



**LION**

# Tax Transparency Report

Year ended 31 December 2019

## 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 2019 (FY19).

As one of the largest food and beverage companies in Australasia, Lion employs approximately 5,200 people across Australia and New Zealand and pays over \$1.1 billion in taxes in these jurisdictions.

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.

In accordance with the standard of information developed by the Board of Taxation, 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 a breakdown of Lion's tax contribution in Australia and other foreign jurisdictions and commentary on Lion's key international related party transactions. Details of Lion's effective tax rate and a reconciliation of the accounting profit to income tax expense and to current year income tax payable and 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.

**Stephanie Nixon**  
CFO



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

**[taxtransparency.au@lionco.com](mailto:taxtransparency.au@lionco.com)**

## Lion Overview

The principal activities of the Lion Pty Ltd (Lion) Group are the production, marketing and distribution of branded beverage and food products.

Lion has global operations in the UK, North America and the Asia Pacific in addition to its businesses in Australia and New Zealand. Lion's business is comprised of the following four key segments:

- › Lion Beer Australia
- › Lion NZ
- › Lion Dairy and Drinks\*
- › Lion Little World Beverages

Lion is one of the largest food and beverage manufacturers in Australia and New Zealand and has a rich history of producing some of our most iconic and well-known brands. Lion employs approximately 5,200 people in Australia and New Zealand and operates out of 36 production sites across both countries.

Outside of Australia and New Zealand, Lion employs approximately 500 people across 13 sites, with the majority of team members based in the UK and USA.

Lion's 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, yoghurt, juice and water ice).\*

\* In January 2021, Lion divested the Lion Dairy and Drinks business



## 2019 Financial Results

The Lion Consolidated Accounting Group (the Lion Group) delivered normalised operating earnings before interest and tax ("EBIT") of \$549 million for the 12-month period ended 31 December 2019.

The Lion Group made an operating profit after tax for the same period of \$21.8 million.

# Tax policy, strategy and governance summary

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 as follows:



## THE BOARD ●

Directors oversee risk management and regularly evaluate the effectiveness of our risk management system.

## AUDIT, FINANCE AND RISK COMMITTEE (AF&RC) ●

Helps the Board by providing an independent review of our financial reporting processes, audit function, and internal compliance and control systems to ensure financial and business risks are effectively managed and comply with legal and regulatory requirements.

## 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:

- › ensuring management reports regularly to the Board
- › having a clearly defined organisation structure with approved delegated authority
- › ensuring there are processes to manage capital expenditure, assets, and liabilities
- › implementing appropriate due diligence procedures for corporate mergers and acquisitions.

Lion’s 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.

## BUSINESS LEADERS ●

Senior Leadership Teams (SLTs) are responsible for owning and managing risk in their respective business unit or function. This includes identifying and assessing risks, maintaining effective controls and implementing mitigating actions to manage risks down to an acceptable level.

Business unit SLTs are supported in their risk management responsibilities with challenge, guidance and specialist expertise provided by central functions. These functions include legal, people & culture, finance, treasury, insurance, risk, group strategy, IT and shared services.

## RISK SUBJECT MATTER EXPERTS (SMES) ●

Lion has a range of SMEs (e.g. legal, tax, treasury, safety) that support the business to manage key risk areas as well as identify emerging risks. SMEs partner closely with the business and provide input into Lion’s risk management process.

## LION RISK ASSURANCE ●

Lion Risk Assurance (LRA) is a function that aims to promote a risk aware culture and includes an independent Internal Audit/Assurance team and a Risk team. LRA’s program of works includes testing the effectiveness of internal controls, facilitating risk assessments against business strategy and projects and supporting good governance practices.

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 or directly to the chair of the AF&RC, as appropriate.

## 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 involve assessing how internal control systems relating to financial reporting are managed. Lion also uses their External Auditor to perform an assurance process over the content of this report and the systems and assumptions that lay behind it.

## 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 changes 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 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 significant one-off 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, to provide significant transaction updates and in response to specific reviews and queries.

For example, we have a constructive relationship with the Australian Taxation Office (ATO) and are categorised as a Key Taxpayer under the ATO's

Risk Differentiation Framework. As a Key Taxpayer, Lion engages regularly with the ATO through the Pre-Compliance Lodgement Review to provide transparency on material transactions undertaken and 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 comparable size, 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.

## 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 and dairy and drinks sales and marketing support services) and an insurance company* |
| MALAYSIA     | Active trading operations (dairy and drinks sales and marketing support services)*   |

\* Lion’s foreign dairy and drinks operations were divested in January 2021 as part of the sale of Lion Dairy and Drinks

\*\* Lion’s Hong Kong business was sold to a third party in December 2020

### Lion’s Top 3 International Related Party Dealings

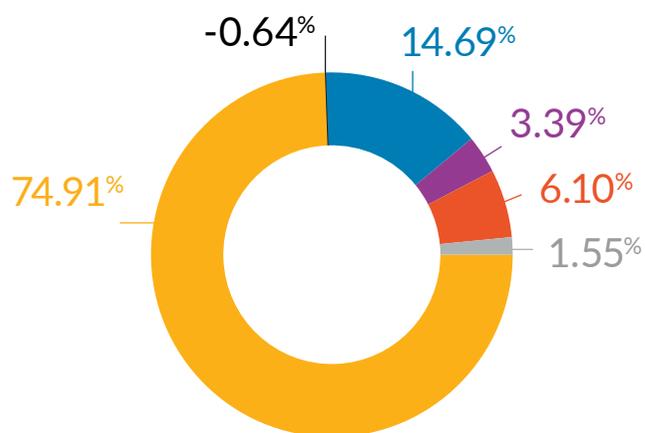
- › Lion meets its funding requirements through a combination of financing arrangements within the broader Group and from external lenders. Lion also provides funding by way of intercompany loans to its international subsidiaries. Interest received/paid in respect of these loans is subject to tax in the relevant jurisdictions at the applicable corporate and withholding tax rates. The pricing of the intra-group financing arrangements is based on arm’s length 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. Pricing for these services is on arm’s length terms.
- › Finished goods are transferred between Lion Australia and its international subsidiaries, based on arm’s length terms.



## Lion's tax contribution

Taxes represent a significant part of Lion's contribution in Australia and New Zealand (with additional taxes paid internationally). Lion also collects significant taxes on behalf of the Australian Government. The following table provides a summary of Lion's total tax contribution.

### Lion's FY19 Australian tax contribution by tax type



| TAX CONTRIBUTION TYPE                       | AUSTRALIA            | NEW ZEALAND  | OTHER INT'L | TOTAL          |
|---|----------------------|--------------|-------------|----------------|
|   | AUD \$M              | AUD \$M      | AUD \$M     | AUD \$M        |
| <b>TAXES BORNE BY LION</b>                  |                      |              |             |                |
| Excise, Customs and Wine Equalisation Taxes | 790.9                | 285.9        | 8.0         | 1,084.8        |
| Corporate Taxes                             | (6.7) <sup>(1)</sup> | 8.3          | 0.7         | 2.3            |
| Payroll Taxes                               | 31.2                 | 0.0          | 1.5         | 32.7           |
| Fringe Benefits Tax                         | 4.5                  | 0.9          | 0.0         | 5.4            |
| Property, Land and Stamp Taxes              | 2.6                  | 0.0          | 1.7         | 4.3            |
| <b>TAXES COLLECTED ON BEHALF OF OTHERS</b>  |                      |              |             |                |
| Goods & Services Tax                        | 64.4                 | 37.6         | 2.2         | 104.1          |
| Withholding from employee salary and wages  | 155.1                | 23.0         | 3.0         | 181.1          |
| Other Withholding Taxes                     | 13.7                 | 0.5          | 0.1         | 14.3           |
| <b>TOTAL TAX CONTRIBUTION</b>               | <b>1,055.8</b>       | <b>356.3</b> | <b>17.0</b> | <b>1,429.1</b> |

(1) Lion's tax contributions are presented on a net cash basis for the year from 1 January to 31 December 2019. Taxes paid, collected or refunded are included when cash is released from or received by the Lion Group. The negative contribution amount is due to the timing of the receipt of Lion's FY19 income tax refund.

- Excise, customs and wine equalisation tax
- Corporate
- Salary and wages withholding
- Employer related taxes (FBT and payroll)
- GST, VAT and sales and use taxes
- Other (non-resident withholding, property taxes)

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

## (a) Reconciliation of Accounting Profit to Tax Expense

The income tax expense for the Lion Group is prepared in accordance with Australian Accounting Standards and guidance issued by the Australian Accounting Standards Board (AASB) and recommendations in the Code. This is calculated by multiplying the accounting profit for the year, adjusted for amounts which are not assessable or deductible for tax purposes, by the Australian corporate tax rate of 30%.

|  | NOTES          | 2019<br>(AUD \$M) |
|--|----------------|-------------------|
| <b>ACCOUNTING PROFIT BEFORE TAX</b>  | <b>A</b>       | <b>97.7</b>       |
| <b>MATERIAL NON-RECURRING ITEMS BEFORE INCOME TAX</b>  |                |                   |
| Non-deductible impairment of the Lion New Zealand business   | B              | 131.9             |
| <b>ACCOUNTING PROFIT BEFORE INCOME TAX AND MATERIAL NON-RECURRING ITEMS</b>                                      | <b>C=A+B</b>   | <b>229.6</b>      |
| <b>INCOME TAX AT 30%</b>   | <b>D=C*30%</b> | <b>68.8</b>       |
| <b>TAX EFFECT OF MATERIAL NON-TEMPORARY ITEMS</b>  |                |                   |
| Non-deductible expenses  | E              | 2.5               |
| Other items (includes non-assessable income, share of associates' net profit and overseas tax rate differential) | F              | (0.2)             |
| <b>INCOME TAX EXPENSE - CURRENT PERIOD</b>   | <b>G=D+E+F</b> | <b>71.1</b>       |
| Adjustments relating to prior periods  | H              | 4.5               |
| <b>INCOME TAX EXPENSE PER THE CONSOLIDATED INCOME STATEMENT</b>  | <b>I=G+H</b>   | <b>75.6</b>       |

## (b) Effective Tax Rate

The effective tax rate is based on Lion's income tax expense excluding material non-recurring items.

|  |              |              |
|--|--------------|--------------|
| <b>EFFECTIVE TAX RATE - LION GROUP</b>                           | <b>J=G/C</b> | <b>31.0%</b> |
| <b>EFFECTIVE TAX RATE - AUSTRALIAN OPERATIONS <sup>(1)</sup></b> |              | <b>32.4%</b> |

(1) The effective tax rate of Lion's Australian business relates to the Lion multiple-entry consolidated tax group and does not include non-wholly owned entities that are otherwise included in the Lion accounting consolidated group.

## (c) Reconciliation of FY19 income tax expense to income tax paid and payable

The difference between the calculation of income tax expense for the Lion Group and the amount of income tax payable in respect of an income year is generally driven by differences between when a transaction is recognised for accounting purposes to when it is assessable or deductible for tax.

|   | NOTES          | 2019<br>(AUD \$M) |
|---|----------------|-------------------|
| <b>INCOME TAX EXPENSE PER THE CONSOLIDATED INCOME STATEMENT</b> | <b>I</b>       | <b>75.6</b>       |
| Net deferred tax benefit  | K              | 8.3               |
| Adjustments relating to current tax of prior years              | L              | 0.6               |
| <b>INCOME TAX PAYABLE</b>                                       | <b>M=I+K+L</b> | <b>84.5</b>       |



**LION**