TREASURY
WINE ESTATES

TAX REPORT 2016

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Statement from our Chief Financial Officer

I am delighted to publish this Tax Report for the 2016 financial year.

Treasury Wine Estates (TWE) welcomes initiatives designed to promote tax transparency and places significant importance on 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 and December 2016 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.

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 stakeholders 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.

Gunther Burghardt
Chief Financial Officer
Treasury Wine Estates

February 2017

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. In 2016, TWE’s strategic imperatives included:

- Transform its portfolio, which includes growing its 15 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 appetite 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 appetite.

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 to 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.

Reconciliation of accounting profit to tax expense and tax expense to income tax payable

Year ended 30 June 2016	Global group (A$m)	Australian tax consolidated group (A$m)
Accounting profit before tax[1]	259.5	316.5
Dividends from wholly owned foreign subsidiaries	0.0	-132.0
Accounting profit before tax net of dividends from wholly owned foreign subsidiaries	**259.5**	**184.6**
Prima facie tax expense (at 30%)	77.9	55.4
Permanent differences		
Non-taxable income and profits, net of non-deductible expenditure	3.9	8.8
Other deductible items	-0.9	-0.5
Tax losses recognised	-5.7	
Change in tax rate	0.8	
Foreign tax rate differential	0.9	
Other	3.8	3.3
(Over)/under provisions in previous years	-0.7	-2.0
Total income tax expense	**80.0**	**65.0**
Effective tax rate	**31%**	**35%**
Temporary differences		
Increase/(decrease) in deferred tax assets		
Tax losses	-22.0	
Net expenses deductible for tax and expensed in prior years (eg. provisions)	-18.7	-5.4
Inventory	-14.1	-10.9
Expenses not deductible for tax in current year (eg. accruals)	6.6	
Other	3.9	-1.4
(Increase)/decrease in deferred tax liabilities		
Foreign exchange gains/losses where tax and accounting treatment differ	-2.9	-2.6
Difference in book and tax values of depreciable assets	-6.8	-6.5
Accounting treatment for valuing grapes on the vine	13.3	
Other	-1.0	
Other adjustments affecting income tax payable		
Franking deficit tax offset (brought forward from prior year)	-13.2	-13.2
Other	4.1	-0.6
Tax payments	-10.8	-9.5
Income tax payable	**18.4**	**14.8**
Tax payments	10.8	9.5
Income tax payable as at 30 June 2016	18.4	14.8
Income tax paid or to be paid at 30 June 2016 in respect of the 2016 year[2]	**29.2**	**24.3**

[1] The Australian accounting profit before tax figure includes a dividend from overseas wholly owned subsidiary which is non-assessable for Australian tax purposes. This dividend is not included in the Group accounting before tax figure as it is eliminated as an intercompany transaction at the Group level.

[2] The income tax paid and payable in respect of the 2016 year is primarily Australian income tax. The main reasons for the difference between the tax expense and the tax paid and payable for the Australian tax consolidated group is:

(i) Tax offsets which reduce income tax payable

(ii) Expenses that are deductible for tax purposes in the 2016 year but were recognised in a prior year for accounting purposes

(iii) Differences in tax and accounting depreciation rates

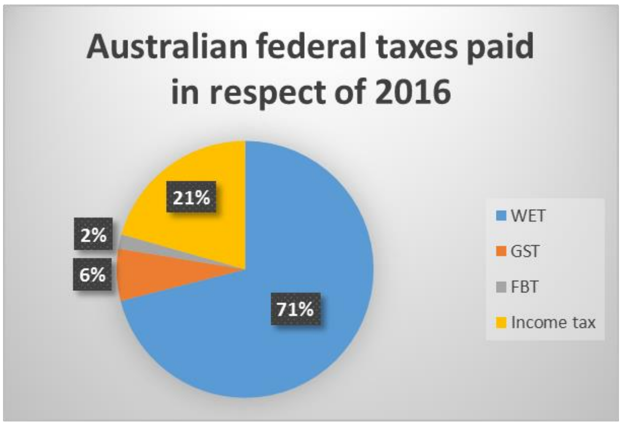
(iv) Differences in the value of inventory for tax and accounting purposes.

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 2016 year to reduce its taxable income.

Australian federal tax contribution

Set out below is a summary of Australian federal taxes paid by TWE to the ATO in regard to its operations in the 2016 year.

	A$m
Corporate income tax	22.1
Wine Equalisation Tax (WET)	76.3
Goods and Services Tax (GST)	7.0
Fringe Benefits Tax (FBT)	1.9
Total	**107.3**



TWE's corporate income tax paid to the ATO in regard to 2016 (of $22.1m) was after the application of $19.6m of tax offsets. The majority of the tax offsets utilised represented prepaid income tax (a franking deficit tax offset) of $15.4m. TWE fully utilised the balance of its franking deficit tax offset in the 2016 year.[1]

TWE has also contributed to Australian state taxes, including payroll tax, land tax and stamp duties in the 2016 year.

[1] As disclosed in TWE's 2014 Annual Report, TWE reset the cost base of all of its assets following its demerger from Foster's in 2011. This project was completed in 2014, and as a result, TWE received A$49.3 million of tax refunds. The receipt of these refunds meant that TWE's franking account went into deficit by A$31.4 million and TWE was required to pay A$31.4 million franking deficit tax in July 2014. The payment of franking deficit tax represents a prepayment of income tax and can be used to offset TWE's future Australian income tax liabilities.

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 2016 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 2016 Annual Report. Specifically, the list of subsidiaries and country of incorporation are disclosed in note 28 to the financial statements.