



ALDI Stores

(A Limited Partnership)

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3rd July 2015

Dr. Kathleen Dermody
Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Dr. Dermody

ALDI Submission to Senate Economics References Committee

We refer to the Senate Economics References Committee's emails to Mr. Thomas Daunt, Chief Executive Officer of ALDI Australasia and Mr. Willi Friderich, Managing Director of Finance & Administration of ALDI Stores (A Limited Partnership) dated 23rd June 2015, which invited ALDI Australia to make a submission to its inquiry into corporate tax avoidance and minimisation.

Background

Overview of ALDI Australia

ALDI Australia Group is wholly owned by Hofer KG, part of the ALDI Süd Group, which is a privately owned discount supermarket chain headquartered in Germany operating in a number of European markets, the USA and Australia.

ALDI entered the Australian market in January 2001 to provide Australian customers with grocery products that are of the highest quality at incredibly low prices. ALDI has established a network of 373 stores along Australia's Eastern seaboard in Queensland, New South Wales, ACT, and Victoria, in both city suburban and regional locations. ALDI Australia currently employs over 9000 Australians in both permanent part time and full time roles.

ALDI will be expanding into South Australia and Western Australia, with plans to open two new distribution centres and stores in these states. This expansion project has an associated investment of over \$700 million which will culminate in as many as 120 new ALDI stores and over 2000 new jobs for these states. ALDI will also be adding additional distribution centres in New South Wales and Queensland in the next few years.

ALDI stands out from its competitors through its low cost, high quality private label offer. By utilising our unique business model, ALDI provides Australian customers with grocery basket savings of 23% to 50% in comparison to our competitors (based on the recent CHOICE survey published 4th June 2015).

ALDI operates as a discount supermarket chain, which delivers substantial cost savings at every level of its business operations, which in turn drives the low in store prices. ALDI's business in Australia is based on some key features including:

- a limited range of high quality private label products, (ALDI stocks an average of 1,350 lines of grocery products compared to 15,000 to 25,000 for a full service supermarket),
- long-term, consistent relationships with our suppliers, allowing for investment into production and innovation,
- a simple and efficient store layout and design including pallet displays,
- multi skilled store staffing levels supported by efficient checkout and scanning operations,
- a smaller store format which contains costs, and
- cost savings in no free plastic bags, customers self-packing and coin trolley return.

Overview of ALDI Australia's Corporate Structure

In Australia, the ALDI business trading entity is ALDI Stores (A Limited Partnership) ("the Partnership") which is a Limited Partnership registered in NSW. This entity conducts the day to day business of the ALDI operations in Australia.

The Partnership is owned and controlled by two partners. ALDI Foods Pty Ltd is the general partner of the Partnership and is responsible for the management and governance of the Partnership's operations. ALDI Pty Limited is the Limited Partner. Both ALDI Foods Pty Limited and ALDI Pty Ltd are wholly owned subsidiaries of Hofer KG, which is a privately owned entity resident in Austria.

The above local entities are the operating entities which form the ALDI Australia Group. These entities elected to form a Multi-Entry tax consolidated group for income tax purposes. Under the tax consolidation regime, the entities within the ALDI Australia Group are treated as a single entity for income tax purposes which lodges a single income tax return and pays tax at the company tax rate of 30% on an annual basis.

Relationship with the ATO

ALDI Australia has consistently maintained a very open and positive working relationship with the Australian Taxation Office (ATO) and is committed to complying with all applicable Australian tax legislation and regulations.

In recognition of this relationship, the risk rating for ALDI under the ATO's risk differentiation framework is Low Risk for both Income Tax and GST. This is the lowest risk rating category under the ATO's framework. This risk rating was most recently reinforced to ALDI by the ATO on 17 October 2014 for GST.

ALDI acknowledges the introduction of tax transparency legislation in Australia including proposed country-by-country reporting ("CBCR") and recognises that public disclosure provides information to support tax policy debate and build public trust in the Australian tax system.

Further, we are aware of the ongoing discussions around the disclosure requirements under tax transparency and will comply with the final agreed outcomes in this area.

ALDI's Tax Profile and Effective Tax Rate

ALDI supports the proposition that all multinational organisations must pay all taxes in accordance with the Australian tax law and is committed to meeting all of its tax obligations under local state and federal laws.

ALDI contributes to the Australian economy through the payment of significant Company Income Tax, Fringe Benefits Tax, Payroll Tax, Land Tax and Stamp Duty and the collection of GST (on behalf of the ATO) and PAYG withholding (on behalf of employees).

Over the 4 year period to 31st December 2013, ALDI's effective tax rate has ranged between 29% and 34%, in comparison to the company tax rate of 30%. This is summarised in the table below which is based on the independently audited financial statements of the ALDI Australia Group:

Year Ended 31st December	2010	2011	2012	2013
Total Revenue ¹	\$3,139m	\$3,523m	\$4,163m	\$4,998m
Accounting Profit Before Tax	\$121m	\$140m	\$232m	\$261m
Income Tax Expense (per audited accounts)	\$35m	\$47m	\$67m	\$83m
Effective Tax Rate (ETR)	29%	34%	29%	32%

¹Based on total income (excluding GST) disclosed in the audited financial statements and the lodged income tax returns for the ALDI Australia Group

ALDI notes that there are differences between what is considered income and expenses per the accounting standards and what is considered assessable income or allowable deductions under the income tax legislation. The effective tax rate based on actual tax paid, which more accurately reflects the effective tax borne by ALDI Australia for the respective period is summarised below:

Year Ended 31st December	2010	2011	2012	2013
Actual Income Tax Paid	\$37m	\$49m	\$70m	\$82m
Actual Tax Paid (ETR) ¹	31%	35%	30%	31%

¹ Quotient of income tax paid and accounting profit before tax.

The actual income tax paid by the ALDI Australia Group over the 4 year period to 31st December 2013 is \$238m which represents an average of \$60m per annum over the same period. This represents an average effective tax rate of 32%, which is above the company tax rate of 30%.

In line with ALDI Australia's statutory obligations the 2014 income tax return is yet to be finalised. Key elements of the 2014 income tax return will be released by the Australian Tax Office in line with the tax transparency legislation.

In addition to the above, ALDI has collected GST of \$677m over the same period on behalf of the ATO and has made significant multi-million dollar payments relating to Fringe Benefits, Land and Payroll Tax and Stamp Duty.

Since commencing operations in Australia, ALDI has also invested \$4 billion in capital expenditure into the Australian economy.

Additionally, 100% of profits have been reinvested back into Australia. As one of Australia's leading retailers with over 9,000 employees, ALDI has a strong obligation to our customers, suppliers and the wider community and takes our corporate responsibilities seriously.

ALDI's Approach to Transfer Pricing

ALDI's international related party transactions are undertaken on an arm's length basis and in accordance with the "OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations" and Australian transfer pricing regulations.

This includes the application of appropriate transfer pricing methodologies based on a detailed analysis of the functions performed, risks assumed and assets employed by all entities that are party to international related party transactions.

The following table sets out the proportionate contribution of international related party transactions to expenses incurred by the ALDI Australia Group:

Year Ended 31st December	2010	2011	2012	2013
Merchandise purchases from international related parties ¹	0.10%	0.17%	0.15%	0.23%
Services received from international related parties ²	0.85%	0.72%	0.94%	1.13%

¹ Calculated as a percentage of total cost of goods sold per the audited financial statements of the ALDI Australia Group

² Calculated as a percentage of total operating expenses per the audited financial statements of the ALDI Australia Group

For the respective period in the table above, ALDI submits that it did not hold any interest-bearing related party debt on its balance sheet nor pay any royalties or licence fees to international related parties.

In summation, as evidenced above, ALDI wishes to make it explicitly clear that it does not engage in the inappropriate pricing of international related party transactions for the purposes of artificially reducing taxable profits in Australia.

ALDI thanks the Senate Economics References Committee for the opportunity to comment on the issues above and trusts that our submission will assist with its inquiry.

Yours sincerely,

Thómas Daunt
Chief Executive Officer
ALDI Australasia