



Lion's 2018 Tax Transparency Report



LION

CFO Statement

On behalf of the Lion Board, I am pleased to share with you Lion's Tax Transparency Report for the fiscal year ended 31 December 2018 (FY18).

Lion supports the Australian Government's Voluntary Tax Transparency Code ("the Code") as a key platform to better inform public debate about tax policy and to increase transparency for the wider community.

As one of the largest food and beverage companies in Australasia, Lion employs approximately 6,000 people across Australia and New Zealand. In FY18, our total contribution to the economies of both countries was \$4.9

billion and led to additional employment in our local communities, particularly in the agricultural, tourism and hospitality sectors.

In this report, we provide an overview of our tax strategy, governance and policies, all of which align to Lion's overall corporate governance and sustainability frameworks. We include commentary regarding our Australian tax contribution and major international related party transactions. Details of Lion's effective tax

rate and a reconciliation of the accounting profit to income tax payable and income tax expense and to current year income tax payable and income taxes paid are also included.

We see this report as an important step in providing transparency and accountability to our stakeholders, and an opportunity to maintain an open dialogue regarding our tax commitments.

If you would like to provide any feedback, please don't hesitate to contact us at

taxtransparency.au@lionco.com



Stephanie Nixon
CFO

Lion Overview

Lion is one of Australasia's largest food and beverage manufacturers, with 38 production sites across Australia and New Zealand and a rich history of producing some of our most iconic and well-known brands.

Lion operates various businesses under the following four key segments:

- › Lion Beer Australia
- › Lion NZ
- › Lion Dairy and Drinks
- › Lion Global Markets

These businesses operate (i.e. manufacture, market and/or distribute) across two, broad-based product portfolios:

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

2018 Financial Results

The Lion Consolidated Accounting Group delivered operating earnings before interest and tax ("EBIT")¹ of \$629 million for the 12-month period ended 31 December 2018.

Lion made an operating loss after tax for the same period of \$476.7 million, driven by a \$530 million impairment of the dairy and drinks business.

¹ Excludes One Time Items



Tax policy, strategy and governance summary

Lion's approach to risk management and governance arrangements

The primary role of the Lion Group Tax team is to ensure the group complies with all tax laws and its statutory obligations whilst the business pursues its commercial objectives.

Lion's tax risk management framework and governance approach has been approved by the Board and aligns to our Corporate Governance Framework. The roles, responsibilities and approval structure under Lion's Corporate Governance Framework are summarised in the following diagram:



Tax policy, strategy and governance summary (continued)

Lion's tax policy / guidelines

Lion's internal tax guidelines provide a formal mechanism to escalate perceived and actual tax risks to the Group Tax team. Under these guidelines, the Group Tax team is required to review and assess tax risks prior to signing off the below transactions:

- › Mergers, Acquisitions & Divestments;
- › Organisational restructures (including change in shareholdings, amalgamations, liquidations, commencing operations in a new jurisdiction or exiting an existing jurisdiction); and
- › Cross Border Transactions relating to inventory, licensing, funding, and services.

The Group Tax team advises the business on the tax consequences and risk mitigation options, based on commercial considerations and the underlying economic substance. Where material tax issues are identified by the Group Tax team, the Lion Group Tax Director is then required to report this to senior management, the Audit Finance & Risk Committee and/or the Board.

Lion's attitude to tax planning

Lion's approach to tax planning is to operate, file and pay taxes on time and in accordance with the laws in the relevant jurisdictions. Consistent with Lion's Risk Management Framework, we do not engage in aggressive tax planning. Lion does not operate in tax havens or in low tax jurisdictions.

Tax laws are inherently complex and subject to change and interpretation over time. Where necessary, Lion consults with the relevant tax authorities for clarity on the operation of the tax laws. Lion also seeks independent specialist tax advice as appropriate to ensure all identifiable tax risks are managed and documented. This could relate to one-off significant business transactions or day-to-day compliance obligations.

Engagement with tax authorities

Lion actively engages with the tax authorities in relevant jurisdictions to ensure compliance with ongoing tax obligations, the provision of significant transaction updates and

responding to specific reviews and queries. For example, Lion engages regularly with the Australian Taxation Office ("ATO") through the Pre-Compliance Lodgement Review to provide transparency on material transactions undertaken, ongoing assurance over our tax governance practices and to ensure that tax calculations and payments accord with Australia's tax laws.

Consistent with other companies of the size of Lion, the Group is subject to periodic review and audits by tax authorities. The ATO is currently undertaking a tax audit of Lion for the 2013 to 2016 income years in connection with the tax treatment of a historical transaction. Lion is engaging transparently and cooperatively with the ATO on these matters.

In the UK, we are classified as a large business and work cooperatively with HMRC to help them understand our business, our approach to risk management and our governance arrangements.

Lion's international related party dealings

Lion has international related party dealings with its Japanese parent company, international subsidiaries of its Japanese parent company and its wholly owned international subsidiaries, all of which are subject to tax in their respective jurisdictions and /or taxed in Australia under the Australian Controlled Foreign Company rules.

The following table outlines the activities undertaken by Lion's international subsidiaries and the jurisdictions in which they operate:

JURISDICTION	DESCRIPTION OF ACTIVITIES
USA	Active trading operations (wine manufacturer and distributor)
UK	Active trading operations (microbrewery and hospitality venue, craft beer distributor)
NZ	Active trading operations (alcohol and non-alcohol manufacturer and distributor)
CHINA	Active trading operations (craft beer and dairy and drinks sales and marketing support services)
HONG KONG	Active trading operations (microbrewery and hospitality venue, craft beer sales and marketing support services)
SINGAPORE	Active trading operations (microbrewery and hospitality venue, craft beer sales and marketing support services) and an insurance company
MALAYSIA	Active trading operations (dairy and drinks sales and marketing support services)

Lion's Top 3 International Related Party Dealings

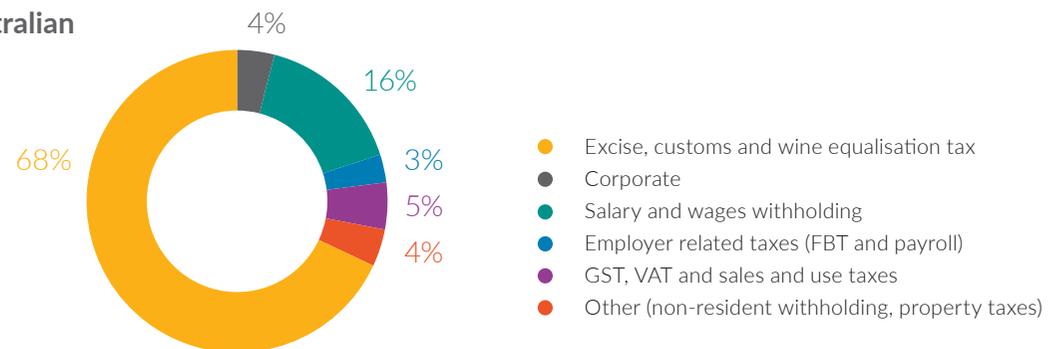
- › Lion meets its funding requirements through a combination of intra-group financing arrangements and from external lenders. Lion also provides funding by way of intercompany loans to its international subsidiaries. Interest received/paid in respect of these loans are subject to tax in the relevant jurisdictions at the applicable corporate and withholding tax rates. The pricing of the intra-group financing arrangements is based on commercial terms.
- › Lion Australia provides various back office services (such as finance, tax and legal) to support the value creation activities undertaken by its international subsidiaries. Remuneration for these services is on commercial terms.
- › Finished goods are transferred between Lion Australia and its international subsidiaries, based on commercial terms.

Australian tax contribution summary

According to Deloitte Access Economics, Lion contributed approximately \$4.9b to the Australian and New Zealand economies in FY18. Taxes represent a significant part of Lion's contribution in Australia and New Zealand (with additional taxes paid internationally) as summarised in the table:

TAX CONTRIBUTION TYPE	AUSTRALIA AUD \$M	NEW ZEALAND AUD \$M	OTHER INT'L AUD \$M	TOTAL AUD \$M
TAXES BORNE BY LION				
Excise and Customs Duties and Wine Equalisation Taxes	816.9	294.7	4.2	1,115.8
Corporate Taxes	52.0	13.0	0.0	65.0
Payroll Taxes	30.2	0.0	0.0	30.2
Fringe Benefits Tax	5.2	1.1	0.0	6.3
Property, Land and Stamp Taxes	5.2	–	1.4	6.6
TAXES COLLECTED ON BEHALF OF OTHERS				
Net Goods & Services Tax / Value Added Taxes	64.4	49.7	2.2	116.3
Withholding from Employee Salary and Wages	197.6	24.0	2.3	223.9
Other Withholding Taxes	38.9	0.5	14.0	53.4
TOTAL TAX CONTRIBUTION	1,210.4	383.0	24.1	1,617.5

FY18 Lion's Australian tax contribution by tax type



Reconciliation of Accounting Profit to Income Tax Payable and Income Tax Expense

		2018	2018
	NOTES	(AUD \$M)	(AUD \$M)
		Global	Australia
ACCOUNTING PROFIT / (LOSS) BEFORE TAX	A	(460.9)	(499.4)
MATERIAL NON-RECURRING ITEMS BEFORE INCOME TAX			
Non-deductible impairment of Lion's dairy & drinks business	B	530.0	530.0
Other non-deductible items	C	10.2	10.2
ACCOUNTING PROFIT / (LOSS) BEFORE TAX AND MATERIAL NON-RECURRING ITEMS	D=A+B+C	79.3	40.8
Income tax at 30%	E=D*30%	23.8	12.2
MATERIAL RECURRING ITEMS (TAX EFFECTED)			
Net increase / (decrease) in non-incurred provisions and accruals	F	8.0	8.8
Other items (includes difference between accounting and tax depreciation and gains/losses on disposal, share of net profits after tax of Lion's equity accounting investments, and non-deductible expenses)	G	(19.3)	(20.5)
INCOME TAX PAYABLE - CURRENT PERIOD	H=E+F+G	12.5	0.5
Deferred income tax expense	I	12.2	14.2
INCOME TAX EXPENSE - CURRENT PERIOD	J=H+I	24.7	14.7
EFFECTIVE TAX RATE EXCLUDING MATERIAL NON-RECURRING ITEMS	K=J/D	31.1%	36.0%
Prior year under / over provision	L	(8.9)	(8.9)
INCOME TAX EXPENSE PER FINANCIAL STATEMENTS	M=J+L	15.8	5.8

Reconciliation to FY18 Income Tax Payable and Income Tax Paid

		2018	2018
	NOTES	(AUD \$M)	(AUD \$M)
		Global	Australia
INCOME TAXES PAYABLE / (RECEIVABLE) AT BEGINNING OF FY18	N	2.0	0.9
Cash taxes paid, and refunds received during FY18 in relation to current and prior periods	O	(57.4)	(46.3)
Income taxes payable – current period	H	12.5	0.5
INCOME TAXES PAID / (RECEIVED) AT END OF FY18	D = N + O + H	(42.9)	(44.9)





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