

TREASURY WINE ESTATES LIMITED

TAX REPORT 2018

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Statement from our Chief Financial Officer

I am delighted to publish this Tax Report for the 2018 financial year.

Treasury Wine Estates (TWE) places significant importance on transparency and maintaining high standards of tax governance and compliance. TWE fully supports the work on tax transparency performed by the Australian Board of Taxation, the Australian Taxation Office (ATO), the Organisation for Economic Co-operation and Development (OECD), the Group of Twenty (G20) and other organisations.

TWE has proactively published information in relation to its tax affairs above and beyond the level of information released by the ATO in December 2015 to 2017 pursuant to the ATO tax transparency measures.

This Tax Report is tailored to meet the voluntary tax transparency code principles included in the Australian Board of Taxation's report to the Australian Treasurer in February 2016, and follows the Tax Report in respect of the 2017 financial year that was published by TWE in February 2018.

Good corporate governance and transparent reporting is a fundamental part of the culture and business practices of TWE. TWE is committed to conducting its business ethically and in accordance with high standards of corporate governance. This commitment is essential for the long-term performance and sustainability of TWE, and to protect the interests of stakeholders.

TWE considers the greater transparency of corporate tax affairs to be an opportunity to share relevant tax information with stakeholders to assist them in understanding TWE's tax profile and to demonstrate the Company's commitment to being transparent in the communication and management of its tax affairs.



Matthew Young
Chief Financial Officer
Treasury Wine Estates

February 2019

TWE's business, vision and strategy

TWE is one of the world's largest wine companies, listed on the Australian Securities Exchange (ASX). TWE is focused on delivering shareholder value through the production of quality wine, and marketing and selling quality wine brands to consumers around the world.

TWE is a vertically integrated wine business and is focused on portfolio premiumisation supported by innovation and brand building investment.

TWE employs approximately 3,500 winemakers, viticulturists, sales distribution and support staff across the globe.

TWE's vision is to be the world's most celebrated wine company; a company that enriches people's lives with quality wine brands.

Underpinning this vision is TWE's transition from an order-taking, agricultural company to a brand-led marketing organisation. TWE's transition to a quality, brand-led marketing organisation is being driven by accelerated growth of its priority and regional brand portfolios, represented across the luxury, masstige and commercial segments and sold in more than 100 countries around the world.

TWE's vision and strategy has remained consistent over the last three years. In 2018, TWE's strategic imperatives included:

- Transform its portfolio, which includes growing its priority brands;
- Win in priority markets, which includes growing market share in Asian markets;
- Build a high performing organisation;
- Develop long-term relationships, including with consumers and customers; and
- Optimise its capital base, which includes optimising its supply chain.

Tax governance and strategy

Risk management creates and protects value. By effectively managing risk, TWE increases the likelihood of meeting its business objectives and improves stakeholder value, confidence and trust.

TWE has a whole of enterprise Risk Management Framework (RMF), which has been approved by TWE's Board. The RMF embeds a system of coordinated activities to direct and control risk in TWE's operations. TWE's objectives in adopting the RMF are to:

- Ensure major risks are identified, understood and appropriately managed;
- Ensure business processes focus on areas where risk management is needed; and
- Create an environment where staff take responsibility for identifying and managing risk as a matter of course.

The RMF is reviewed annually by TWE management in conjunction with the Board and updated as appropriate.

Taxation is considered in the context of TWE's RMF. TWE's low tax risk tolerance is specifically stated in the RMF, which means tax risks identified above this level are proactively managed by a formally defined and tracked mitigation plan. TWE's attitude towards tax planning is to ensure that its transactions and dealings maintain its low tax risk tolerance.

In addition, TWE has a Board approved Tax Governance Policy and Tax Risk Management Framework (TRMF), which provide a greater level of detail regarding the management of tax risks.

Tax governance and risk management

TWE's Tax Governance Policy includes the following core guiding principles:

- Comply with all tax laws in the countries in which TWE operates;
- Maintain effective relationships with revenue authorities in countries in which TWE operates; and
- Adhere to the Board approved TRMF.

TWE's TRMF, which has been shared with the ATO, provides TWE's approach to dealing with tax risks. Under the TRMF, transactions and dealings are considered in light of the degree of uncertainty in tax treatment and the consequence of adopting a position. This determines the level of internal seniority required (which, depending on the particular dealing or transaction, may include TWE's Chief Financial Officer and/or Board) to approve a dealing or transaction, and/or external review or approval required in respect of a specific dealing or transaction.

TWE's tax team is responsible for managing TWE's global tax obligations. Management reports to TWE's Audit and Risk Committee on a semi-annual basis on the timeliness of all tax obligations and tax audits/disputes for a given period.

Approach to engagement with tax authorities

TWE seeks to manage its tax affairs proactively and transparently, and where appropriate, engage with tax authorities in relevant countries. As part of this overarching approach, TWE is committed to maintaining an open and direct relationship with the ATO and communicates regularly with the ATO.

Tax strategy

TWE's tax strategy is broadly to achieve three objectives:

- Align to TWE's business strategy;
- Manage the tax environment; and
- Meet tax reporting and compliance obligations.

TWE's tax strategy is supported by TWE's Tax Governance Policy and TRMF discussed above, a skilled team of tax professionals, a network of highly regarded external tax advisors, and experienced senior management with a sound understanding of tax.

Income tax reconciliation

Reconciliation of accounting profit to income tax paid Year ended 30 June 2018

	Note	2018	
		\$M Global	\$M Australia
Accounting profit before tax	1	475.5	442.4
Adjustment for foreign dividends		-	(65.8)
Adjusted accounting profit before tax		475.5	376.7
Prima facie tax expense (at 30%)		142.7	113.0
Permanent differences			
Non-taxable income and profits, net of non-deductible expenditure		(11.8)	(6.2)
Other deductible items		(6.8)	(6.8)
Tax losses recognised		(1.4)	(0.7)
Change in tax rate		(16.3)	-
Foreign tax rate differential		(0.8)	-
Other		10.8	4.4
Subtotal		116.4	103.7
Under / (over) provision in prior years		(1.3)	(3.0)
Total income tax expense / (benefit)		115.1	100.7
Effective tax rate	2	30%	27%
Temporary differences			
Tax Losses	3	(9.3)	-
Provisions and accruals	4(i)	(28.8)	(1.7)
Foreign exchange gains and losses		5.4	4.2
Fixed assets	4(ii)	4.5	(2.0)
Inventory	4(iii)	(22.5)	(6.9)
Intangibles		51.9	-
Leases		(10.0)	-
Other		(2.7)	0.2
Other adjustments affecting income tax payable			
Income tax paid in 2018 in respect of 2018 income tax expense		(42.8)	(38.2)
Non-creditable WHT	4(iv)	(6.3)	(4.8)
Income tax payable as at 30 June 2018		54.5	51.5
Income tax paid		42.8	38.2
Income tax paid and payable in the 2018 income year	5	97.3	89.7

Notes

1. The Australian accounting profit before tax figure includes dividends from overseas wholly owned subsidiaries which are non-assessable for Australian tax purposes. These dividends are not included in the Group accounting before tax figure as they are eliminated at the Group level.
2. Effective tax rate is calculated as income tax expense divided by Adjusted accounting profit before tax. The Australian effective tax rate has been calculated to exclude the tax impact of overseas dividends received by Australia.
3. The temporary differences movement includes the one-off impact of the reduction in the US Federal corporate rate from 35% to 21% effective from 1 January 2018.
4. The income tax payable in respect of the 2018 year primarily relates to Australian income tax. The main reasons for the difference between the Australian income tax expense and the income tax payable for the Australian tax consolidated group are:
 - i. Provisions and accruals that are deductible for tax purposes in the 2018 year but were recognised in a prior year for accounting purposes
 - ii. Differences in tax and accounting depreciation rates
 - iii. Differences in the value of inventory for tax and accounting purposes.
 - iv. Non-creditable withholding tax paid

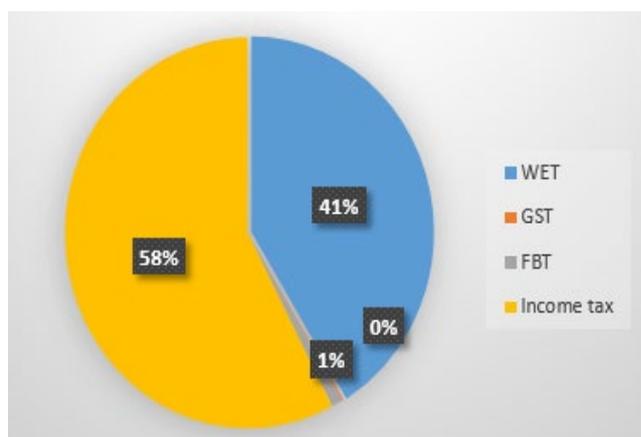
The main reasons for the difference between the tax expense and the tax paid and payable for TWE's global group is the same as for the Australian tax consolidated group. However, TWE's global group also utilised tax losses in the 2018 year to reduce its taxable income.

5. The income tax paid and payable in the 2018 year includes a refund due in respect of prior year amended tax returns in Australia. This prior year refund represents the difference from the \$93.3m corporate tax paid in respect of the 2018 year noted on page 9.

Australian federal tax contribution

Set out below is a summary of Australian federal taxes paid by TWE to the ATO in respect of its operations in the 2018 year.

	2018 A\$M
Corporate income taxes ¹	93.3
Wine Equalisation Taxes (WET)	66.8
Net Goods and Services Tax (GST)	0.2
Fringe Benefits Taxes (FBT)	1.5
Total Taxes Paid	161.8



TWE paid to the ATO net Goods and Services Tax (GST) amounts of \$0.2 in 2018, reflecting GST collected by TWE on its Australian sales less input tax credits claimed on its purchases.

TWE has also contributed to Australian state taxes, including payroll tax, land tax and stamp duties in the 2018 year.

¹ The Corporate income taxes paid (of \$93.3m) to the ATO in respect of 2018 as disclosed in the lodged 2018 income tax return for the Treasury Wines Estates Limited income tax consolidated group. TWE paid monthly PAYG income tax instalments during the 2018 year, with a balancing payment in December 2018. The corporate income taxes paid represents the income tax paid in respect of the 2018 income year and not the amounts physically paid during the year. Note, the \$93.3m does not include a refund owing in respect of prior year amendments, which has been included in the table on page 8 of this report.

International related party dealings

TWE's ultimate global parent company is Treasury Wine Estates Limited (TWEL), an Australian company listed on the ASX. TWEL has a number of wholly-owned subsidiaries in Australia. TWEL and its Australian wholly-owned subsidiaries are taxed in Australia as a consolidated group for income tax purposes.

TWEL has wholly-owned subsidiaries operating in our four key market segments: Australia and New Zealand, the Americas, Asia and Europe. Each subsidiary is subject to the taxation regime of its respective jurisdiction.²

Dealings with international related parties

The principal type of dealing between TWE's Australian operations and TWE's international related parties is the sale of wine. The sale of wine to international related parties is conducted on arm's length terms in accordance with Australia's transfer pricing laws.

Other dealings conducted between TWE's Australian operations and TWE's international related parties in the 2018 year include:

- Group treasury related activities, including lending/borrowing of funds and hedging foreign currency exposures
- Provision of sales and marketing support services by TWE's international related parties in relation to the sale of Australian wine in overseas markets
- Provision of 'head office' services (e.g. tax and legal services) to international related parties
- Licensing of intellectual property (e.g. brand names)
- Group insurance costs
- Allocation of group corporate costs to international related parties

All dealings with international related parties are conducted on arm's length terms in accordance with Australia's transfer pricing laws.

² All material ownership interests in related parties are disclosed in TWE's 2018 Annual Report. Specifically, the list of subsidiaries and country of incorporation are disclosed in note 27 to the financial statements.