energy used 1,290,774 GJ, 20% less than last year



ENERGY

▼ 25%

Total Scope 1 & 2 carbon emissions 108,000 tonnes CO₂-e, 25% less than last year

▼ 21,000 T

BSW (Australia)
Carbon emissions 21,000 tonnes CO₂-e less than last year

▼ 7,000 T

BSW (New Zealand)
Carbon emissions 7,000 tonnes CO₂-e less than last year

▼ 25%

DAIRY & DRINKS
Scope 1 & 2 carbon emissions 79,000 tonnes CO₂-e, 25% less than last year



CARBON

▲ 4%

BSW (Australia)
Landfill waste 834 tonnes, up 4% on last year

BSW (New Zealand)
414 tonnes

DAIRY & DRINKS
Most liquid milk waste and peel from juice operations is used in composting or animal feed, while most packaging that does not find its way to the grocery shelf is recycled



WASTE

▲ 0.2%

BSW (Australia)
Packaging per litre of product was up 0.2%



However generally the trend over the last five years has been downward

BSW (New Zealand)
1936 tonnes recycled



PACKAGING

Reason

COMPLIANCE & REPORTING SYSTEMS

Water usage was down due to efficiency improvements and site closures although water efficiency ratio was below target due to challenging business conditions

Energy usage was down due to efficiency improvements and site closures

Carbon emissions were down due to increased use of renewable energy, efficiency gains at production sites and site closures

Improvements in D&D quality standards through Lion's MEX program increased waste in the short term; however, longer term, MEX will decrease waste

Litter reduction installations through the Packaging Stewardship Forum are reaching more than 1 billion away-from-home visits annually.

2 out of 3 glass containers are being recycled in NZ thanks to our leadership of the NZ Glass Packaging Forum.

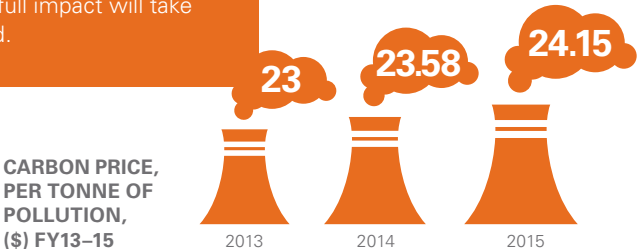
HOW IS LION IMPACTED BY THE INTRODUCTION OF THE CARBON PRICE?

On 1 July 2012 the Australian Government introduced a financial mechanism to reduce emissions produced by the country's largest polluters. The carbon price has been set at \$23 per tonne of pollution and will rise by 2.5 per cent a year during a three-year fixed price period until 1 July 2015, at which stage the mechanism will move to an emissions trading scheme (where the price is determined by the market and carbon credits will be bought and sold).

Only facilities that have direct greenhouse gas emissions of 25,000 tonnes of CO₂-e a year or more (excluding emissions from transport fuels and some synthetic greenhouse gases) are covered by the legislation. Thanks to the work we have done for many years to improve our environmental performance, none of our facilities fall into this category – meaning we do not pay the carbon price mechanism directly.

However, because we are a major user of packaging, energy and transport, as well as other supplies and services, we experience indirect cost pressures from our suppliers, as they pass on some of their costs to us. We have been working with these suppliers to understand the impact of carbon on their operations, including what support they will receive from the government, and to determine how this impacts us and, in turn, the cost of our products.

While the carbon price was introduced well over six months ago, its full impact will take some time to understand.



ENVIRONMENTAL PROJECTS IN 2012

PROJECT BONSAI

Dubbed Project Bonsai (small carbon footprint and green), Lion has invested in an energy master planning project to reduce our energy consumption and carbon footprint by exploring a raft of technical solutions and behavioural changes that we can make across our operational facilities.

While the team is led by group engineering, it has strong representation and support from all our business units.

Some examples of what we're doing: gas generated from waste water treatment plants is being used to replace some natural gas fed to boilers; gas turbine generators (also known as co-generation skids, are being used to generate electricity locally and the waste heat is being used in our processes; and large scale solar electricity panels on our roof spaces are currently being considered.

Project Bonsai is also taking responsibility for accessing any government funding to help these environmental initiatives. For example, we have recently successfully applied for funding from the Federal Government's Clean Energy Fund, which has helped us replace some inefficient and aged equipment with more energy efficient compressor units at our Chelsea and Morwell milk and yoghurt sites.



REHABILITATING A CREEK

Lion's King Island Dairy was approached by the island's local natural resource management group to participate in a trial to remove African Boxthorn from Porky Creek, which borders our site. A team of teachers, students and other volunteers, including our people from the dairy, helped to remove all seven identified boxthorns, clean up the creek and plant native vegetation back into the area.

MAINTAINING NEW ZEALAND'S BEE POPULATION

Wither Hills' Rarangi wetland restoration program has not only retained the diversity of native wild flowers and allowed flax and cabbage trees to thrive; it is also playing an important role in saving New Zealand's bees.

Bees are under threat all over the world from pests and diseases, pesticides, mass production farming and the loss of healthy bee habitats. Since the arrival of the Varroa bee mite in New Zealand in 2000, bees can no longer survive without human intervention.

This has put extra pressure on the maintenance of a healthy breeding program.

Rarangi wetlands are home to an important queen bee breeding site that's operated by J Bush and Son, apiarists based in Blenheim. The business, started in 1916, has been keeping bees near the Rarangi wetlands since the 1930s. The wetlands environment has become the major breeding area for queen bees, as it has a unique micro climate and a healthy and varied source of pollen and nectar.

Indeed, when the Rarangi area was being developed for vineyards, one of the major concerns was that the use of agricultural spray would affect the wetlands.

However, thanks to the Wither Hills vineyard team's management practises and the wetland restoration program, the queen bees are thriving. Like canaries in the coalmine, queen bees are extremely sensitive to any adverse environmental influence, making it easy to identify if there are problems in the external environment.

The synergy between a healthy vineyard and healthy bees is instant. The vines may not need bees for pollination, but the specific vineyard management practices and the wetlands environment directly influences the success of the breeding program. At Wither Hills queen bees are not only breeding well, but showing signs of tolerance to the Varroa bee mite. This success is allowing scientists to maintain a healthy bee population in other areas of Marlborough.

CONSERVATION AND RESTORATION IN THE BAROSSA

The North Para River begins in the Barossa Ranges and, for just over 80 kilometres, flows north and then south-west through a varied landscape into the heart of the Barossa Valley.

The river provides an important natural corridor for wildlife through the Barossa region. However, since much of the waterway has been cleared or grazed out since settlement, only small isolated patches of original native vegetation remain. The conservation and restoration of what's left is therefore paramount.

In 2009 St Hallett initiated a project along the section of the river that runs along the western boundary of the winery's Ducks Flat Vineyard, to remove and control invasive woody weed species and restore native habitat.

More recently, the Barossa Council approached St Hallett to provide some of the winery land along the river for a section of a bike/walking path that it was establishing from Tanunda to Gawler.

Viewing this as a great opportunity for the business to share a very special area of the Barossa with the community and visitors to the area, St Hallett agreed with alacrity. In addition to making the land available, the winery is establishing a rest stop area and completing further revegetation work, which will include signage with details of the area's local flora and fauna.

As well, the St Hallett team – ably assisted by the local Men's Shed – have been building and installing a range of different sized bird/bat breeding and roosting boxes along the river and across the winery in an attempt to make the area more attractive to native wildlife.

A further project undertaken by the St Hallett team during the year was to use the woody weeds removed from the river as mulch for the 350 native plants they planted to transform what was once a bare patch of soil located opposite the lawns of the cellar door and the Touriga Source Vineyard into a native garden/insectarium.

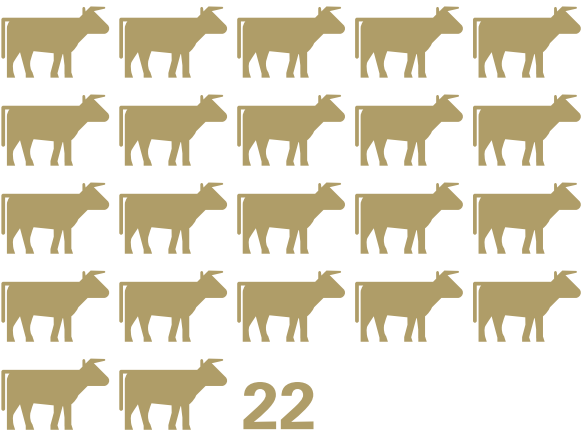
LION RECEIVED THE FOLLOWING AWARDS FOR ENVIRONMENTAL SUSTAINABILITY IN 2012.

St Hallett winery: 2012 The Drinks Business Magazine Green Awards - Sustainability Award
This is an international award that recognises and rewards leaders in sustainability and environmental performance

2012 NAB Agribusiness Awards – Environment, Energy and Climate Action in Agribusiness Award: This recognises excellence in researching and developing new ways of managing and conserving the environment and energy reserves and responding to the risks and opportunities posed by a changing climate



Fertiliser inputs have been reduced, leading to improved soil health and less environmental contamination



NO. OF FARMS RECEIVING GRANTS FROM THE LION AND LANDCARE AUSTRALIA ENVIRONMENTAL SUSTAINABILITY DAIRY GRANTS PROGRAM

MANAGING DAIRY WASTE

Dairy farms across southern Australia have made substantial inroads into the way they manage pasture nutrient and dairy waste thanks to the Lion and Landcare Australia Environmental Sustainability Dairy Grants program.

The 22 farms that received grants in late 2011 have used the funds for a wide range of projects. These include new solids traps, storage pads, pump and effluent irrigation systems, and effluent management infrastructure, concreting of main laneways, improvements to effluent dams and laneways, and tree planting and fencing to protect riparian areas.

For instance, in south-east Queensland, the grant enabled Ged and Robyn Plunketts’ Tamborine Pastoral Company to construct a one-hectare pad for building compost, along with a nutrient catchment dam to catch any runoff from the pad in wet weather. The pad

allows old hay, silage, manure and effluent to be turned into compost over a month-long process. Any water collected in the catchment dam is recycled and sprayed on the compost to enhance the process.

As a result of the project, solid waste no longer enters the Albert River Catchment and the Plunketts have reduced their fertiliser inputs, leading to improved soil health and less environmental contamination. The compost pad has become a demonstration site for the benefits of recycling. The couple have held several field days to share their insights into composting, with participants ranging from farmers and dairy suppliers to people from University of Queensland’s Gatton dairy division.



“Our thinking was that it needed to be a place that inspires another level of passion and creativity. An environment where our values can be brought to life. We challenged ourselves to think differently.”

So said former CEO Rob Murray (now a Board director), explaining the move that late last year saw 800 Lion people relocate from facilities around Western Sydney to one of the city’s newest green landmarks – 5 Murray Rose at Sydney Olympic Park.

And different it certainly is.

Harnessing the sun’s energy, the roof top solar farm generates more energy per square metre than any other commercial building of this scale in New South Wales and will provide 25% of the building’s electricity requirements. Like all new developments it is connected to the Park’s water recycling system providing recycled water for non-human consumption, further improving the building’s sustainability footprint.



Each floor of the building is themed. For example, the reception and hospitality area on the ground floor is the Beer Garden. Other floors feature colours and design features that recall the Park, the Beach, the Vineyard and the Lounge. A five storey interconnecting staircase, with timber treads sourced from old power poles which stood between Yass and Kempsey in NSW is a dominant feature, as is the 300 sqm bar, made from the same spotted gum power poles.





The gym floor is made out of shredded car tyres, while the carpet tiles have 100% cradle-to-grave certification and the backing is either recycled material or jute.

"A lot of effort went into selecting flooring that was recycled," explains Steve Lewis, Group Procurement Director. "With the furniture we asked suppliers to tell us where everything was sourced." As a result, the chairs contain up to 65% recycled content and are 90% recyclable.



Recycled materials are also a feature of the walls, ceiling and work stations. The acoustic wall panels are 70% recycled wool, 25% recycled polyacrylate and 5% rags and the featured slats on the ceilings are 100% post-paper waste. The work stations are 56% recyclable and elements like work surfaces and the structures underneath them are made from 100% reclaimed wood.

Throughout the building plants are used for screening and also because they convert CO2 to oxygen so they improve the internal air quality. Work stations and meeting rooms are located near the windows and are configured to capitalise as much as possible on the natural light. "It's one of the things people comment on," said Steve.



Other sustainable design features include chilled beams and a car park with 25% of the spaces designated for small cars and cyclist facilities for 10% of the building's occupants. Bikes are also available to Lion people so they can ride around the park in their lunch hour.

"One of the reasons this building was attractive to us was the landlords (GPT) were pushing to get a 6 Star Green Star rating," said Steve. "That was consistent with what we wanted to achieve."

Lion has leased the whole 12,000sqm of the campus style building and joins over 140 organisations and a daily population of 14,000 at the Park. The Sydney Olympic Park is an important driver of economic growth and jobs for Western Sydney and its master plan for 2030 aims to grow the precinct daily population to 50,000, which includes up to 20,000 visitors.

Feedback from Lion people has been overwhelmingly positive.

"I like how the upper ground floor is pretty much dedicated to sociability and wellbeing," said Joshua Meisner, Accounting Manager, Finance. The bar is stunning, the café inviting and I'm looking forward to taking one of the Lion bikes for a spin."



Rebecca Morgan, IT Solutions Analyst agrees. "I really enjoy working at Sydney Olympic Park," she said. "It has a lovely outlook, the office is spacious and open and has such unique features. I also love the gym. We're so lucky to have such a great facility in our office. It makes fitting in a workout so much easier!"



AT A GLANCE

- + Continued to invest for future top-line growth, to build the dairy industry value pool
- + Developed a clause for all new supplier contracts which addresses key ethical sourcing concerns
- + Engaged 42 new suppliers whose contracts incorporated the above clause
- + Conducted 51 audits of high-risk category suppliers
- + Trained 23 technical team members to become auditors to support our supplier quality assurance team
- + Surveyed all farmer suppliers to obtain a baseline on animal welfare practices across Australia

Why this is material to our business

As one of Australasia's largest food and beverage companies, our diverse supplier relationships help us produce some of Australia and New Zealand's favourite products. Maintaining a sustainable and ethical supply chain is critical to our continued business success, and we invest considerable effort in developing long-term partnerships that create value and ensure supply continuity.

DAIRY INDUSTRY SUSTAINABILITY

During 2012 the public debate about dairy industry sustainability continued unabated, and we recognise the diverse perspectives within it. We also recognise that for many of our farmers the current market dynamics are presenting significant challenges. For farmers in the southern states, where the majority of milk produced is exported, the high Australian dollar is impacting global dairy commodity prices. For farmers in the northern states, where the majority of milk is consumed fresh in Australia, heavy retail discounting continues to put pressure on the value pool available to be shared in the supply chain.

Lion is the only national supplier of fresh white milk in the country. To provide fresh drinking milk everywhere and every day, we work with 700 farmers across Queensland, New South Wales, Victoria, Tasmania, South Australia and Western Australia. While milk prices set by national retailers are the same everywhere in the country, procuring milk in each state doesn't

cost the same for Lion. Nor does it cost the same for us to deliver milk to small regional towns as it does to large cities. Our supply chain is capital intensive and complex.

The return we make from the domestic milk market is the key driver of the price we can pay our farmers and we always consider the sustainability of our farming communities when making decisions on price. See here for more details about farm gate milk price.

ETHICAL SOURCING & SUSTAINABLE SUPPLY CHAIN

Lion continues to require all suppliers across the group to support the standards set out in our procurement policy. In addition, in FY12 we developed a clause for all new supplier contracts which addresses key ethical sourcing concerns including environmental matters, data protection or privacy, pay, hours, and conditions of employment, subcontractor selection, discrimination, occupational health and safety, and motor vehicle safety.

Furthermore, it requires all our suppliers to ensure they manage the work of their subcontractors, in particular ensuring that subcontractors:

- don't use child, slave, involuntary prisoner labour or any other form of forced or involuntary labour or engage in abusive employment or corrupt business practices in the supply of products and/or services;
- provide a safe, clean and healthy work environment for their team members; and
- respect their team members' right to form and join independent trade unions, bargain collectively and freely associate.

In FY12 we engaged 42 new suppliers whose contracts incorporated the above clause. We also finalised our supplier quality expectations policy, which sets out the standards to which all Lion's suppliers across Australia and New Zealand must adhere and against which our quality audits are conducted. Over the year our





supplier quality assurance team conducted 51 audits of high risk category suppliers (these include primary packaging, microbial sensitive ingredients and contract manufacturer suppliers) in the following locations:

- Australia
- Germany
- Mexico City
- Dubai
- India
- Bangkok
- New Zealand
- United Kingdom
- China
- Malaysia

Various ratings were issued, and, based on those results, follow up audits and reviews were conducted every few months. Follow up audits ensure corrective action has been taken to address the original issue identified. Depending on the situation, we will either approve the supplier, or if real and imminent food safety or other risks are identified, we will cease procuring from them.

NUMBER OF TECHNICAL TEAM MEMBERS TRAINED AS AUDITORS IN FY12



During the year we trained 23 technical team members to become auditors across each of our business units. This allows the assurance team to draw on a bigger pool of auditors who can conduct audits of our lower risk, tier two and three suppliers (eg external packaging suppliers such as carton board) where required.

ANIMAL WELFARE

Being one of the largest processors of fresh white milk and other dairy products in Australia, we rely on our dairy farmers to provide us with high quality milk from healthy, well-cared-for cows. We continue to work with our farmers to promote sound animal husbandry practices and management systems to ensure animals are well treated and existing codes of practice and standards are adhered to.

Our business has collaborated with Dairy Australia and the Australian Dairy Farmers Federation to develop policies and guidelines and we actively promote these to our suppliers through on-farm quality assurance programs.

Compliance has been mandatory in all new supply contracts since 2011. These programs are independently audited annually in New South Wales, Victoria, South Australia, Western Australia and Tasmania, and biannually in Queensland.

In FY12 we surveyed all of our farmer suppliers to obtain a baseline on animal welfare practices across Australia. The results of this survey will be used to formulate an action plan by July 2013 to ensure that all animals continue to be treated as humanely as possible and that we can establish further best-practice standards across the supply chain.





In the early 1930s, Victorian dairy farmers, many of whom farmed in the state's first German settlement, Westgarthtown, were facing hard times. The country was in the grip of the Great Depression and the returns they were receiving were often insufficient to meet their costs.

One farmer, Albert Siebel, decided to take matters into his own hands: he would take responsibility for retailing his own family's milk and that of his neighbours. So in 1934 he bought a dairy in Preston, renamed it Pura Dairy, and began delivering milk by horse-drawn cart to a few surrounding streets.

By 1964, Pura was supplying nearly one-third of Melbourne's fresh milk.

Today Pura is a household name, and in 2012 its Pura Original was judged the nation's best at Dairy Australia's Australian Grand Dairy Awards in Melbourne.

Albert Siebel would be justifiably proud.

He would, suspects External Relations Director Libby Hay, also be pleased to have witnessed another initiative Lion introduced last year when milk, sold under the Pura and Dairy Farmers brands, underwent its greatest transformation in 100 years.

Responding to consumer demand for purer, simpler and less processed food that comes from local sources^{1,2,3}, Lion simplified the milk manufacturing process by omitting permeate.

Permeate is a watery by-product of milk processing that was added to milk to dilute and standardise the protein levels which fluctuate due to seasonal variations.

By removing permeate, Australians are now able to drink rich, creamy milk that is as close to how it's produced on the farm as possible.

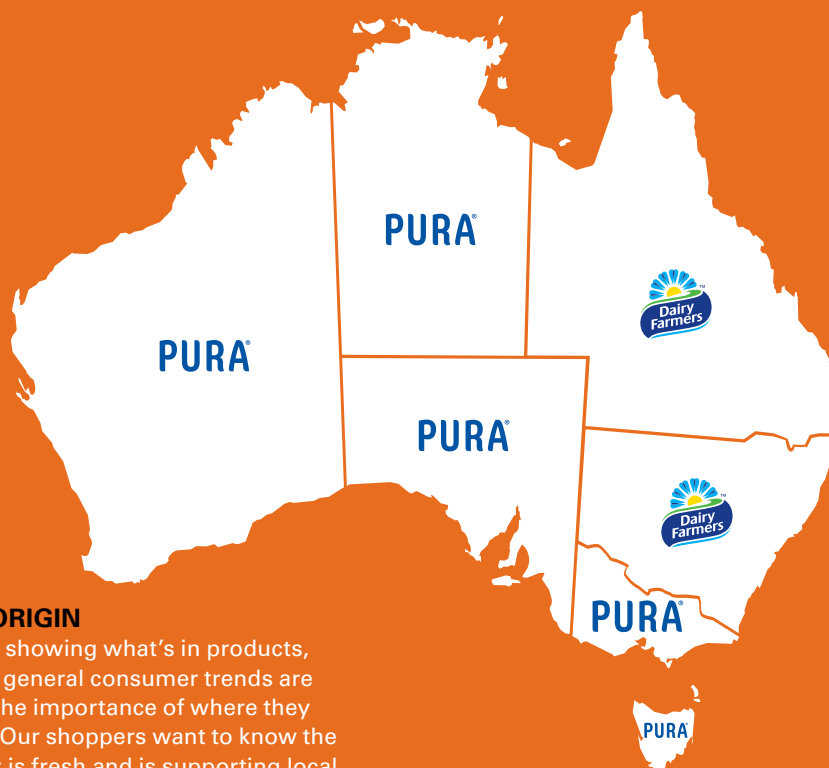
LISTENING TO CONSUMERS

"We listened to our consumers," says Libby. "Three out of four told us they're becoming more concerned about how processed their food is nowadays¹."

According to Libby, research commissioned by Lion and conducted with 1,346 Australians between the ages of 16 and 64, showed that:

- Most Australians (75%) actively examine food labels to check for ingredients
- Nine in 10 (91%) who check for additives and preservatives and the level of processing a product has undergone would choose a less-processed option if available
- Four in 10 (43%) who check for additives and preservatives and the level of processing a product has undergone would always choose the less processed food

"We looked at our manufacturing process and realised that adding permeate wasn't essential, so it was an easy decision to remove it from our milk," said Libby.



LABELLING

Since permeate naturally occurs in milk, it has never been listed as a separate ingredient. The only way to know if milk is permeate-free is to look out for the 'permeate free' label on Pura milk in Western Australia, South Australia, Victoria and Tasmania and Dairy Farmers in New South Wales and Queensland.



PRODUCT ORIGIN

In addition to showing what's in products, research and general consumer trends are highlighting the importance of where they come from. "Our shoppers want to know the milk they buy is fresh and is supporting local communities and farmers," explains Libby.

To respond to this trend, as well as the permeate labelling, Lion has incorporated a stronger local message across the Pura and Dairy Farmers ranges.

Consumers are responding well to these initiatives from two of Australia's leading milk brands.

"While market sensitivities preclude us from releasing exact figures, there's been a definite uplift in sales since the launch of our permeate-free milks," says Libby.

Dairy Farmers permeate free milks include:

- Dairy Farmers Original
- New
- Lite White
- Skim

Available in NSW and QLD.

PURA permeate free milks include:

- Pura Original,
- Pura New (VIC/TAS), Skimmer (SA), Hi-Lo (WA)
- Pura Light Start
- Pura Tone

¹ TNS Omnibus White Milk survey conducted from 27–29 April 2012 seeking responses from 1346 Australians aged 16–64 years

² Hartman Group – Looking Ahead. Food Culture 2012 Pages 13, 29, 53

³ Innova Market Insights – Top Ten Trends in Food for 2012

Trusted business partners




AT A GLANCE

- + Conducted first-ever Community Engagement Study and integrated stakeholder engagement into our business strategy
- + Improved customer engagement in both BS&W Australia and New Zealand, achieving the highest engagement score across our competitor set, and will be moving to a national survey for D&D in 2013
- + Invested heavily to improve the efficiency and effectiveness of our distributors, supply chain and sales team
- + Launched Lion Keys 4 Connection and new customer portal
- + Introduced new initiatives to improve communications with our farmers
- + Launched online compliance training program

Why this is material to our business

Lion's vision is to be the leading and most trusted branded beverage and dairy company in our world. To fulfil this vision we place a great deal of importance on building trusting relationships with all our stakeholders, and considering their needs and opinions when making decisions as a business. Our ultimate aim is to work collaboratively with our business partners to achieve sustainable growth.

COMMUNITY ENGAGEMENT STUDY

We care what our community thinks and we want an open and honest dialogue with our stakeholders. This is why at the end of 2011 we went to over 2,250 business stakeholders and community members to survey their views of Lion and the issues we collectively face. We have taken this feedback very seriously and placed it at the heart of our business strategy. This means there is now a direct relationship between how our stakeholders view our business and their levels of engagement with Lion, and how our leaders manage the business and are incentivised. See our case study on page 43 for more information. 

CUSTOMER ENGAGEMENT

We work with thousands of customers and distributors across our Dairy & Drinks and Beer, Spirits & Wine businesses, including major grocery retailers, smaller convenience and food service customers and independent liquor stores. In New Zealand we also own and operate a number of Liquor King stores.

Working collaboratively with these customers and distributors is critical to supply continuity and to providing consumers with a high quality experience of our brands. To this end, we consistently look for opportunities to strengthen our partnerships and collective performance.

BUILDING STRONGER PARTNERSHIPS WITH OUR FARMERS

As one of Australia's largest dairy companies, our farmers are critical partners in our delivery of fresh drinking milk to Australians right across the country each and every day, and are an important part of the identity of our brands. We collect milk from more than 700 farm suppliers directly and through our exclusive milk supply agreement with the Dairy Farmers Milk Co-Operative and deliver it to over 75,000 retail outlets, five days a week. We are also one of the largest fruit juice and soy milk processors, and rely on hundreds of fruit and soy bean farmers across the country to deliver our great brands to consumers.

We understand that the success of our business is inextricably linked to the success of our farmers' businesses. In dairy, the return that can be achieved in the marketplace is the key driver of Lion's milk prices, and just as we face challenges in improving the profitability of our white milk business in a highly competitive environment, we recognise this is equally challenging for our farmers.

As part of our first-ever Community Engagement study, we surveyed more than 40 dairy farmers across our supply chain. These insights are helping us to better understand the needs and concerns of our farmers.

For example, from farmer feedback we understand that as we continue to invest in our business to improve top-line growth, we must also effectively engage our farmers so they have a better understanding of our business and our business strategy.



To this end, we've implemented a number of initiatives:

- We launched *Pride*, a quarterly newsletter for dairy farmers, fruit growers and soy bean growers who supply Lion. As well as providing business and dairy industry updates, the publication showcases new products and innovations and our investments, both financial and in kind, in community initiatives.
- We launched a new electronic newsletter, written by Lucy Coward, Lion's Milk Sourcing and Inbound Logistics Manager, that provides a more immediate update on business news. *Lion News from Lucy* is emailed at the end of each month to more than 700 farmers. The open rate is approximately 50%, which represents an excellent take up and tells us that farmers are keen to hear more about our business activities.
- In April 2012, 20 of Lion's dairy farmers who had demonstrated industry leadership, innovation or best practice came together in Melbourne over two days in a pilot workshop to meet with Lion's senior leadership team and sales and marketing people to learn more about our business. The farmers represented each milk-producing state and were able to gain a better insight into the complexities of our business and the challenges we face in the short to medium term. They were also able to provide constructive input from a supplier perspective. Feedback from the workshop was overwhelmingly positive and we will be looking to expand this program to include more suppliers in the coming year.
- Our farm services team provides valuable supplier engagement on the ground. They work closely with the industry and with farmers to help them make the best decisions for their future, and access the expertise they need. The team is structured in such a way as to ensure farmers have a local contact to discuss any issues or concerns.

DAILY NUMBER
OF FARM
SUPPLIERS
WE COLLECT
MILK FROM



FARM-GATE MILK PRICING

In August 2012 we concluded our FY13 pricing negotiations with direct farmer suppliers and the Dairy Farmers Milk Cooperative. In setting our farm-gate pricing we take into account the sustainability of our farmer base.

As well, we continue to invest for future top-line growth, to build the value pool available for Lion and farmers alike. To this end we have spent over \$330 million over the past four years upgrading our production sites.

We also continue to innovate to drive consumer interest, value and growth. In FY12 we launched permeate free white milk (see case study on page 33 **CS**), as well as a range of new 'better for you' products in flavoured milk and dairy products. Stimulating consumer interest in higher-value dairy categories will ultimately benefit all players in the dairy supply chain.

NORTHERN STATES

The northern states are defined as market milk states, where the majority of milk produced is for domestic consumption. There is no export competition and limited options for excess milk due to logistics and manufacturing costs. Price is influenced by local issues such as heavy discounting on private label white milk, which shifts volume from branded milk to private label and from higher margin non-grocery channels to grocery; recovery from extreme weather conditions; and the loss of private label contracts. Despite a very competitive operating environment, Lion held the average base price in south east Queensland for another 12 months. In New South Wales the base price was reduced by two cents per litre. The reduced price reflects the reduced value pool available due to heavy discounting of private label milk and the loss of a private label contract in 2011.

In far north Queensland, the impact of branded competitor activity and discount white milk has been strongly felt. Recognising the various localised challenges to produce milk in a remote and tropical region, we have managed to hold the average base price for FY13.

In Western Australia, Lion gave a one cent per litre increase in recognition of the continuing tough conditions, low confidence as farmers recover from the drought of two years ago and the collapse of Challenge Dairy. The increase is also aimed at encouraging volume growth as supply does not currently meet demand.

Across the northern states there are limited options for the excess volumes of milk collected in this region. This resulted in a significantly reduced Tier 2 milk price. The Tier 2 milk price for FY13 reflects these market dynamics and the best sourced price for milk sold as a bulk commodity product, such as for cheese. We continue to make no profit from the sale of Tier 2 milk.

In setting our farm-gate pricing we take into account the sustainability of our farmer base.



SOUTHERN STATES

Because the vast majority of milk produced in the southern states is exported, pricing is predominantly linked to global dairy commodity prices, which have softened significantly over the past 12 months due to the strength of the Australian dollar. As a result, prices in the southern states reduced for FY13.

In addition, the sale of the Murray Bridge and Jervois cheese manufacturing sites in South Australia has seen a dramatic reduction in Lion's volume requirements in Victoria and South Australia. This volume has been picked up by United Dairy Power or other processors in South Australia.

In Tasmania there is a need for higher volumes due to the rapid growth of the dairy industry in that state. With Lion's Burnie-based manufacturing site, The Heritage, due to be completed in 2014, Lion is juggling current excess milk volume while recognising these volumes need to increase significantly by 2016.

DAIRY & DRINKS

Over the past two years we have invested heavily to improve the efficiency and effectiveness of our distributors, supply chain and sales team. Our aim is to create a four way win – for consumers, customers, distributors and Lion.

Some examples include:

- Investments in technology, processes, and in our sales team's capabilities to improve our supply chain performance and better enable us to achieve in full and on time delivery of our distributor and customer orders. This, in turn, helps our customers and distributors build their businesses.
- Product category initiatives, such as the launch of new innovations in our non-chilled juice portfolio, to stimulate consumer interest in the category while generating higher value sales. We have also innovated across a range of broader categories such as cheese, dairy beverages and yoghurt, delivering incremental sales for our customers, distributors and Lion. See case study on page 33. [CS](#)
- Category management advice for our customers to help them make better returns from their investments in our product categories.

BEER, SPIRITS & WINE

The initiatives we implemented to grow our customers' businesses and build value in the supply chain included:

- The launch of Lion Keys 4 Connection (LK4 Connection), a program to deliver valuable market and category insights to our customers. The program also ensures our sales team drive retail, as well as brand, outcomes. From these insights, and based on the individual needs of our customers, we develop joint action plans that are then evaluated during sales calls.
- Route-to-market changes, which have increased the frequency of sales calls, and subsequently, customer satisfaction.
- A new customer portal, launched in June 2012, which provides the option for customers to pay invoices by credit card and enables them to have access to account and billing details to make order placing easy and speed up and resolve any issues on invoices. The portal also includes a new section on beer systems, to help customers build their knowledge and capability across many areas including maintenance, safety and beer quality.
- Internally we implemented the 5 Ways for Field Sales program to instil best-practice and ensure a joint customer and Lion focus to sales activity and developed on-premise capability programs in New South Wales and South Australia to better support the needs of local customers.

These and other initiatives will continue to evolve as we find new and innovative ways to create shared value with these important business partners.

BEST-PRACTICE REGULATORY STANDARDS

Upholding best-practice regulatory standards and having a strong compliance culture is an important part of being a trusted business partner.

COMPETITION LAW

Following the merger of Lion Nathan and National Foods in October 2009, Lion took the opportunity to update its existing competition law compliance programs to create a one-stop-shop for people across the business. A new online training program, which was launched in February 2011, now includes:

- The Ropes – Competition and Consumer Law Guide, including Lion's competition and consumer law policy
- The Golden Rules – quick reference documents for Australia and New Zealand
- An intranet portal containing various resource materials, such as training presentations, case studies, complaint and enquiry management procedures, approvals process for product packaging and advertising and guidelines for mandatory reporting
- Face-to-face training and discussion sessions with targeted teams.



As well, an offline version was created for those of our people who don't have regular internet access. This is distributed in hardcopy, on CD or USB stick for completion in regional sales offices or production plants. A customised training solution was also produced for Lion's Liquor King team members, who don't have computer access in their day-to-day roles, but interact with customers in Lion's retail arm in the New Zealand. Customised guidelines, focused on the retail environment, were prepared as an alternative training means for these team members.

The program compares favourably with the AS 3806-2006 Compliance Programs Standard, which is the relevant Australian standard for competition and consumer law compliance. It's assessed each year and performs well against each of the standard's 12 principles of compliance.

We also assess the effectiveness of our training internally. Every year, our risk assurance team measures compliance around certain key risk indicators, such as 'percentage of people who have completed online compliance training in the last two years' or 'the number of high risk training sessions completed each year'. To ensure accountability for Lion's compliance, we regularly report our activities and compliance to the board.

Completion rates of the online competition and consumer law training program among eligible team members (ie people who have contact with external parties in their day-to-day roles) improved significantly in the year under review, as did the number of face-to-face compliance training sessions in Australia and New Zealand.

SELF-REGULATION

Lion supports regulation that is effective, proportional to the issue being addressed and of greatest net benefit for the community.

The codes and initiatives we are committed to include:

Industry Codes: The Australian Food and Grocery Council's Responsible Children's Marketing Initiative (RCMI), and the Daily Intake Guide initiative within the AFGC's Code of Practice for Food Labelling and Promotion (COPFLP). In accordance with ACCC guidelines on the characteristics of successful industry codes, the RCMI and COPFLP are well resourced by an industry association (the AFGC), have strong management systems, transparent processes, independent complaint arbitration (where required / appropriate), stakeholder engagement, ongoing performance monitoring, and frequent reporting.

We abide by several further self-regulatory marketing codes, outlined on page 13. **CS**

AMOUNT SPENT OVER FOUR YEARS UPGRADING D&D PRODUCTION SITES

\$ \$ \$ \$330m+

Economic contribution

DIRECT CONTRIBUTION

\$2.2b

Direct economic contribution (GVA)*

\$1.8b

Beer, Spirits & Wine
direct contribution

+

\$370m

Dairy & Drinks
direct contribution



DIRECT REGIONAL CONTRIBUTION (GVA)*

AUS

\$790m
NSW

\$342m
VIC

\$245m
QLD

\$195m
SA

NZ

\$350m

\$104m
WA

\$120m
TAS

\$5m
NT

\$11m
ACT

DIRECT AND INDIRECT CONTRIBUTIONS

Our total value added to the Australian
and New Zealand economies

\$5b

GROSS VALUE ADDED (GVA)*



*GVA is made up of Gross
Operational
Surplus, pay
and taxes

EMPLOYMENT

7,000



People directly
employed

25,000



People indirectly employed
Lion contributes indirectly to the employment of about
25,000 people through contracts with agricultural
suppliers and as a key supplier to downstream retail,
hospitality and tourism industries.

TAX

\$1.25b

Total excise, customs duty, wine equalisation
tax and ALAC levies paid by Lion to the
Australian and New Zealand Governments

INDIRECT CONTRIBUTION

\$2.9b

Indirect or flow-on
economic contribution

FLOW-ON EFFECTS



For every dollar of economic contribution
spent there is a flow-on contribution of around
\$1.30 generated elsewhere in the economy

Quasi-Regulatory Codes: Lion is a signatory to the Alcohol Beverages Advertising Code, where guidelines for advertising have been negotiated with government, consumer complaints are handled independently, and all costs are borne by industry. A 2011 government inquiry into billboard advertising commended the ABAC’s pre-vetting system, which ensures alcohol advertising receives independent approval before being launched in the market.

Not-for-profit initiatives: Lion has adopted DrinkWise Australia’s consumer information messages for alcohol products and has rolled out the ‘It is safest not to drink while pregnant’ message across the vast majority of its alcohol products, with the balance of our domestic portfolio and majority of our international brands to be finalised in 2013. We have taken the same approach in our New Zealand business to ensure alignment across the Tasman. The initiative couples the provision of information on products with long-term educational campaigns to help encourage a change in Australia’s drinking culture.

Our business has flow-on effects to the wider economy and is an important driver of the Australian and New Zealand agricultural, tourism and hospitality sectors.

ECONOMIC VALUE DISTRIBUTION IN AUSTRALIA AND NEW ZEALAND

FOR THE YEAR ENDED	2012
Direct economic value generated	\$4,845 million
Distributed as follows:	
Operating costs	\$3,911 million
Our peoples’ pay and benefits	\$676 million
Payments to providers of capital	\$199 million
Payments to government: Tax and levies	\$56 million

We commissioned the independent economics advisory practice Deloitte Access Economics to model the economic impacts of our activities in Australia and New Zealand. All dollar amounts are in Australian dollars (unless stated otherwise), based on an average A\$/NZ\$ exchange rate of 1.295

OUR ECONOMIC CONTRIBUTION

As the largest beverage and food company in Australasia, Lion has a significant impact on both the local and national economies in which we operate. Each year we measure our contribution in terms of both our direct and indirect economic contribution and the value we add as a result of our operations.

During FY12, the total (direct plus indirect) economic contribution made to the Australian and New Zealand economies is estimated at \$5.0 billion.

For the 12 months ended 30 September 2012 this contribution totalled \$2,166 million⁴ in value added. The value we create is distributed to all our stakeholders: our people, industry, governments and the communities in which we operate.

Our business has flow-on effects to the wider economy and is an important driver of the Australian and New Zealand agricultural, tourism and hospitality sectors.

For every dollar of economic contribution by Lion, there is a flow-on contribution generated elsewhere in the Australian and New Zealand economies. The amount generated for every dollar of Lion’s contribution is \$1.33. This implies that our \$2.17 billion contribution yields an additional \$2.87 billion, for a total contribution of \$5.04 billion for F12. Every job we create leads to an overall increase in employment of 3.6 jobs in both Australia and New Zealand.

On top of this we make significant investments in creative industries, through our marketing communications and sponsorship of artistic events and sport. The latter helps keep Australasian sport globally competitive by encouraging local talent to stay here rather than pursue careers overseas.

4 Value added to the Australian and New Zealand economies is calculated as net sales revenue less operating costs and community investments, with depreciation and amortisation added back.

GOVERNMENT GRANTS RECEIVED (AUD\$'000s)



Wine Equalisation Tax
Producer Rebate from the
Federal Government



State subsidies from the SA
and Vic Governments in
relation to the operation of
various wineries and cellar
doors



The Tasmanian Freight
Equalisation Scheme (TFES)
compensates Tasmanian-
based manufacturers that
service the mainland for
freight costs incurred by
crossing the Bass Strait



Clean Technology
Food and Foundries
Investment Program

Overall, we're committed to playing our part in making Australia and New Zealand as internationally competitive as possible.

As well as contributing financially, our business makes a significant contribution to the competitiveness of our home nations by providing training and development for our people and by supporting local suppliers. Importantly, our core purpose – growing sociability and wellbeing in our world – sees us taking an active role in helping deal with issues related to misuse, encouraging positive consumption, reducing our environmental footprint and building local communities.

LION'S REGIONAL ECONOMIC CONTRIBUTION

Lion operates in a number of regions across Australia and New Zealand and makes a significant contribution to these local communities. Our direct economic contribution to the Australian economy is \$1.82 billion (of which \$0.60 billion relates to pay) and to the New Zealand Economy it is \$350 million (of which \$80 million relates to pay).

Our largest economic contributions correspond with the locations of our largest concentrations of our people. New South Wales is the largest, where we contribute \$790 million, or 37% in Gross Value Added (GVA), followed by New Zealand with \$350 million, or 16% GVA, and Victoria where \$340 million is contributed, or 16% GVA.





Only a brave person would front up to friends and family and say: "Tell me, what do you honestly think of me?"

Equally brave would be an organisation that went out to a large cross section of its community of stakeholders to ask: What do you think of our leaders? Are we good at marketing? Are we a great employer? How do we contribute to society?

But that's exactly what Lion did at the end of 2011, with our first ever Community Engagement Study.

Lion External Relations Director Leela Sutton said: "What we wanted was a frank assessment of the reputation and trust we have earned in our community. Why? Because as a business we only exist with the permission of the communities in which we operate."

Lion is also aware that stakeholders are more willing to work with companies they trust and that consistently exceed their expectations.

"We want to put stakeholder engagement at the heart of our strategy and put in place hard targets for improvement. It's the right thing to do and it will deliver better outcomes for all," said Leela.

A DIVERSE COMMUNITY

We are in regular contact with our key customers, converse with consumers through our brands, and conduct annual customer and people surveys. However, for some years now we've been looking at how to more effectively measure engagement with our diverse community of consumers, farmers, suppliers, distributors, marketing, sponsorship and community partners, non-government organisations, analysts and thought leaders – as well as the industry groups who represent us, the government that regulates us, and the media that report on us.

The answer, we decided, was a study that involved conducting well over 250 in-depth interviews with representatives from each stakeholder group and speaking to more than 2,000 Australian and New Zealand consumers. As well as asking what they thought of us, we sought their opinions on the issues they felt were impacting their lives and our industry.



STRONG OVERALL REPUTATION

The study unearthed a broad range of insights. "I'm delighted that this first-ever study shows Lion has a strong overall reputation and high levels of trust with most stakeholder groups," said Leela. "It was also pleasing to discover that the things that are important to us, like quality people and leadership, growing the industry profit pool through great brands, working in partnership to create better industries and advocating responsible business practices, are equally important to our stakeholders."

"There is room for improvement, and we would always expect that to be the case. In fact that is the purpose – to better understand the views of our stakeholders and to consider those views as we seek to grow our business."

TRANSLATED INTO TARGETS

The results of the study were collated and shared internally and, following significant analysis, have now been translated into targets for Lion's Balanced Business Strategy (BBS).

The BBS is Lion's principal business strategy shaping the business' agenda. It is formulated by the company's senior leadership teams and monitored by the Board. It pulls together priority goals and targets for the marketplace, workplace and for our people. It is reviewed every three years, but refreshed annually, so we can take account of emerging trends.

Our approach places sustainability issues at the very heart of our business strategy and stakeholder engagement is now linked to how our people and leaders are incentivised.

STAYING VIGILANT

The Community Engagement Study will be repeated every two years. "Trust and reputation are evolving concepts," said Leela. "As community expectations grow, we must grow with them and stay vigilant about our stakeholders' expectations. With the fresh insights we have gained, and through our processes and BBS, we hope to continue to build on the trusted relationships and good reputation we currently enjoy."



WHAT OUR STAKEHOLDERS LIKE ...

- In general, Lion compares favourably to its competitors in most areas of the study
- Our BS&W stakeholder relationships are strong and our people and leaders are well regarded by their stakeholders
- Our stakeholders believe Lion is working hard to improve its business and performance and our leaders across the business tend to be well regarded
- Lion's stakeholders see the potential in our brands and are encouraged by our commitment to investment in marketing and innovation through the downturn
- Lion's achievement orientated business culture is seen as a major asset
- The positive benefits associated with the enjoyment of alcohol are comprehensively seen to outweigh the negatives in both Australia and New Zealand, and most stakeholders view Lion and its industries as generally responsible
- The community has high regard for the nutritional benefits of our dairy and juice products

WHERE SOME THINK WE NEED TO IMPROVE

- We have more work to do to improve our partnerships with some Dairy & Drinks stakeholders, who also want us to share more about our business and improve our execution standards in some areas
- Commercial partners are worried about the future of the dairy and juice industries and they would like to see Lion take more of a leadership role on industry issues
- There is a general view in the industry that the nutritional benefits of dairy and juice are being undersold and more needs to be done to celebrate them
- A significant proportion of the health lobby has a different approach to Lion on the right approach to create a healthy drinking culture and would like to see a greater focus on tax and restrictions on marketing and sponsorship. While we disagree with much of their agenda, we believe there are areas of common ground and significant progress can be made by focusing on shared goals



Building an achievement culture

AT A GLANCE

- + Conducted our 8th biennial culture survey and have continued to improve on the constructive culture across Lion
- + Increased our people engagement to 83%
- + Conducted leadership development programs for over 2,000 leaders
- + Held people processes workshops for over 1,300 leaders
- + Undertook wellbeing programs for over 300 leaders
- + Improved technical capability for over 1,300 people
- + Held inductions for over 400 new starters

Why this is material to our business

We recognise that our people strategy is critical to delivering our long term business goals. One of the priority goals of our Balanced Business Strategy is to 'build an achievement culture to support marketplace success'. We believe that building a constructive culture that values achievement enables us to attract and retain great people, build high levels of engagement and develop trusting relationships with our stakeholders, all of which helps Lion achieve sustainable growth and marketplace success. Building such a culture requires us to develop the capabilities of our leaders so that they consistently demonstrate the kinds of constructive behaviours we are after.

CULTURE

We define culture as 'the way we do things around here'. Our aim is to have a constructive culture, where quality is valued over quantity, creativity over conformity, and cooperation over competition. More specifically, we strive for an achievement culture, characterised by a common sense of purpose, high levels of ownership, coaching and feedback, self-set goals, a solutions focus and a positive approach to change.

Our people have told us that they want a constructive culture, as illustrated by the preferred culture diagram in the infographic on page 50. **CS**

To achieve this, we've set specific cultural goals as part of our Balanced Business Strategy, which include having 75% of the organisation demonstrating constructive styles and less than 25% demonstrating either passive or aggressive defensive styles by 2015.

We acknowledge that cultural change takes time. However, to ensure we are on track, we measure our progress every two years using Human Synergistics'® Organisational Culture Inventory (OCI). Our 2012 culture survey showed we had made significant progress towards our FY15 BBS culture goal, with improvements in the constructive styles and reductions across all passive and aggressive defensive styles of the OCI for Lion overall.



ENGAGEMENT

Engagement is defined as how people think, feel and act every day. It's integral to our core purpose of *Growing sociability and wellbeing in our world*, since every interaction we have is an opportunity to leave people more – or less – engaged. Our engagement model is central to how we do business at Lion.

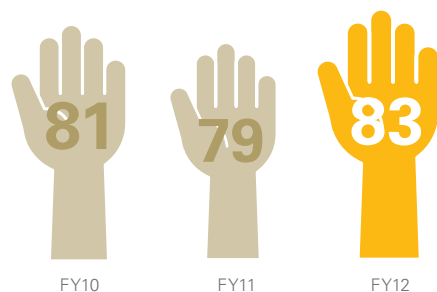
Highly engaged people who demonstrate constructive behaviour, in turn, engage our customers, consumers and the community. For this reason, we set engagement goals as part of our Balanced Business Strategy and regularly measure stakeholder engagement.

PEOPLE ENGAGEMENT

We measure our people's engagement twice a year through our People Pulse engagement surveys, to help us understand how our people think, feel and act in relation to Lion, and to get feedback on what we're doing well and where we can improve. We then build plans for our leaders and all of our people to allow them to improve the way in which they engage with each other and the company.

In September 2012, 5,573 people completed the survey. Our results show that across Lion overall, 83% of our people are engaged. This is an increase of 4% from 2011 and places us just below the Towers Watson global high performance zone norm group average of 84%, but significantly above the global manufacturing companies' norm group of 77%. What's more, scores across all engagement categories improved, most particularly in our people's understanding of our vision and purpose, and their passion for Lion and our brands. For example, 89% of our people tell us they strongly believe in our vision and 92% understand how their business unit or department contributes to Lion's success.

LION OVERALL PEOPLE ENGAGEMENT (%)



CUSTOMER ENGAGEMENT

Building high levels of engagement with our customers creates constructive and more effective business partnerships, with tangible business results. For example, we know from our customer engagement studies that engaged customers buy 52% more volume than disengaged customers.

We measure our customer engagement annually in our Beer Spirits & Wine businesses in Australia and New Zealand and we're introducing this survey into our Dairy & Drinks business.

In 2012, eight out of every 10 of our surveyed customers in both Australia and New Zealand said they are engaged with Lion – the highest engagement score across our competitor set. We attribute these positive results to our investment in our people's technical capability and their consistent demonstration of our constructive behaviours.

CONSUMER ENGAGEMENT

We measure consumer engagement using both behavioural and attitudinal measures. In 2012 we ranked as the number 1 or 2 'must stock' brand for 16 out of our 22 categories across Lion.

COMMUNITY ENGAGEMENT

We recognise our business exists only with the permission of the communities in which we operate. Lion's 'community' is particularly large and diverse, and in FY12 we conducted our first Community Engagement Study. We went to all our stakeholders to canvass their views of our business and the issues that impact our operating environment. These insights inform our Balanced Business Strategy targets and will help our people improve their external engagement efforts. Read more about this in the case study on page 43. [CS](#)

PASSION FOR LION AND OUR BRANDS

In 2012 we launched 'The Den', a website for our people that communicates information and special offers on a number of our brands, and allows them to share their passion for our brands with their friends and family. This has been highly successful, as evidenced by the positive feedback and sales generated from the site. We also launched the 'My Brands' iPhone app to provide information on our brands for every social occasion. The app has been downloaded over 4,000 times.

WELLBEING

Our wellbeing strategy incorporates psychological and social needs, as well as physical safety. We aim to create an environment where people are not only safe from harm but are also able to flourish. We have set a clear FY15 business goal to 'grow the wellbeing of our people'.

We measure our people's wellbeing through:

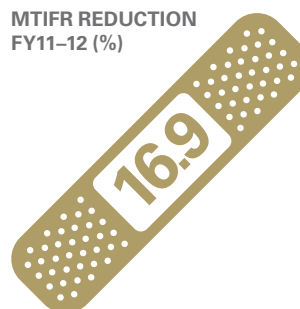
- Medical Treatment Frequency Rate (MTIFR) = Raw number of Medical Treated Injuries, multiplied by 1,000,000 divided by total hours worked in the period by our people, including casual and labour hire team members. Our Lion FY15 BBS target for MTIFR is 20. In November 2012 we reported a MTIFR of 22.9, a reduction of 16% from December 2011.
- Lost Time Injury Frequency Rate(LTI) = Raw number of Lost Time Injuries, multiplied by 1,000,000 divided by total hours worked in the period by our people, including casual and labour hire team members. In November 2012 we reported a LTIFR of 8.6, a reduction of 7% from December 2011.
- People Pulse engagement survey – we include a series of questions on wellbeing in our twice-yearly engagement surveys. In 2012 across Lion overall:
 - 81% of our people say that they 'enjoy going to work each day', up from 79% in 2011
 - 91% say that 'people in my work area take action to ensure their safety', a slight increase from 90% in 2011.

While these are positive results, we aim for continual improvement and in 2012 we built on these foundations with the following initiatives:

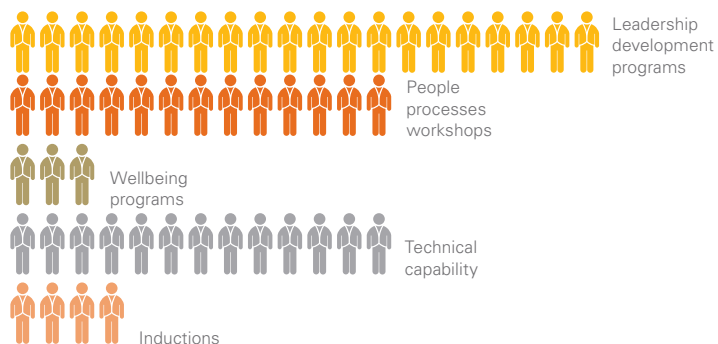
- We are delivering our Wellbeing@Lion program to over 300 leaders across the business. Its purpose is to help leaders understand our ' + 10' Wellbeing@Lion strategy and provide them with tools to support and enhance the wellbeing of their team members.
- We delivered safety and wellbeing plans based on the Australian Standard 4801 across all of our sites and reviewed and updated these for 2013. These plans have allowed us to establish a common and consistent approach to safety across our 30+ manufacturing sites, while identifying opportunities for improvement.
- We rolled out a new group-wide 'permit to work' system, which is aimed at high risk activities at all sites. The purpose of these permits is to ensure our people and others have identified all the hazards involved in these activities and have put in place appropriate controls before they begin work.
- To instil the right safety behaviours in our people we continue to use 'quality safety conversations' between our leaders and team members to provide feedback on positive safety behaviours and to identify opportunities for improvement. This initiative has been highly successful and has contributed to the reduction in serious incidents. In the coming year we will be designing and delivering an online Safety & Wellbeing module for both existing people and new starters at Lion.



MTIFR REDUCTION
FY11-12 (%)



NEW CAPABILITY INITIATIVES ('00s)



ATTRACTING AND RETAINING GREAT PEOPLE

Our people strategy helps us to attract and retain great people and deliver on our people value proposition to “be the best you can be, really make a difference, and have a great time doing it.” We draw on our people processes to support comprehensive bench planning and talent management across Lion. That this is successful is evidenced by the fact that over 45% of our roles were filled internally in 2012.

DIVERSITY

We define diversity as all the ways we are different from each other. We support diversity across Lion through flexible work practices, creating a constructive culture and working environment that supports our people’s wellbeing, as well as through our people processes, which recognise and reward achievement. While diversity extends beyond gender alone, around 40% of our senior leadership roles (people who report to our group leadership team) are held by females.

CAPABILITY

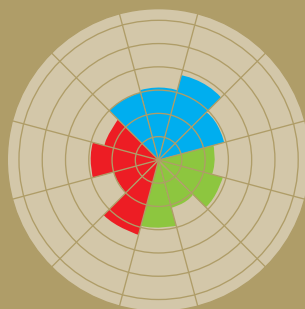
We know that a leader’s behaviour is a key ingredient in what driving a culture of engagement. In 2012 we implemented the following capability initiatives:

- Leadership development programs for over 2,000 leaders
- People processes workshops for over 1,300 leaders
- Wellbeing programs for over 300 leaders
- Technical capability for over 1,300 people
- Inductions for over 400 new starters



“Be the best you can be, really make a difference, and have a great time doing it.”

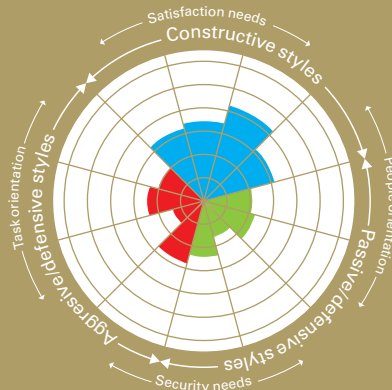
CULTURE



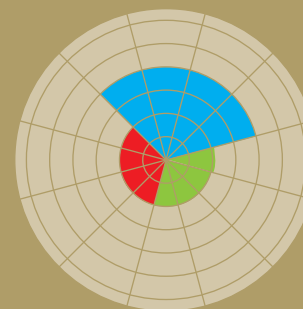
Lion overall culture 2010*



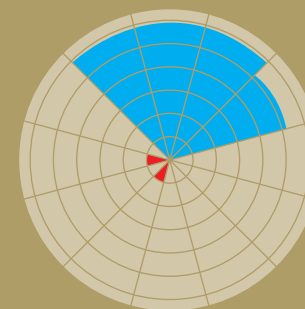
*Copyright © 1987–2009. All rights reserved.



Lion overall culture 2012*



Lion's cultural goal 2015*



Lion's preferred culture*

Culture and wellbeing

WELLBEING



2011 2012 2015 target

Medically Treated Injury Frequency Rate (MTIFR)



2011 2012

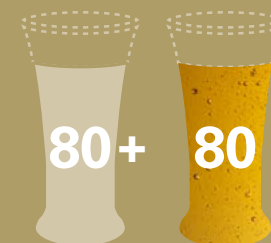
People who enjoy going to work each day (%)

ENGAGEMENT



2010 2011 2012

Number of engaged people at Lion (% , People Pulse engagement survey)



2011 2012

Customers engaged with Lion (% , Beer Spirits & Wine sector)

ATTRACTION AND RETENTION



Senior leadership roles held by females – 40%



Percentage of roles filled internally vs externally

Initiatives delivered on to continue building our wellbeing

- ✓ Delivered Wellbeing@Lion program
- ✓ Rolled out Permit to Work system for high risk activities
- ✓ Delivered safety and wellbeing plans based on Australian Standard 4801
- ✓ Continued Quality Safety Conversations between leaders and team members



We are the number 1 or 2 'must stock' brand for 16 of our 22 categories



Number of 'My Brands' iPhone app downloads



“When we talk about wellbeing at Lion we consider the physical, psychological and social aspects. The physical is about the safety of the workplace and the psychological is about how you are feeling, but it’s the social component – how people interact and connect with each other – that’s the real differentiator for us,”

... So explains Alicia Purtell, Research Director, People and Culture. “It’s our trump card,” she says.

And given Lion’s belief that connecting meaningfully with people is a key to business success, it has spent many years researching and refining how best to make it happen.

A RESEARCH APPROACH

“We’ve taken a research approach to wellbeing to ensure we stay at the forefront of best practice,” says Alicia. “For this reason – and because we have such high retention rates – we haven’t sought external recognition.

“But as we’ve become a larger company, gaining brand recognition has become more and more helpful for recruiting and for advocacy among our own people,” she says.

Alicia says that HR is sometimes seen as a cardigan-wearing, old-school practice and this can be reflected in perceptions that don’t match contemporary business strategies.

“Wellbeing and engagement are hardwired into our business,” says Alicia. “It’s sometimes hard to think about them as new initiatives. It’s our philosophy . . . simply the way we do things.”



BUILDING PSYCHOLOGICAL CAPITAL

However, the P&C team recognises the importance of highlighting and explaining the new approaches Lion is taking to things it has been doing for a long time. For instance in its leadership capability programs, it is looking at how leaders can build psychological capital – by what it refers to as promoting ‘hope’.

Psychological capital is as important as brand or financial capital, explains Alicia. But people attain it in different ways. So Lion encourages leaders to brainstorm and explore multiple pathways to help people achieve their goals. By allowing more flexibility in thinking, people are more hopeful and feel more supported in developing their career growth.



DEVELOPING STRENGTHS

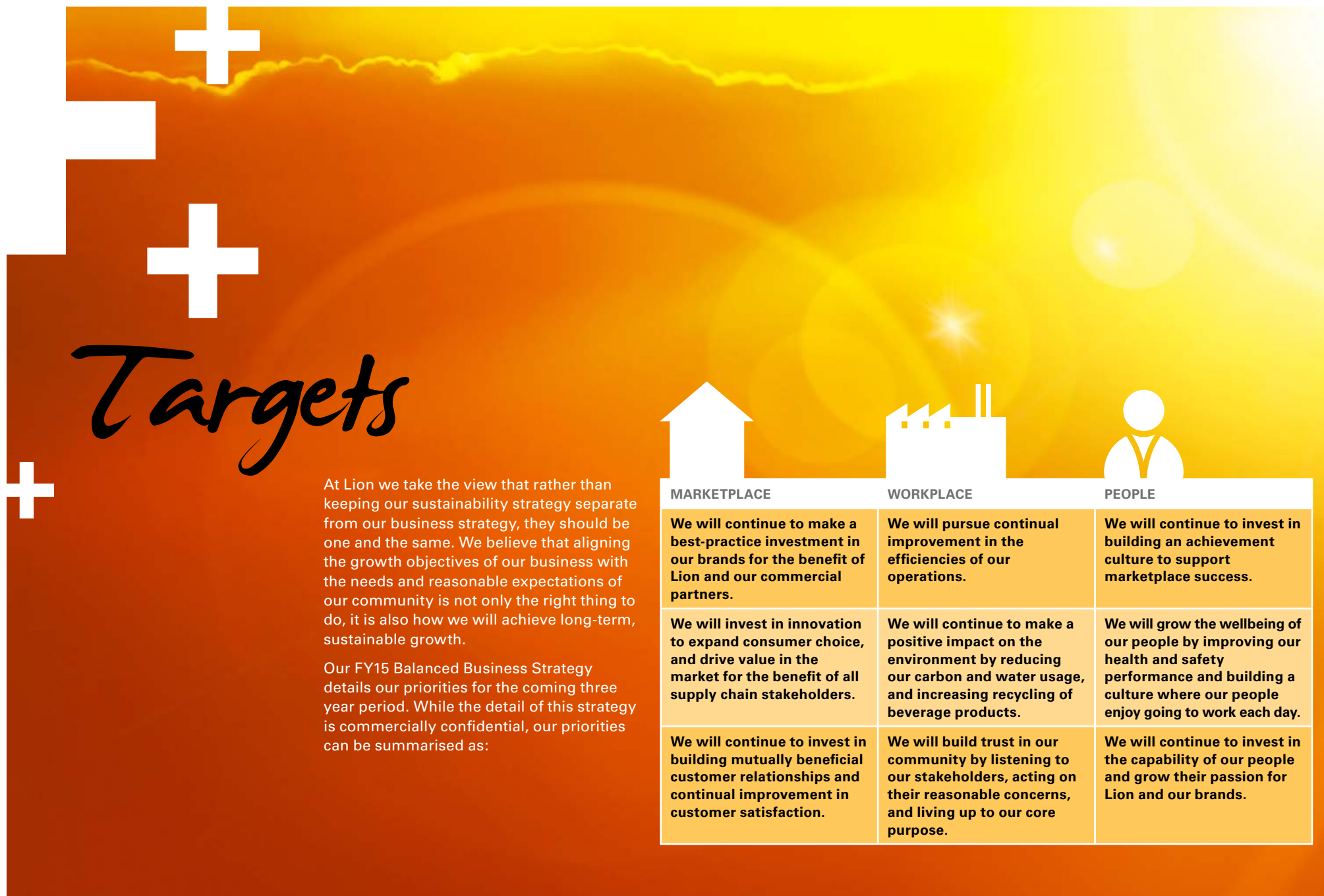
As well, Lion's coaching programs teach leaders – at all levels – about the conversations they need to have to encourage a solutions-focused, rather than a problem-focused, culture and to help people be the best they can. A culture like this results in teams that love coming to work. That's why Lion's development programs are focused on giving Lion's people practical strategies to help them identify and develop their strengths, rather than focus on what they're not good at.

"One of the things we talk about in our workshops and programs are 'thinking traps' or automatic negative thoughts, where people tend to catastrophise, personalise or compare," explains Alicia. "What we're interested in doing is reframing these thoughts – not in a pollyanna way – to talk to people about practical strategies they can adopt to be effective. It's part of our internal language."

FOCUSING ON THE POSITIVES

Lion's approach to physical safety and wellbeing is equally innovative. Instead of measuring performance only through deficits like accident misses, Lion focuses on the positives, such as a *10,000 steps* health initiative that encourages people to stay active and healthy, its six gyms, which have been in place for 20 years and programs that cater for specific needs. "For example, in our New Zealand business there have been lots of changes, on top of the earthquake, so we've introduced programs to boost people's resilience," says Alicia.

"I think we have gone further than most companies ... our people are asked: what is your wellbeing goal? More often than not, the answer to that question will be psychological wellbeing, better connection, or resilience. And that's what's different. Our people have a choice of what part of the wellbeing spectrum they want to focus on. Since wellbeing is different for different people, we have developed strategies to reflect that," she says.



Targets

At Lion we take the view that rather than keeping our sustainability strategy separate from our business strategy, they should be one and the same. We believe that aligning the growth objectives of our business with the needs and reasonable expectations of our community is not only the right thing to do, it is also how we will achieve long-term, sustainable growth.

Our FY15 Balanced Business Strategy details our priorities for the coming three year period. While the detail of this strategy is commercially confidential, our priorities can be summarised as:

MARKETPLACE	WORKPLACE	PEOPLE
We will continue to make a best-practice investment in our brands for the benefit of Lion and our commercial partners.	We will pursue continual improvement in the efficiencies of our operations.	We will continue to invest in building an achievement culture to support marketplace success.
We will invest in innovation to expand consumer choice, and drive value in the market for the benefit of all supply chain stakeholders.	We will continue to make a positive impact on the environment by reducing our carbon and water usage, and increasing recycling of beverage products.	We will grow the wellbeing of our people by improving our health and safety performance and building a culture where our people enjoy going to work each day.
We will continue to invest in building mutually beneficial customer relationships and continual improvement in customer satisfaction.	We will build trust in our community by listening to our stakeholders, acting on their reasonable concerns, and living up to our core purpose.	We will continue to invest in the capability of our people and grow their passion for Lion and our brands.



**If you would like more information about
Lion or would like to provide feedback on
any part of this report or on our
sustainability activities please contact:**

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