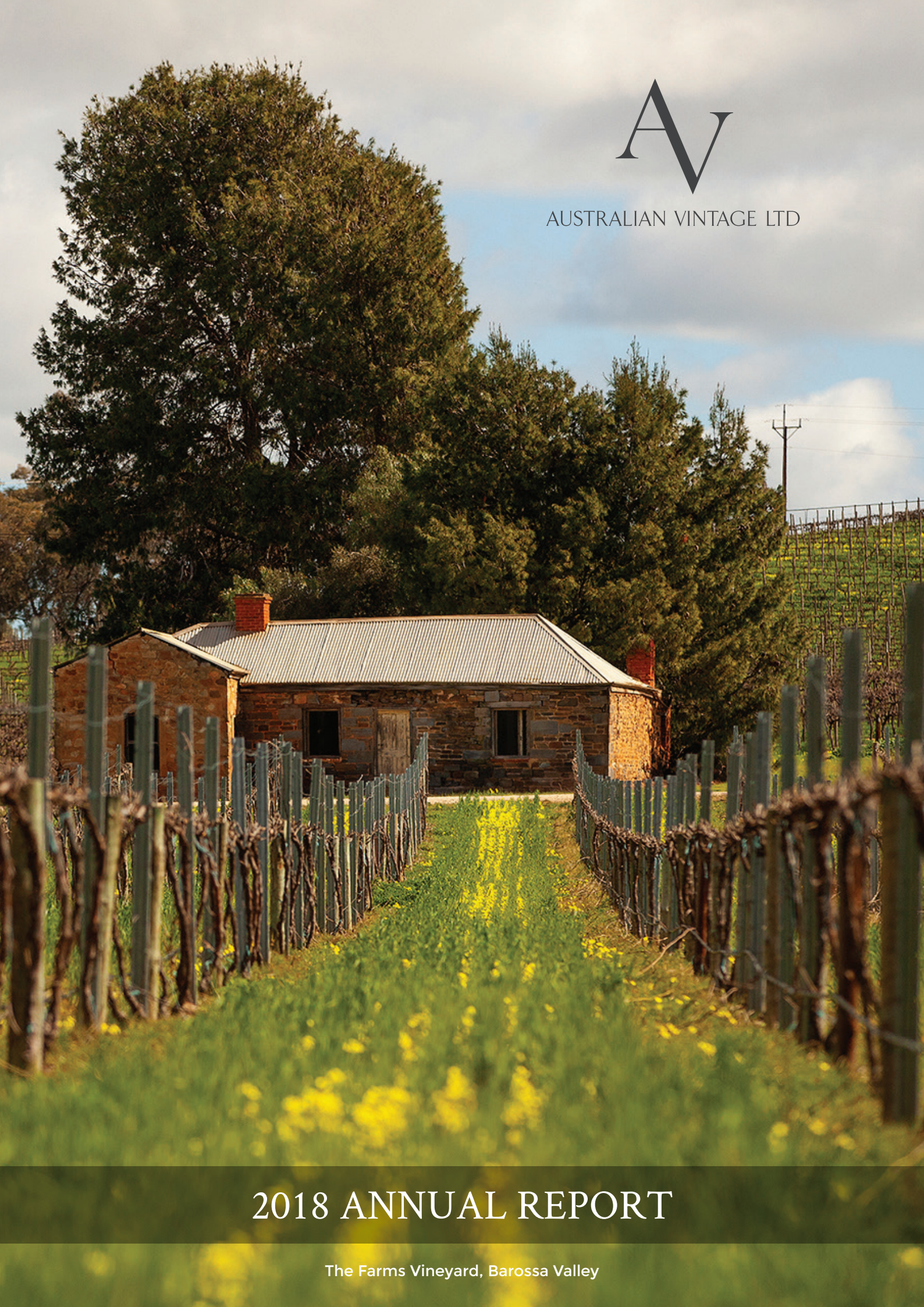




AUSTRALIAN VINTAGE LTD



# 2018 ANNUAL REPORT

The Farms Vineyard, Barossa Valley





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## Australian Vintage Board of Directors



**RICHARD DAVIS**  
Chairman

Chairman of Monash IVF Group Limited and Director (and previously CEO) of InvoCare Limited where he previously spent almost 20 years growing and managing the business. Former accounting partner for a national accounting firm.



**NEIL MCGUIGAN**  
Chief Executive Officer

Neil was previously the General Manager of Production and Wine Supply at Australian Vintage Limited. He was appointed as a Director and as the CEO on 21 July 2010. Neil has over 37 years' experience in the wine industry. He previously worked at the then privately owned Briar Ridge before leaving in 2000 to run Rothbury Estate and its satellites in the Upper Hunter, Cowra and Mudgee for the Foster's Group.



**JOHN DAVIES**  
Non-Executive Director

Fellow of the Institute of Chartered Accountants having worked for 36 years with Ernst & Young. John was elected to Ernst & Young's Asia Pacific Board of Partners for a 6 year period until his retirement in 2011. During his career he provided professional services to many of Australia's leading wine companies and he also owns a commercial vineyard in central Victoria. Chairman of the Audit Committee.



**NASEEMA SPARKS AM**  
Non-Executive Director

Currently Chairperson of Snipp. Non-Executive Director of Arq Group (previously known as Melbourne IT Limited), IncentiaPay and AIG Australia. Former Chairperson of Deals Direct Group with extensive experience in marketing and digital media after a successful career with M&C Saatchi, one of Australia's largest and most successful advertising businesses. Naseema holds post graduate market and research qualifications and an MBA from Melbourne Business School. In 2016 was awarded a Member of the Order of Australia in recognition to significant service to business and commerce and to women through advancing female participation and retention in the workforce. Chairperson of the Remuneration and Nomination Committee.



**PETER PERRIN**  
Non-Executive Director

General Manager of Torbreck Vintners. Trustee of The Wolf Blass Foundation. Peter has spent 35 years in the Australian Wine industry. His experience spans living in the USA in the early 80's launching the first successful push of Australian wines into North America with Lindeman's. He then joined Wolf Blass as the first export manager, travelling the world and establishing international sales offices' for Mildara Blass and Beringer Blass estates over the next 15 years. Peter has sat on many Australian Wine Industry Boards and run a number of successful wine companies.



**JIANG YUAN (DIXON)**  
Non-Executive Director

Founder of [www.yesmywine.com](http://www.yesmywine.com), the largest imported wine platform in the world, based in China. Well known for pioneering data analytics and an innovator in imported wines in China, Dixon has considerable experience in distribution and selling of wine into Asia.



Dear Shareholder

Welcome to the 2018 Annual Report for Australian Vintage Limited (AVL).

In the year ended 30 June 2018, AVL recorded a net profit after tax of \$7.7 million compared to \$4.3 million in the prior period. This improvement of 79% shows that our key long term strategies are correct. Our cash flow from operating activities of \$26.7 million is up \$12.7 million on last year and

is the highest this company has achieved for the last 12 years. In fact, this year's cash flow from operating activities is 5 times the average annual operating cash flow since Brian McGuigan Wines and Simeon merged in 2002.

Our continued focus on our 3 core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales increasing by 14% during the year. In the UK, McGuigan sales grew by 18% and in that market McGuigan is the third largest global brand by volume.

Our decision to continue to focus on the UK market, post the Brexit vote, has been vindicated with UK/Europe sales up 25% and contribution up \$5.4 million. A focus on sales mix and pricing has contributed to the improved performance in this market.

Whilst the UK continues to be our main overseas market, we have a strong focus on growing and strengthening our distribution channels in the key overseas markets of Asia and the United States. In the 12 month period to 30 June 2018, branded sales into Asia have increased by 9% and with a large number of orders in early July 18 we expect this segment of our business to continue to grow. We remain confident that we have the right strategy for sustainable long-term growth in that region. Sales into the North America have increased by 31% with most of this increase coming from Canada. Sales into the United States have been slightly slower than expected and now represent about 7% of the total North America sales but we forecast sales to pick up as we add additional resources into that market.

Over the last 3 years the Australian wine industry has seen a shift from an oversupplied industry to an industry that is basically in balance, perhaps even now in short supply for some red varieties. This is due to the significant increase in export sales which has increased by 127.5 million litres to 851.6 million litres over the last 3 years. At the same time there has been little investment in new vineyards due to competing crops such as almonds, table grapes and citrus.

To protect the Company's existing grape supply and to replace the grapes from a recently expired onerous grape contract, the Company has undertaken the following to secure some 40,000 tonnes of grapes-

- Entered into a long-term lease at commercial rates for a 377ha vineyard located near Mildura. This vineyard is planted to 80% reds;
- Agreed lease extension terms on the existing Balranald and Qualco vineyard leases. The current leases expire in 2021 and 2022 and the new lease extensions are for a further 10 years and are on commercial terms;

In addition, we have secured 300 hectares of vacant land near Mildura for a future vineyard development and planted additional vines in our existing Grand Junction vineyard and our vacant land adjacent to our Buronga Hill Winery. These actions will contribute to the future grape supply required to underpin our sales growth.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a fully franked dividend of 1.5c per share. The board considered a higher dividend but due to the significant amount of capital expenditure planned for the next 12 months it was decided to maintain a similar payout ratio. This dividend will be paid to all eligible shareholders on 9 November 2018 and the Company's Dividend Reinvestment Plan will also be in operation.

## Sales

Revenue for the year increased 17% or \$38.2 million due to the continued growth in our branded products and the sales mix has improved as the company continues to target higher margin sales and remove low margin or no margin sales.

Australasia/North America packaged sales, which covers Australia, New Zealand, Asia and North America were up 3% on last year with all the increase coming from increased branded sales. Cask sales remained flat during the year against a long term trend of declining sales:

- Australian sales were flat during the year, but the mix continues to improve with Tempus Two sales up 38%, Nepenthe sales up 15% and McGuigan sales down 1%. Ensuring price realisation on the McGuigan Black Label range slowed our short-term growth but was essential to ensure long term viability and profit of this range.
- Sales to New Zealand have recovered from the previous year's decline and were up this year by 7%. The McGuigan brand continues to perform well.
- Sales to Asia have grown by 9%. Against an industry background that is dominated by one major wine company and the growth of bulk wine into Asia, the result is in line with Company expectation.
- North America sales have grown by 31% due mainly to a significant increase in sales to Canada of the McGuigan brand. Sales to our key Canadian distributor increased by 48% and we recently extended this distribution agreement for a further 10 years. In the United States, sales to our distributor, Palm Bay, increased by 112% from a low base.

UK/Europe packaged, and bulk sales were up by 25% on last year with packaged sales up 27% or \$23.2 million and low margin bulk and private label sales down 60% or \$0.8 million.

The McGuigan brand has grown 18% due mainly to the successful introduction of the McGuigan Black Label brand to UK supermarkets and the increased sales footprint in all channels.

## EBIT

Earnings before interest and tax (EBIT) is \$16.2 million compared to \$11.3 million in the prior period:

- Australasia/North America packaged segment EBIT is up \$1.3 million due to the improved mix of our sales as a result of the Company's focus on higher margin products such as Tempus Two and Nepenthe;
- The UK/Europe segment EBIT improved by a significant \$5.4 million due to increased sales, improved mix and some price increases that were put in place late in the prior period. The favourable movement in the GBP contributed \$1.6 million to this improved result.
- Australasia/North America Bulk segment EBIT increased by \$0.6 million due to increased concentrate sales from the Austflavour business marginally offset by loss making bulk wine sales that were contracted in previous years.
- Vineyard segment EBIT decreased by \$2.4 million due to a 11% reduction in yields from owned and leased vineyards. This reduction in yield is in line with the industry average for the 2018 vintage.

## Financial Position

The cash flow from operating activities was \$26.7 million, \$12.7 million above the prior period. During the year the company spent \$19.5 million on capital projects that included a new bottling line at the Merbein Packaging facility and significant capital at our Buronga Hill Winery.

Even allowing for the significant capital spend, the Company's net debt position declined by \$5.6 million to \$77.2 million and the gearing ratio is at a comfortable 26% (29% as at 30 June 2017). The existing banking facility remains in place until September 2020.

## Outlook

The Company continues to focus on its 3 key strategies -

- Grow export business
- Increase branded sales
- Focus on cost control

These strategies, together with a focus on growing our three key brands, McGuigan, Tempus Two and Nepenthe, have significantly contributed to our growth in profit and cash flow this year.

One of the most pleasing aspects of our business is the cash flow from operating activities which improved by \$12.7 million in the last 12 months to June 2018. This clearly shows that our strategies are working.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 12% and our higher priced brand, Tempus Two, increasing by 46%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

With the improved cash flow from operating activities we will, in the short term, continue investing in the Company to improve efficiencies, secure our future grape supply at market prices or better, and improve our already high quality of wine.

In 2018 the Company has spent \$19.5m on capital projects covering winery and packaging equipment. In the next 12 months we expect our total capital spend to be similar at around \$19.0 million. This capital will be spent on a major development at our Buronga Hill Winery, which includes a super-premium winemaking facility, and the ongoing development of additional vineyards. Whilst the benefits of these major capital projects will take some time to flow through to our result, they will add value to this Company.

Australian Vintage has transformed over the last 11 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue as we push into the Asian and US markets and grow our existing established markets.

Critical to our future success is the Company's ability to attract and retain key personnel in an increasing competitive market. As foreshadowed at last year's AGM, the board has reviewed the existing short term and long term incentive schemes and found that, overall the existing Short Term Incentive (STI) has demonstrated a strong alignment between performance and incentive outcomes. The Long Term Incentive (LTI), on the other hand, has not worked well. As a result of this review we are proposing a revised Employee Incentive Plan (EIP). This new EIP will combine the present STI and LTI into a single incentive plan with hurdles that the Company believes provide better correlation to performance and shareholder outcomes and is more tangible for the executives. This new EIP will have a cash component and a long-term component made up of Company shares.

On behalf of the Board and shareholders I would like to thank Neil McGuigan, his management team and all the staff of Australian Vintage who continue to overcome the challenges with innovation, commitment and enthusiasm.

Finally, I would like to thank our shareholders, for your ongoing investment, support and belief in this Company.



**RICHARD DAVIS**  
Chairman





Dear fellow shareholders,

Financial year 2018 has been a year of consolidation for AVL with solid branded sales growth in the mature markets of Australia and the UK, with our brands also gaining traction in Asia and North America.

The star performer has been the UK/EU sales division with sales up 25%. The McGuigan brand has been the key to our increased sales and is now the No. 3 global wine brand

in the UK. Sales have grown in the major supermarkets and also in the independent channel, where the McGuigan brand has moved from the 21st to the 12th largest global brand in this sector.

Growing the distribution of McGuigan Black Label has contributed significantly to our increased branded sales success but at the same time we have also established Tempus Two, where we have seen good growth from this higher-priced brand through the premium retailer Waitrose. The exchange rate has been relatively stable which has provided a solid result for the UK division.

The UK has been an important market for our brands this year and we are confident that strong sales growth will continue into the foreseeable future.

The domestic result has also been pleasing considering the strong stance AVL took with the pricing on McGuigan Black Label last year. In FY18 management decreased promotional support on Black Label to protect the long-term health of AVL's most important range. The outcome of this strategic decision has now seen price realisation in the market place and resulted in closer relationships with all our retail partners. The continued growth of Tempus Two (up 38%) and Nepenthe (up 15%) has contributed to driving improved margin in the Australian market.

North America is growing, and this year's launch of McGuigan into the USA has been positively received by the wine media with sales meeting budgets. The USA will be a long game, but returning to one of Australia's traditional markets is gratifying.

Our Asian result has seen an increase in revenue by 9% over last year. China sales are on budget but below management's expectations as they are not growing at the same rate as the Australian market in general. China is an immature market and the traditional "selling triangle" has not yet emerged and at present it is more like an "hour glass", where consumers are looking for either prestige products at a high price or very cheap wine. AVL brands sit in the middle and, at present, the competition in this area is high. We believe that our strategy is sound and our distributor partners, especially COFCO, remain committed to our approach that ensures price stability across the whole country.

This year, we have invested further in our people, upweighting the resource we have in our dedicated Asian team. We have also established a clear range architecture for our portfolios, creating solid grounds for future growth.

The year has also seen the largest capital expenditure that the company has ever embarked on. Capital investment has been spent in the following areas

### 1. At Merbein Winery

- \* A new state of the art bottling line with capacity for sparkling wine
- \* A Solar farm which can deliver 10% of the site's electricity requirements.

### 2. At Buronga Hill Winery

- \* Extension of the solar farm that will supply 35% of the power required for the site.
- \* Installation of two dry cake discharge centrifuges and a wide bore cross flow filtration system.
- \* Installation of a second electronic dialysis unit.
- \* Installation of an air-conditioned barrel store to house all of AVL's South Australian Super Premiums Wines.

### 3. In the Vineyards

- \* Replanting / Planting of 9.4 ha of our Barossa Valley Farms vineyard.
- \* Planting of 20 ha at the Buronga Hill Winery.
- \* Extending the Grande Junction Vineyard by 24 ha.
- \* Replanting and Grafting 13 ha at our Coldridge Vineyard.

By ramping-up our capital expenditure we have driven further operational efficiencies while prioritising sustainable practices at our wineries as well as providing more company-owned fruit for the future.

Senior management has also further driven the safety agenda across all divisions of the business to ensure AVL continues to uphold the highest standards. Our safety culture remains paramount to the business' day to day operations, protecting our people and raising the bar in terms of industry expectations. The company's previously articulated strategies remain in place. Our focus is:

- Growing and strengthening our distribution channels in the China/Asia region, UK and North America.
- Building branded sales and profitability both domestically and internationally. This includes creating appropriate new products for developing and emerging markets.
- Reviewing and reducing our cost base.



The next few years show robust sales with marketing and advertising campaigns to continue to drive the branded business. This is the correct strategy and now that our brands have greater distribution points there will be more above the line advertising to increase our brands' awareness and sales.

### McGuigan Awards

In 2017 McGuigan received a total of 595 trophies and medals, including 22 Trophies; 159 Golds and 184 Silver medals.

#### Highlights include:

- McGuigan Wines is the first winery in the world to have been crowned International Winemaker of the Year four times by the prestigious International Wine & Spirits Competition in London, having achieved the feat in 2009, 2011 and 2012, and again in 2016.
- Australian Winery of the Year, 2017 and 2018 New York International Wine Competition.
- Decanter Wine Awards: Best Semillon in Show – McGuigan Vineyard Selection Semillon 2005.
- International Wine & Spirits Competition: Semillon Trophy – McGuigan Bin 9000 Semillon 2006. The Jancis Robinson Trophy for Riesling – McGuigan Shortlist Riesling 2010.
- International Wine Challenge: Australian White Trophy - McGuigan Personal Reserve Hunter Valley Chardonnay 2015.

### Tempus Two Awards

In 2017 Tempus Two received a total of 260 trophies and medals, including 4 Trophies; 39 Golds; and 83 Silver medals.

#### Highlights include:

- Riverina Wine Show: Best Chardonnay of Show Trophy – Tempus Two Pewter Series Chardonnay Poppy's Block 2016.
- Riverina Wine Show: Best Semillon of Show Trophy – Tempus Two Pewter Series Semillon 2014.
- Melbourne International Wine Competition: New South Wales Shiraz Winery of the Year Trophy.

### Nepenthe Awards

In 2017 Nepenthe received a total of 283 trophies and medals, including 3 Trophies; 36 Golds; and 81 Silver medals.

#### Highlights include:

- Hong Kong IWSC: Best Sauvignon Blanc Trophy - Nepenthe Petraea Sauvignon Blanc 2016.
- Decanter World Wine Awards: Gold Altitude Shiraz 2015
- Finger Lakes International Wine Show: Gold Nepenthe Pinnacle Ithaca Chardonnay 2015. Gold Luminary Sauvignon Blanc 2016.

- Sydney Royal Wine Show: Best Other White Varietal Trophy - Nepenthe Winemaker Select Gruner Veltliner 2016.
- New York International Wine Competition: Double Gold Nepenthe Winemaker Select Gruner Veltliner 2016. Gold Nepenthe Altitude Shiraz 2015. Gold Nepenthe Pinnacle Good Doctor Pinot Noir 2015.

We are committed to continuing to inspire and delight our consumers the world over, as highlighted by our promotional programmes that are carried out across our key markets.

### McGuigan Wines

McGuigan continued to focus on growing brand saliency by driving brand awareness through the *'Bring a McGuigan'* advertising campaign in Australia and the UK. The campaign delivered the required 'cut through' to move the McGuigan brand awareness from 50% to 52% in Australia, and from 30% to 33% in the UK.

### Tempus Two

Tempus Two has continued to build on its positioning of *'elegance with attitude'* through high-profile brand partnerships and sponsorships, namely Mercedes Benz Fashion Week; Portsea Polo and the Victorian Polo Season and the National Institute of Dramatic Arts.

The brand can now be found in the USA and in the UK through premium retailer Waitrose, and in China through our national distributor Vintage China.

### Nepenthe Wines

Small batch boutique winery Nepenthe continued to hold true to the mantra that *Nepenthe is the Adelaide Hills* continuing to fly the flag for the region with several high-profile wine show trophies and wine writer reviews. The brand continued to build distribution across the domestic market, and recently re-entered the UK market. After years of planning, the launch of the super-premium Nepenthe Apex range was held to acclaim in early August as Nepenthe continued to thrive under the stewardship of chief winemaker James Evers.

Finally, your management team is very pleased with the FY18 results but at the same time we fully understand that we are not delivering the return on capital employed that the market demands. However, the evolution of AVL from a bulk wine producer to a well-respected branded wine company continues. With diligence, innovation and a continued focus on wine quality I am very confident that the medium to long term results will be well received and celebrated.



**NEIL MCGUIGAN**  
Chief Executive Officer

Australian Vintage is a leading Australian wine company. With a fully integrated wine business model, the breadth of our capabilities extends to vineyards, boutique and large volume wine production, packaging, marketing and distribution.

With significant vineyard holdings and leases across South-Eastern Australia, we pride ourselves on producing outstanding and innovative wines for wine lovers the world over. This is reflected in our commitment to quality grape and wine production, the strength of our dynamic and award-winning wine brands, and the passion of the people behind them.

Today Australian Vintage is at the forefront of the Australian wine industry with our vineyards and grape supply capacity extending throughout some of Australia's most captivating and diverse wine regions including the Hunter and Barossa Valleys; the Murray-Darling, Langhorne Creek and Limestone Coast regions; as well as the Adelaide Hills and Eden Valley.

Our dynamic and award-winning wine brands are recognised and enjoyed across the globe. Over the past twelve months we continued our international awards success at the world's most prestigious wine competitions, with our wines consistently winning trophies, 'best in class' and 'best in show' accolades. Over the course of the year McGuigan received a total of 595 trophies and medals, including 22 Trophies; 159 Gold; and 184 Silver medals.

Key highlights included McGuigan being named Australian Winery of the Year in both 2017 and 2018 at the New York International Wine Competition, winning the Semillon Trophy and Riesling Trophy at International Wine & Spirits Competition and the Australian White Trophy at the International Wine Challenge. Further success was enjoyed at the National Cool Climate Wine Show where McGuigan was awarded the Champion Wine of Show Trophy whilst the Rutherglen Wine Show saw the brand pick up the Best Dry White Wine of Show Trophy.

Tempus Two continued to enjoy stand out success on the domestic and international show circuits, receiving a total of 260 trophies and medals, including 4 Trophies; 39 Gold and 83 and 39 Silver medals over the past twelve months. One of the highlights was the China Wine & Spirits Awards with the brand winning the Australian Wine of the Year Trophy, which was closely followed with being crowned New South Wales Shiraz Winery of the Year at the Melbourne International Wine Competition. The success continued at the Hong Kong International Wine & Spirits Competition with Tempus Two awarded the Semillon Trophy, whilst the Riverina Wine Show saw the brand take home the Chardonnay trophy and the Semillon Trophy.

Small batch boutique winery Nepenthe continued to shine in 2017, being awarded a total of 283 trophies and medals, including 3 Trophies; 36 Gold; and 81 Silver medals. Highlights included the Sauvignon Blanc Trophy at the Hong Kong International Wine & Spirits Competition, the Best Other White Trophy at the Sydney Royal Wine Show and the Pinot Grigio Trophy at the Adelaide Hills Wine Show.

Our core branded portfolio has continued to outperform the market both domestically and in key export countries. Quality, consistency and value – along with ongoing and sustained international awards – have resulted in our brands enjoying excellent growth globally.

## Wine brands

### McGuigan Wines

The McGuigan name is synonymous with Australian winemaking. Four generations of the McGuigan family have made wine their life demonstrating a deep commitment and passion for Australian wine. This energy, drive and uncompromising dedication to craft the finest Australian wines is reflected in our international success, having been crowned International Winemaker of the Year at the prestigious International Wine & Spirits Competition (IWSC) in London a record four times, becoming the only winery worldwide to have done so.

A global brand available throughout the world, our winemaking philosophy and Hunter Valley heritage keeps us grounded. Quality, consistency and value are at the core of everything we do, yet we are progressive, continuing to innovate and operate as the consumer's champion and their accessible guide to wine. It's this point of difference that drives us to always make the best possible wine at the best possible price, constantly exceeding customer expectations by over-delivering on quality on every occasion.

### Tempus Two

Tempus Two's roots are firmly planted in one of Australia's oldest wine regions, the Hunter Valley. Our award winning, architecturally designed Cellar Door is set among the rolling green vineyards of Pokolbin, in the heart of the Hunter Valley, and embodies the true spirit of Tempus Two; wines that look as good as they taste.

Tempus Two is synonymous with style, and it is reflected in everything we do. Our labels and bottles – whilst different and non-conventional - are the epitome of style. Our wines are developed with passion and sophistication and are a testament to our contemporary and distinctive look and feel. The company we keep reflects this – we're aligned with like-minded fashionable brands including Mercedes Benz Fashion Week and the Portsea Polo season.

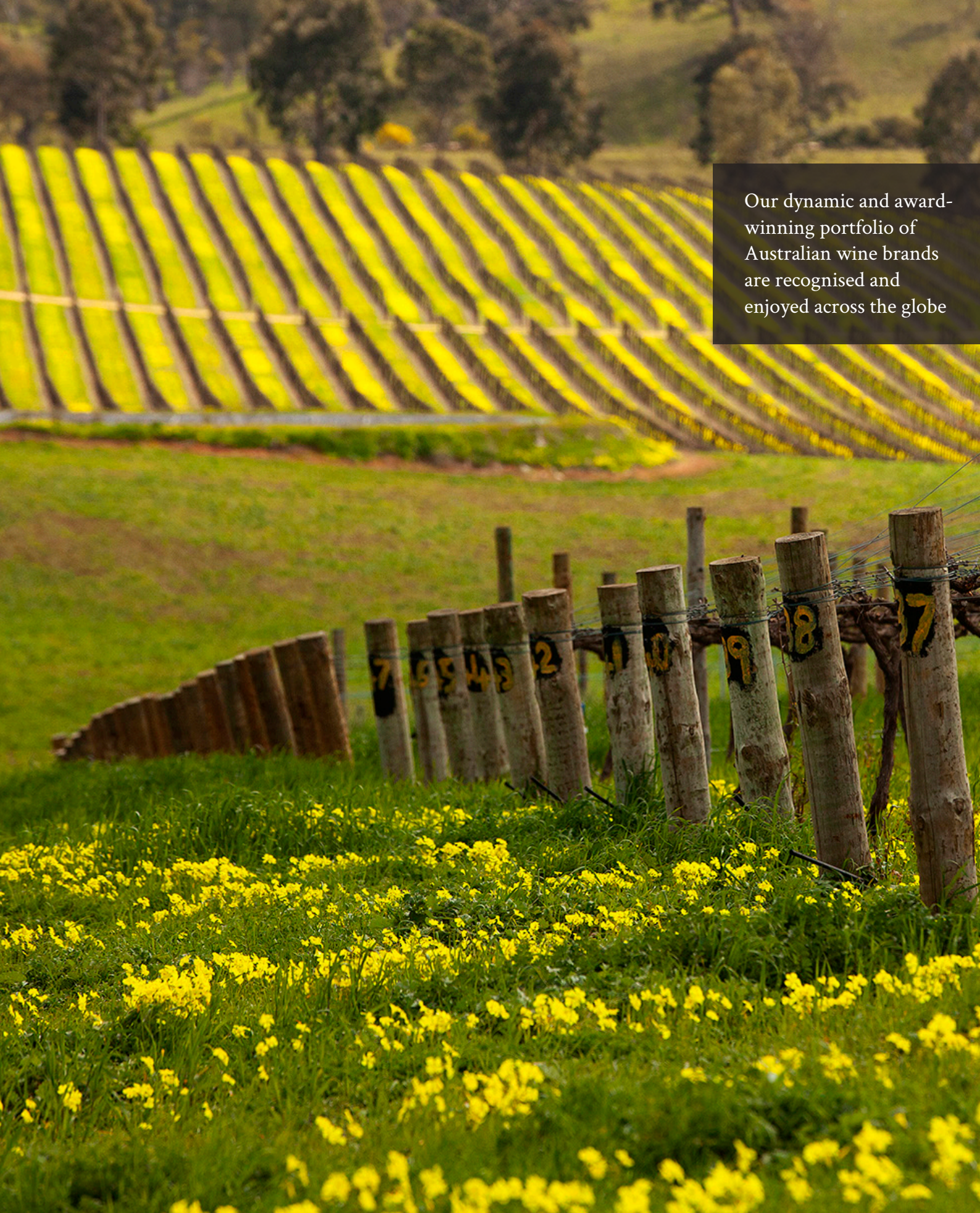
*Tempus Two is elegance with attitude.*

### Nepenthe

Nepenthe is situated in the cool climate, high altitude and picturesque Adelaide Hills region in South Australia. Our hand-crafted, premium and award-winning cult wines are built on the strength of varietal faithfulness and subtle regional nuances. Passionate winemaking, innovative grape varieties and careful vineyard management ensure that Nepenthe's exciting and elegant range of wines are the benchmark for the region.

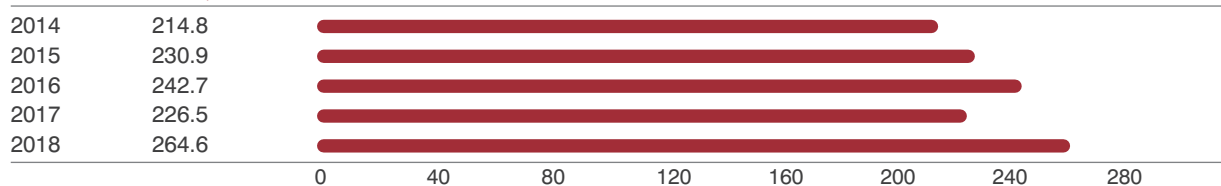
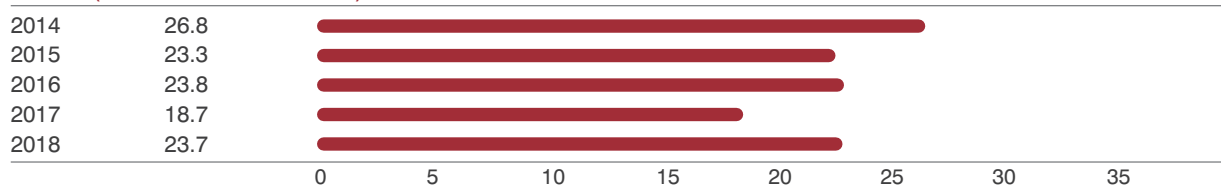
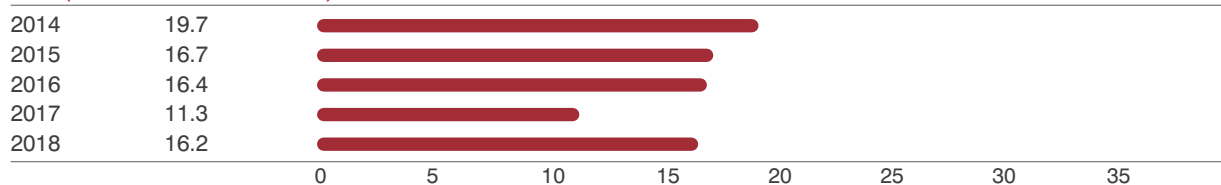
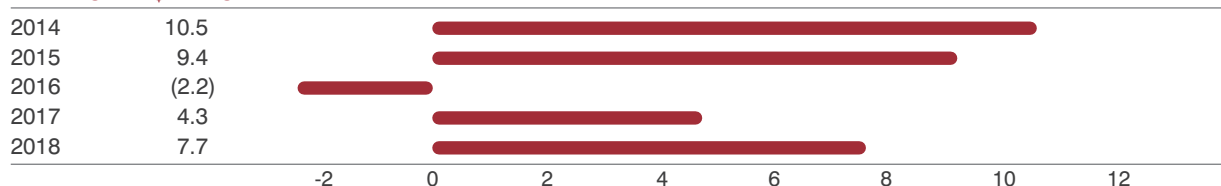
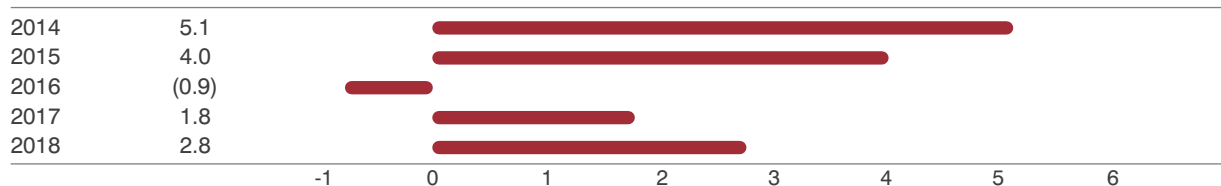
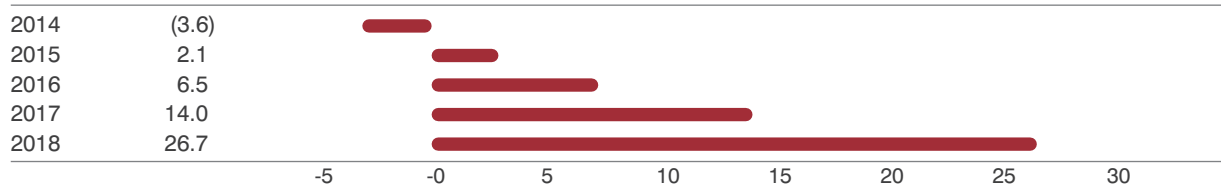
**Our mantra is simple - *Nepenthe is the Adelaide Hills.***





Our dynamic and award-winning portfolio of Australian wine brands are recognised and enjoyed across the globe



**TOTAL REVENUE - \$MILLION****EBITDA (BEFORE ONE OFF ITEMS) - \$MILLION****EBIT (BEFORE ONE OFF ITEMS) - \$MILLION****NET PROFIT - \$MILLION****EARNINGS PER SHARE - CENTS****CASH FLOW FROM OPERATING ACTIVITIES - \$MILLION**



The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices of the Company which the directors, management and employees of the Company are required to follow.

Following a full review of its corporate governance systems and policies, the Company's corporate governance practices have, in the opinion of the Board, complied with the third edition of the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council, for the period ended 30 June 2018.

Each of the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council ("ASX Principles") are referred to consecutively below and the information provided under each Principle is done so in accordance with recommendations made by the ASX Corporate Governance Council.

## Introduction

Corporate Governance is the system or process by which a company is directed or controlled. It is concerned with the manner in which the Directors ensure that an organisation's systems and processes are properly controlled and functioning effectively and that management is complying with the policies and directives of the Board. Corporate Governance structures provide a controlled process for risks taken by a company to be subjected to accountability and control systems commensurate with the risks involved.

### *ASX Principle 1: Lay Solid Foundations for Management and Oversight*

#### **Recommendation 1.1 - Roles and Responsibilities of the Board of Directors and Management**

Board information contained in this Corporate Governance Statement and the Board Charter can be found at [www.australianvintage.com.au](http://www.australianvintage.com.au).

Responsibility for the overall direction and management of the Company, the Company's corporate governance and the internal workings, including establishing goals for management and monitoring the attainment of these goals, of the Company will rest with its board of directors ("Board").

The primary responsibilities of the Board include:

- the review and approval of the long-term goals of the Company and strategic plans to achieve those goals as developed by management;
- ensuring that the Company has implemented adequate systems of internal controls and codes of conduct together with appropriate monitoring of compliance activities;
- provision of strategic guidance for the Company and oversight of management of the Company including ensuring that systems are in place to facilitate the effective management of the principal risks of the Company;
- appointing and overseeing the Chief Executive Officer and ratifying the appointments of the Chief Financial Officer and the Company Secretary;
- the review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a monthly basis; and
- establishment of proper succession plans for management of the Company.

The Company's management has authority to implement all other aspects of the management of the Company which are not reserved to the Board or Board committees (including the implementation of Board strategies). The management of the Company is conducted by the Chief Executive Officer. The Chief Executive Officer is accountable to the Board for all authority delegated to executive management. The roles of Chairman and Chief Executive Officer are separate. A further detailed list of Board responsibilities can be found in the Board Charter available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

#### **Recommendation 1.2 - Checks and Information**

In relation to appointing a new person, or putting forward to shareholders a candidate for election, as a director the Company will verify via appropriate independent checks that any new proposed director is capable of holding a position as a director and is a fit and proper person for that purpose as per the requirements of the Corporations Act and other relevant legislative requirements.

In addition, the Company will continue to provide shareholders with all material information in its possession relevant to a decision whether or not to elect or re-elect a director.

#### **Recommendation 1.3 - Written Agreements**

The Company has written agreements in place with each Director and Senior Executive setting out the terms of their appointment.

### Recommendation 1.4 - Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

### Recommendation 1.5 - Workplace Diversity

At Australian Vintage we recognise that an inclusive culture which embraces diversity is integral to our continuing success. The Company is committed to supporting a diverse workplace and has implemented a group-wide Diversity Policy. The details of the Policy are available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

In accordance with its Diversity Policy, the Board has adopted measurable objectives for achieving gender diversity. All levels of management are required under the Company's Diversity Policy to monitor and report annually to the Remuneration and Nomination Committee of the Board on the progress and effectiveness of these objectives.

In relation to the constitution of the Board, the Company has a number of initiatives in place to meet its strategic imperative of ensuring the Company has a diverse Board and to achieve its measurable objective regarding Board diversity.

These include:

- ensuring a diverse range of qualified candidates is considered for Board appointments;
- evolving a Board skills matrix and using the matrix to identify any gaps in the experience, skills and background, including gender and diversity generally, of Directors on the Board;
- participating in programs to assist in the development of a broader pool of skilled and experienced Board candidates;
- including diversity as a regular agenda item for Committee meetings; and
- reporting on the use of professional intermediaries (such as external search firms) to identify and assess qualified candidates.

The Board will continue to review its structure and membership to ensure that it meets operational requirements and will endeavour to continue to maintain Board diversity in the future.

Similar initiatives are in place to meet the objective of a diverse management team.

The objectives for diversity for FY18, along with outcomes achieved are as follows:

Workplace Diversity Objective FY18	Workplace Diversity Outcomes FY18
<b>Strategy</b> <ul style="list-style-type: none"> <li>• Continue to drive and bring to life the gender objectives and strategies outlined in the Company's Diversity Policy.</li> <li>• Communicate the Company's diversity agenda to the business and actively promote its benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has published its Diversity policy; and along with other key employee communications supports and advocates for diversity and other workplace initiatives throughout the year</li> </ul>
<b>Stakeholder Management</b> <ul style="list-style-type: none"> <li>• Actively promote the Company's diversity agenda in day to day activities with management to achieve buy in and to integrate into the Company's culture.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved workplace flexibility with increased job share and part-time arrangements.</li> </ul>
<b>Gender Composition</b> <ul style="list-style-type: none"> <li>• Maintain female representation of 20% on the Board.</li> <li>• Maintain female representation in management roles in line with national benchmarks.</li> </ul>	<ul style="list-style-type: none"> <li>• Female representation accounts for 16.67% of the Board, 20% of Non-Executive directors and 25% of Independent Non-Executive directors.</li> <li>• Female representation on the Company's Leadership Team temporarily reduced to 11.11% during the financial year as a result of employee turnover.</li> </ul>



Workplace Diversity Objective FY17	Workplace Diversity Outcomes FY17
<b>Talent Pipeline</b> <ul style="list-style-type: none"> <li>• Ensure that the Company's recruitment and selection procedure reflects candidate and interview panel diversity along with equal gender candidate split where possible.</li> <li>• Analyse talent matrix to identify female talent for mentoring/succession planning.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company's recruitment and selection processes resulted in 44.73% of all permanent appointments within FY18 being female.</li> <li>• The Company's succession planning was undertaken at senior management level in FY18, with 20% of potential successors identified being female. The company is targeting an equitable ratio for succession by FY22.</li> </ul>
<b>Benefits</b> <ul style="list-style-type: none"> <li>• Promote the Company's parental leave procedures and flexible work arrangements policy to retain talent.</li> </ul>	<ul style="list-style-type: none"> <li>• 8 employees enjoyed the benefits of parental leave during FY18 with a 50% return to work rate in either a full time or part time capacity.</li> </ul>

The Company's FY19 gender composition target for the Board is set at maintaining female representation at 25% of Independent Non-Executive directors. All other objectives, as stated above, remain in place for FY19 and the Company commits to continuing progress with respect to workplace diversity.

The following tables show the proportional representation of men and women at various levels within the Company's workforce as at 30 June 2018.

#### Workforce Gender Profile

ALL STAFF		TOTAL FEMALES	TOTAL MALES	% OF FEMALES	% OF MALES
Total Employees	427	142	285	33.26	66.74
Non-Executive Directors	5	1	4	20.00	80.00
Senior Executives*	9	1	8	11.11	88.89
Other (Non Production) (inc UK / HK)**	173	83	90	47.98	52.02
Other (Production)	254	59	195	23.23	76.77

\* Senior Executive has been defined as a member of the Company's Leadership Team including the CEO.

\*\* Includes the Senior Executives.

#### Recommendations 1.6 and 1.7 - Board and Executive Performance Evaluation

The Board undertakes a peer assessment review of the performance of the Chief Executive Officer each year. Numerous performance indicators have been developed to assist in the assessment.

The Board also conducts an annual review of Board performance in accordance with the Company's Board Performance Measurement policy, which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

The Chief Executive Officer reviews performance of key executives continuously on an informal basis (by assessing achievements against budgets and other goals and key performance indicators) and at least once in each year on a formal basis with a face-to-face performance review.

All of these reviews have been conducted in relation to FY18 in accordance with the relevant processes.

*ASX Principle 2: Structure the Board to Add Value***Recommendation 2.1 - Remuneration and Nomination Committee**

The Company's aim in determining Board membership is to create a balanced and informed Board to assist the Company in making decisions relating to all corporate matters.

New Directors are nominated by existing Board Members through the delegated functions of the Remuneration and Nomination Committee. For independent non-executive directors, nomination follows a search process undertaken by an independent service provider to identify suitably qualified candidates. New Directors are invited to become members of the Board on the basis of a majority vote of Directors. Consideration is given to Director's experience and qualifications with a view to ensuring effectiveness and an appropriate balance of skills.

Details of membership of the Remuneration and Nomination Committee and its function are provided below under the heading "ASX Principle 8: Remunerate Responsibly and Fairly".

**Recommendation 2.2 - Mix of Skills**

Members of the Board have been brought together to provide a blend of qualifications, skills and experience required for managing a company operating in the wine industry. The skills of each Director are detailed in the matrix below. The experience, expertise and period in office of each Director are detailed in the Director's Report included in this Annual Report.

BOARD SKILLS MATRIX					
	BUSINESS MANAGEMENT	INDUSTRY	ACCOUNTING / FINANCE	MARKETING / DIGITAL	INTERNATIONAL BUSINESS
Richard Davis	x		x		x
Naseema Sparks	x			x	
John Davies	x	x	x		
Neil McGuigan	x	x			x
Peter Perrin	x	x		x	x
Jiang Yuan	x	x		x	x

**Recommendations 2.3, 2.4 and 2.5 - Independent Directors**

The Board is to comprise a majority of Non-Executive Directors where the Chairman of the Board is also a Non-Executive, independent Director and hence not the Chief Executive Officer (Managing Director). With the exception of the Chairman all Non-Executive Directors are appointed on the same terms and conditions. No Director, other than the Chief Executive Officer (Managing Director), shall hold office for any longer than three years without submitting themselves for re-election.

The Board currently consists of:

Richard Davis	Chairman	Independent, non-executive
Neil McGuigan	Chief Executive Officer	Non-Independent, executive
Naseema Sparks		Independent, non-executive
John Davies		Independent, non-executive
Peter Perrin		Independent, non-executive
Jiang Yuan		Non-Independent, non-executive

The terms of office held by each Director are detailed in the Director's Report included in this Annual Report.

The Board has adopted the definition of independence set out in the ASX Principles.



There are several tests that are applied in determining the independence of each Director. An Independent Director must:

- not be a substantial shareholder of the Company (or be associated with a substantial shareholder of the Company);
- not have been employed in an executive capacity within the Company (or a member of the Company's group) and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- not have acted as a material professional adviser or consultant, or a material supplier, customer or contractor to the Company within the last three years;
- not have a material contractual relationship with the Company (other than his or her relationship as Director of the Company). A material contractual relationship between the Company and another entity that a Director is associated with or employed by is based by the Company on a 5% materiality level;
- be free from any interest or business which could be perceived as having a material effect on the Company, or the best interests of the Company. The Company entered into an arrangement with Neil McGuigan at the time he was appointed Chief Executive Officer which allows him to sell wine under the 'Neil McGuigan' label through direct marketing channels only subject to certain conditions which include not using the Company's reputation in its brands and awards in promoting the sale of those products. The Company considers this arrangement to be immaterial and does not create a conflict with the best interests of the Company;
- not have close family ties with any person who falls within the categories described above; and
- not have been a director of the Company for such a period that his or her independence may have been compromised.

Having regard to the criteria above, the Board generally considers a Director to be independent if he or she is not a member of management and is free of any interest and any other business relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Each Director's independence is assessed by the Board on an individual basis, having regard to the materiality guidelines detailed above and focussing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to promptly disclose to the Board their interests in contracts, family ties and cross-directorships which may be relevant in considering their independence.

Jiang Yuan was classified as a non-independent director due to his directorship of Vintage China Fund, a substantial shareholder of the Company. All other non-executive Directors were considered to be free of any relationship that could possibly interfere with the Director acting in the best interests of the Company.

## **Recommendation 2.6 - Induction Program**

The Company has established a program for inducting new directors and will continue to provide directors with appropriate professional development opportunities for them to develop and maintain their skills and knowledge needed to perform their role as directors effectively.

## *ASX Principle 3: Promote Ethical and Responsible Decision Making*

### **Recommendation 3.1 - Ethics and Code of Conduct**

The Board and management ensure that the business processes of the Company are at all times conducted according to sound ethical and legal principles. The Board has established a formal Ethics and General Conduct Code. This code is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

The Code has been established to define the practices necessary to maintain confidence in the Company's integrity and comply with the Company's legal obligations and other obligations to legitimate stakeholders. The Code deals with numerous issues including confidentiality, conflicts of interest, compliance with the law, fair dealing, unethical behaviour, corporate fiduciary duties, care and diligence as well as the reporting requirements and action to be taken in the event of failure to comply with the Code.

## *ASX Principle 4: Safeguard Integrity in Financial Reporting*

### **Recommendation 4.1 - Audit Committee**

The Audit Committee consists of three Independent Non-Executive Directors. The current members of the Audit Committee are:

- John Davies (Chairman)
- Richard Davis
- Naseema Sparks

Details of the qualifications of Audit Committee members and their attendance at committee meetings throughout the financial year are detailed in the Directors' Report enclosed in this Annual Report.

The nomination and review of existing audit arrangements is undertaken by the Audit Committee. The Audit Committee addresses issues surrounding the integrity of financial information presented to the Board and shareholders, including the review of external auditor engagements and internal financial reporting policies and controls.

The Audit Committee is responsible for reviewing the consistency of the Company's internal accounting policies on a year-to-year basis as well as compliance with relevant accounting standards and legislation. The Audit Committee is also responsible for reviewing the processes and controls for the identification and management of financial risks.

The Audit Committee also advises the Board and makes recommendations in relation to policy and procedures and application of principles of Corporate Governance. The Committee addresses issues of proper Corporate Governance procedures and practices in order to ensure that the Company maintains the highest integrity and best practice with respect to such matters.

The Audit Committee generally invites the Chief Financial Officer and (on certain occasions) external auditors to attend Audit Committee meetings.

The Audit Committee or its Chairperson meets formally with the Board at least twice a year to discuss the relationship with external auditors, the Company's financial reporting and any other matters of relevance called upon by the Board or the Chairperson of the Audit Committee for discussion.

The Chairperson of the Audit Committee, who is not the Chair of the Board, attends the Annual General Meeting of the Company in order to respond to any questions which may be raised by shareholders in relation to accounting/financial management, information, control or the contents of any financial reports.

The Audit Committee's Terms of Reference and Charter can be viewed at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

#### **Recommendation 4.2 - CEO and CFO Declaration**

The Company has implemented a process where the Chief Financial Officer and Chief Executive Officer declare in writing to the Board, prior to approval of the Company's financial statements for a financial period, that:

- the Company's financial records have been properly maintained;
- the financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- their opinion has been formed on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects.

#### **Recommendation 4.3 - External Auditor at AGM**

The Company's external auditor attends the Annual General Meeting of the Company and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the Audit Report.

#### **ASX Principle 5: Make Timely and Balanced Disclosure**

##### **Recommendation 5.1 - Continuous Disclosure**

The Company has a written policy in place for complying with its continuous disclosure obligations under the Australian Securities Exchange Listing Rules and the Corporations Act, which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

This policy establishes procedures to ensure that the Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. When the Company makes an announcement the announcement is released to the ASX and the Company Secretary is responsible for communications with the ASX. All material information released to the ASX is published on the Company's website at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Company Announcements". This includes ASX announcements, annual reports, notices of meetings, media releases etc. The policy sets out the type of information which requires disclosure as well as the internal policies governing the method and timing of disclosure.



*ASX Principle 6: Respect the Rights of Shareholders***Recommendation 6.1 - Information Available via Website**

The Company, in addition to providing shareholders and the market generally information about the Company through distribution of the Annual Report, the Half Yearly Report, the Chairman's and Chief Executive Officer's addresses to the Annual General Meeting, provides information about the Company and its corporate governance on the Company's website.

All Company Corporate Governance charters, policies and procedures are publicly available. This includes:

- the division of responsibilities between the Board and management is set out in the Board Charter;
- the Company's share trading policy; and
- the Audit Committee, the Risk Committee and Remuneration and Nomination Committee Terms of Reference and Charters.

This corporate governance information can be located on the Australian Vintage Limited website at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

**Recommendation 6.2 - Investor Relations**

The Company has also implemented an Investor Relations Strategy to facilitate effective two-way communication with investors, which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance". Shareholders and other stakeholders are also encouraged to contact the Company directly regarding any enquiries they may have.

**Recommendation 6.3 - Shareholder Meetings**

The Company allows shareholders who are not able to attend the Annual General Meeting the opportunity to ask questions of, or make comments on, the management of the Company ahead of that meeting. Where appropriate such questions are answered at the Annual General Meeting.

The Company does not consider that it is necessary to use technology such as webcasting to facilitate participation of shareholders at its Annual General Meeting taking into consideration its size, the number of shareholders and the location at which the Annual General Meeting is held each year.

**Recommendation 6.4 - Electronic Communications**

The Company provides shareholders with the option to receive communications from, and send communications to, the Company and its share registry (currently Computershare) electronically.

*ASX Principle 7: Recognise and Manage Risk***Recommendation 7.1 - Risk Management**

The Board, through the Risk Committee and Audit Committee, reviews and oversees the Company's risk management systems.

**Risk Committee**

The Risk Committee determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Risk Committee does not have responsibility for strategic (Board responsibility) or financial risk management, which is the focus of the Company's Audit Committee.

The Risk Committee comprises at least three members, with at least two members being independent non-executive directors. The current members of the Risk Committee are:

- Peter Perrin (Chairman)
- Richard Davis
- John Davies

The Risk Committee Charter is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

The attendance of committee members at each committee meeting during the financial year is detailed in the Directors' Report enclosed in this Annual Report.

The Board identifies and discusses areas of significant business risk. The Board ensures, together with management, that processes are in place to manage those risks and reviews those arrangements annually. The Board has reviewed the Group's risk management framework during the year and confirmed that it remains sound.

The Board has delegated to the Audit Committee the responsibility to oversee financial risk and to the Risk Committee all other risks associated with the business.

The Board, committees and management ensure that appropriate insurance programmes for the Company are also in place to provide insurance cover in areas of the business assessed as appropriate for cover having regard to all of the relevant circumstances.

Comprehensive practices are established such that:

- capital expenditure and revenue commitments above a certain size require prior Board approval;
- financial exposures are controlled, including the use of derivatives;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations; and
- business transactions are properly authorised and executed.

All reports to the Board on strategic and operational issues incorporate an assessment by management of the associated risks, which ensures that the Board is in a position to make fully-informed business judgements on these issues. In addition, the committees receive risk management updates which address the material business risks facing the Company and the systems and policies in place to manage those risks.

#### **Recommendation 7.2 - Risk Review**

As part of the Board delegation of the oversight of risk to the committees referred to above, each committee will be required to review the Company's risk management framework (as it applies to the relevant risks) annually to satisfy themselves that it continues to be sound.

These reviews have been conducted in relation to FY18 in accordance with the relevant processes.

#### **Recommendation 7.3 - Internal Audit**

The Company does not have an internal audit function but has implemented the following processes to evaluate and continually improve the effectiveness of its risk management and internal control processes.

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

The Board has instigated the following internal control framework:

- **Risk Manager** – Appointment of a Risk Manager who works closely with management to identify and mitigate risk and review internal control processes as required to ensure effectiveness.
- **Financial reporting** – Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.
- **Continuous disclosure** – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the ASX and post them on the Company's website. The Board and the Company Secretary are responsible for all communications with the ASX.
- **Quality and integrity of personnel** – Formal appraisals are conducted at least annually for all employees.
- **Operating units control** – The Chief Executive Officer and Chief Financial Officer ensure compliance with financial controls and procedures including information systems controls detailed in procedures manuals.
- **Investment appraisal** – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

#### **Recommendation 7.4 - Material Risks**

The Company has material exposure to economic risks, in particular, the movement in the GBP. Further details regarding this impact of these risks and how the Company intends to manage those risks is set out in the Director's Report included in this Annual Report.

Each senior executive, with input and assistance from their direct reports, identifies key risks for their areas of responsibility and function which are in turn aggregated into an overall corporate risk register. Each risk is assessed and assigned an inherent risk rating and risk mitigation strategies are developed by senior executives designed to reduce the inherent risk profile to an acceptable level consistent with the requirements of the Risk Committee and the Board.



The risk register is continuously reviewed and maintained as new risks are identified or incidents occur, or mitigating controls change. Extracts of the risk register are provided to the Risk Committee (or Audit Committee in the case of financial risks), together with specific commentary or information on significant changes to the risks or the ratings.

Specific major risks or incidents are reported, as and when they occur, to the CEO and other key management personnel who are responsible for escalating these to the Risk Committee (or Audit Committee in the case of financial risks) and Board, where necessary, if the event occurs outside the regular cycle of Committee meetings. The Risk or Audit Committee (as the case requires) is informed of the effectiveness of actions to mitigate the impact of risk events. In addition, the Risk Committee considers developments or improvements in risk management and controls, including the adequacy of insurance programmes.

Separate records and registers are maintained for other more common or recurring risks; for example, arising from customer complaints and occupational health and safety issues. These are managed and reported to the Committee by relevant managers.

### *ASX Principle 8: Remunerate Fairly and Responsibly*

#### **Recommendation 8.1 - Remuneration and Nomination Committee**

The Remuneration and Nomination Committee consists of three independent non-executive Directors. The current members of the Remuneration and Nomination Committee are:

- Naseema Sparks (Chairman)
- Richard Davis
- Peter Perrin

The attendance of committee members at each committee meeting during the financial year is detailed in the Directors' Report enclosed in this Annual Report.

The procedure for establishing and reviewing remuneration for senior executives and non-executive members of the Board is undertaken by the Remuneration and Nomination Committee. The shareholders in general meeting approve the aggregate remuneration for non-executive Directors.

Particulars concerning Directors' and Executives' remuneration and the Company's performance rights and option plan are set out in notes to the financial statements and the Remuneration Report.

For further details on the roles and responsibilities of the Remuneration and Nomination Committee see the Committee's Charter and Terms of Reference available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

For more information on the Company's remuneration, see the Remuneration Report within this Annual Report.

#### **Recommendation 8.2 - Policies and Procedures**

The Company has developed a Remuneration Policy which describes the Company's remuneration policies and the rationale behind them. The Remuneration Policy is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

Non executive directors will be paid in cash in line with a resolution passed at the Company's Annual General Meeting dated 25 November 2009. Non executive directors do not receive any performance-based remuneration and are not paid any retirement benefits other than superannuation.

Executives are paid primarily by cash salary (but also, in some cases as to part, with performance rights and options). The Company's Remuneration Policy is reviewed annually by the Remuneration and Nomination Committee.

In determining Executive remuneration, regard is had to the Executive's level of responsibility, skills, experience, reputation, efforts and results and the ability to retain executives having regard to the competitive nature of hiring key staff.

#### **Recommendation 8.3 - Equity Based Remuneration**

The Company issued performance rights and/or options pursuant to the AVG Performance Rights and Option Plan ("Plan") which received approval of shareholders of the company at the Annual General Meetings held on 28 November 2012, 17 November 2015 and 20 November 2017.

The Company's policy is that participants in the Plan are specifically prohibited from hedging the exposure to the Company's share price during the vesting period in respect of their unvested options or performance rights. This prohibition is reflected in the terms of the letter of offer to participate in the Plan.

For further information regarding Executive remuneration through options see the Remuneration Report in this Annual Report at [www.australianvintage.com.au](http://www.australianvintage.com.au).

The shareholder information set out below was applicable at 11th September 2018.

## Shareholders

### Distribution of Shareholders

Analysis of shareholders of fully paid ordinary shares by size of holdings:

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS
1 - 1,000	1,594
1,001 - 5,000	2,290
5,001 - 10,000	686
10,001 - 100,000	909
100,001 Over	165
	<b>5,644</b>

The percentage of the total holding of the twenty largest holders of Ordinary Shares was 70.12%.

## Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

NAME	ORDINARY SHARES (as per last substantial holder notice)
Allan Gray Investment Management	47,065,305
Vintage China Funds GP Limited	35,939,389
Renaissance Smaller Companies Pty Ltd	20,625,417

## Twenty largest shareholders

The names of the twenty largest shareholders of Ordinary Shares are as follows:

SHARES HELD		NUMBER OF ORDINARY SHARES HELD	% OF LISTED SHARES
1	Citicorp Nominees Pty Limited	44,825,624	16.13
2.	HSBC Custody Nominees (Australia) Limited	37,728,545	13.58
3.	Vintage China Funds GP Limited	23,959,592	8.62
4.	J P Morgan Nominees Australia Limited	19,582,886	7.05
5.	National Nominees Limited	18,557,041	6.68
6.	Vintage China Funds GP Limited (held in Escrow)	11,979,797	4.31
7.	Sandhurst Trustees Ltd (Wentworth Williamson A/C)	7,131,044	2.57
8.	BNP Paribas Noms (NZ) Ltd (DRP)	7,114,826	2.56
9.	Secvest Capital Pty Limited	4,122,879	1.48
10.	BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP)	3,446,768	1.24
11.	Garrett Smythe Ltd	3,400,221	1.22
12.	UBS Nominees Pty Ltd	2,321,298	0.84
13.	Mr Graham John Harvey	1,900,000	0.68
14.	Sunrise Vineyards Pty Ltd (Moularadellis S/F A/C)	1,900,000	0.68
15.	Henleaze Investments Pty Ltd	1,500,000	0.54
16.	127 Victoria Pty Ltd	1,200,000	0.43
17.	Mr Perry Richard Gunner & Mrs Felicity Jane Gunner (Perry Gunner Superfund A/C)	1,100,682	0.40
18.	Neweconomy Com Au Nominees Pty Limited (900 Account)	1,032,683	0.37
19.	Mr Trevor Gregory Burke	1,010,795	0.36
20.	Mr Brian Frederick Ditchfield	1,000,000	0.36
Totals: Top 20 holders of fully paid ordinary shares		194,814,681	70.12
Total Remaining Holders Balance		83,024,090	29.88



## Directors' report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2018. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

**Richard Davis B. Ec, Age 62**

**(Chairman - appointed 1st June 2015, Non-Executive) Director since 5 May 2009.**

Chairman of Monash IVF Group Limited and Director (and previously CEO) of InvoCare Limited where he previously spent almost 20 years growing and managing the business. Former accounting partner for a national accounting firm.

**Neil McGuigan B. App. Sc. (OENO), Age 60**

**(Chief Executive Officer) Director since 21 July 2010.**

Neil was previously the General Manager of Production and Wine Supply at Australian Vintage Ltd. He was appointed as a director and as the CEO on 21 July 2010. Neil has over 37 years' experience in the wine industry. He previously worked at the then privately owned Briar Ridge before leaving in 2000 to run Rothbury Estate and its satellites in the Upper Hunter, Cowra and Mudgee for the Foster's Group.

**Perry Gunner B. Ag. Sc, Grad. Dip, Bus. Admin, Age 71**

**(Non-Executive) Director since 28 June 2002 Retired: 30th August 2017**

Over 30 years' experience in the wine industry. Former Chairman and Chief Executive Officer of Orlando Wyndham Group Pty Limited. Chairman of Freedom Foods Group Limited and Deputy Chairman of A2 Corporation Limited (N.Z.).

**John Davies FCA, Dip. Bus S, Age 65**

**(Non-Executive) Director since 28 January 2015**

Fellow of the Institute of Chartered Accountants having worked for 36 years with Ernst & Young. John was elected to Ernst & Young's Asia Pacific Board of Partners for a 6 year period until his retirement in 2011. During his career he provided professional services to many of Australia's leading wine companies and he also owns a commercial vineyard in central Victoria. Chairman of the Audit Committee.

**Naseema Sparks AM, Age 65**

**(Non-Executive) Director since 28 January 2015**

Currently Chairperson of Sniip. Non-Executive Director of Arq Group (previously known as Melbourne IT Limited), IncentiaPay and AIG Australia. Former Chairperson of Deals Direct Group with extensive experience in marketing and digital media after a successful career with M&C Saatchi, one of Australia's largest and most successful advertising businesses. Naseema holds post graduate market and research qualifications and an MBA from Melbourne Business School. In 2016 was awarded a Member of the Order of Australia in recognition to significant service to business and commerce and to women through advancing female participation and retention in the workforce. Chairperson of the Remuneration Committee.

**Peter Perrin, Age 60**

**(Non-Executive) Director since 28 March 2017**

General Manager of Torbreck Vintners. Trustee of The Wolf Blass Foundation. 35 years' experience in the sales and marketing of premium Australian wines both in Australia and overseas. Chairman of the Risk Committee.

**Jiang Yuan (Dixon), Age 41**

**(Non-Independent, Non-Executive) Director since 7 June 2017**

Founder of www.yesmywine.com, based in China.

Well known for pioneering data analytics and an innovator in imported wines in China, Dixon has considerable experience in distribution and selling of wine into Asia.

## Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

NAME	COMPANY	PERIOD OF DIRECTORSHIP
Richard Davis	InvoCare Limited	Since 2012
	Monash IVF Group Limited	Since 2014
Perry Gunner (retired: 30th August 2017)	Freedom Foods Group Limited	Since 2003
	A2 Corporation Ltd (N.Z.)	2010 to 2015
Naseema Sparks	Arq Group (previously known as Melbourne IT Limited)	Since 2012
	Sniip	Since 2017
	IncentiaPay	Since 2017
	Grays e-Commerce Group Limited	2014 to 2016
	PMP Limited	2010 to 2017

## Company Secretary

### Michael Noack (appointed 23 November 2005)

B Accountancy (University of South Australia), Fellow of ASCPA, Graduate Diploma in Systems Analysis (University of South Australia) and Fellow of the Chartered Secretaries Australia. Michael has been with Australian Vintage Ltd since the merger in 2002 and was previously Chief Financial Officer and Company Secretary of Simeon Wines Limited. Michael has been the Chief Financial Officer since 2002.

## Principal activities

The consolidated entity's principal activities in the course of the financial year were wine making, wine marketing and vineyard management.

## Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

## Environmental regulations

The consolidated entity holds licences issued by the Environmental Protection Authorities in various states which specify limits associated with the discharge of winery waste. There have been no known breaches of the licence conditions.

## Dividends

In respect of the financial year ended 30 June 2018, a fully franked dividend of 1.5 cents per share has been declared and will be paid on 9th November 2018. In respect of the financial year ended 30 June 2017, a fully franked dividend of 1.0 cents per share was paid on the 10th November 2017.

## Review of operations and future developments

### Key Points

- Net Profit after tax \$7.7 million compared to \$4.3 million in the prior period
- Cash Flow from Operating Activities positive \$26.7 million compared to \$14.0 million in prior period
- Net Debt of \$77.2 million compared to \$82.8 million as at 30 June 2017
- Revenue up \$38.2 million to \$264.6 million
- Sales of McGuigan, Tempus Two and Nepenthe up 14%
- 1.5 cent per share fully franked final dividend declared

## Review of operations and future developments (continued)

The significant improvement in our full year result shows that our key, long term strategies are correct. Cash flow from operating activities of \$26.7 million is up \$12.7 million on last year and is the highest this company has achieved for the last 12 years. In fact, this year's cash flow is 5 times the average annual cashflow from operating activities since Brian McGuigan Wines and Simeon Wines merged in 2002.

Our continued focus on our 3 core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales increasing by 14% during the year. In the UK McGuigan sales grew by 18% and in that market McGuigan is the third largest global brand by volume.

Our decision to continue to focus on the UK market, post the Brexit vote, has been vindicated with UK/Europe sales up 25% and contribution up \$5.4 million. A focus on sales mix and pricing has contributed to the improved performance in this market.

Whilst the UK continues to be our main overseas market, we have a strong focus on growing and strengthening our distribution channels in the key overseas markets of Asia and the United States. In the 12 month period to 30 June 2018, branded sales into Asia have increased by 9% and with a large number of orders in early July 18 we expect this segment of our business to continue to grow. We remain confident that we have the right strategy for sustainable long-term growth in that region. Sales into the North America market have increased by 31% with most of this increase coming from Canada. Sales into the United States have been slightly slower than expected and now represent about 7% of the total North America sales but we forecast sales to pick up as we add additional resources into that market.

The focus on our quality of wine has again been rewarded with the company's wines continuing to win awards at significant wine shows. At the recent New York International Wine Show, McGuigan was awarded Australian Winery of the Year for the second consecutive year. These awards are on top of the 1,156 trophies and medals that we received in the last 12 months to June 2018. Having won the International Winemaker of the Year four times at the prestigious International Wine and Spirits Competition in London, the company continues to produce world leading quality wine.

Over the last 3 years the Australian wine industry has seen a shift from an oversupplied industry to an industry that is basically in balance, perhaps even now in short supply for some red varieties. This is due to the significant increase in export sales which has increased by 127.5 million litres to 851.6 million litres over the last 3 years. At the same time there has been little investment in new vineyards due to competing crops such as almonds, table grapes and citrus. To protect the Company's existing grape supply and to replace the grapes from a recently expired onerous grape contract, the Company has undertaken the following to secure some 40,000 tonnes of grapes-

- Entered into a long-term lease at commercial rates for a 377ha vineyard located near Mildura. This vineyard is planted to 80% reds;
- Agreed lease extension terms on the existing Balranald and Qualco vineyard leases. The current leases expire in 2021 and 2022 and the new lease extensions are on commercial terms;

In addition, we have secured 300 hectares of vacant land near Mildura for a future vineyard development and planted additional vines in our existing Grand Junction vineyard and our vacant land adjacent to our Buronga Hill Winery. These actions will ensure that we have sufficient grapes to underpin our sales growth.

### Sales

Revenue for the year increased 17% or \$38.2 million due to the continued growth in our branded products and the sales mix has improved as the company continues to target higher margin sales and remove low margin or no margin sales.

Australasia/North America packaged sales were up 3% on last year with all the increase coming from increased branded sales. Cask sales remained flat during the year against a long-term trend of declining sales.

Sales movements within the Australasia/North America packaged segment:-

DIVISION	MOVEMENT IN SALES (%)
Australia	0
New Zealand	7
Asia	9
North America	31

Australian sales were flat during the year, but the mix continues to improve with McGuigan down 1%, the higher priced Tempus Two up 38% and Nepenthe up 15%. Ensuring price realisation on the McGuigan Black Label range slowed our short-term growth but was essential to ensure long term viability and profit of this range. Sales of lower margin products such as Miranda declined by 10% during the year.



## Review of operations and future developments (continued)

Sales to New Zealand have recovered from the previous year's decline and were up this year by 7%. The McGuigan brand continues to perform well.

Sales to Asia have grown by 9%. Against an industry background that is dominated by one major wine company and the growth of bulk wine into Asia, the result is in line with Company expectation.

North America sales have grown by 31% due mainly to a significant increase in sales to Canada of the McGuigan brand. Sales to our key Canadian distributor increased by 48% and we recently extended this distribution agreement for a further 10 years. In the United States, sales to our distributor, Palm Bay, increased by 112% from a low base.

UK/Europe packaged, and bulk sales were up by 25% on last year with packaged sales up 27% or \$23.2 million and bulk and private label sales down 60% or \$0.8 million. The McGuigan brand has grown 18% due to the introduction of the McGuigan Black Label brand to UK supermarkets and the increased sales footprint in all channels. The GBP positively impacted sales by \$3.6 million when compared to the prior period.

SALES BY SEGMENT	12 MONTHS TO		CHANGE	
	30/6/18 \$000	30/6/17 \$000	Variation \$000	%
Australasia/North America Packaged	107,261	103,830	3,431	3
UK/Europe	111,003	88,454	22,549	25
Cellar Door	10,588	10,009	579	6
Australasia/North America bulk & processing	30,198	20,358	9,840	48
Vineyards	5,563	3,799	1,764	46
	<b>264,613</b>	<b>226,450</b>	<b>38,163</b>	<b>17</b>

### EBIT and Net Profit

EBIT is \$16.2 million compared to \$11.3 million in the previous period, an improvement of 44%.

The contribution from the Australasia/North America packaged segment was 21% up on prior period due mainly to the improved sales mix in Australia and improved North America sales (mainly Canada). The UK/Europe segment contribution improved by a significant \$5.4 million due to increased sales, improved mix and some price increases that were put in place late in the prior period. The favourable movement in the GBP contributed \$1.6 million to this improved result.

Australasia/North America Bulk segment contribution increased by \$0.6 million due to increased concentrate sales from the Austflavour business marginally offset by loss making bulk wine sales that were contracted in previous years.

The decreased contribution from the vineyard segment was due to a 11% reduction in yields from owned and leased vineyards. This resulted in a \$2.4 million reduction in SGARA income.

	12 MONTHS TO		CHANGE	
	30/6/18 \$000	30/6/17 \$000	Variation \$000	%
Australasia / North America Packaged	7,382	6,100	1,282	21
UK / Europe	5,614	208	5,406	2,600
Cellar Door	1,617	1,614	3	0
Australasia / North America bulk and processing	(470)	(1,075)	605	56
Vineyards	2,037	4,414	(2,377)	(54)
<b>EBIT</b>	<b>16,180</b>	<b>11,261</b>	<b>4,919</b>	<b>(44)</b>
Finance costs	(5,031)	(5,025)	(6)	0
Interest received	16	15	1	7
Profit Before Tax	11,165	6,251	4,914	79
Tax	(3,471)	(1,948)	(1,523)	(78)
<b>Net Profit (before one off items)</b>	<b>7,694</b>	<b>4,303</b>	<b>3,391</b>	<b>79</b>

## Review of operations and future developments (continued)

### Cash Flow and Financial Position

The cash flow from operating activities was \$26.7 million, \$12.7 million above the prior period. During the year the company spent \$19.5 million on capital projects that included a new bottling line at the Merbein Packaging facility and significant capital at our Buronga Hill Winery.

Even allowing for the significant capital spend, the Company's net debt position declined by \$5.6 million to \$77.2 million and the gearing ratio is at a comfortable 26% (29% as at 30 June 2017). The existing banking facility remains in place until September 2020.

### Outlook

The Company continues to focus on its 3 key strategies -

- Grow export business
- Increase branded sales
- Focus on cost control

These strategies, together with a focus on growing our three key brands, McGuigan, Tempus Two and Nepenthe, have significantly contributed to our growth in profit and cash flow this year.

One of the most pleasing aspects of our business is the cash flow from operating activities which improved by \$12.7 million in the last 12 months to June 2018. This is the highest operating cash flow for the last 12 years and is 5 times the average annual cash flow since Brian McGuigan Wines and Simeon Wines merged in 2002. This clearly shows that our strategies are working.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 12% and our higher priced brand, Tempus Two, increasing by 46%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

With the improved cash flow from operating activities we will, in the short term, continue investing in the Company to improve efficiencies, secure our future grape supply at market prices or better, and improve our already high quality of wine.

To enhance the retention of key executives and attract new talent to the business, we are proposing a revised Employee Incentive Plan (EIP) which will combine the present Short-Term and Long-Term Incentives into a single incentive with hurdles that the company believes provide better correlation to performance and shareholder outcomes and is more tangible for the executives. This new EIP will have a cash component and a long-term component made up of company shares.

In 2018 the Company has spent \$19.5m on capital projects covering winery and packaging equipment. In the next 12 months we expect our total capital spend to be similar at around \$19.0 million. This capital will be spent on a major development at our Buronga Hill Winery, which includes a super-premium winemaking facility, and the ongoing development of additional vineyards. Whilst the benefits of these major capital projects will take some time to flow through to our result, they will add value to this Company.

Australian Vintage has transformed over the last 11 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue as we push into the Asian and US markets and grow our existing established markets.

Based on the GBP exchange rate remaining at around 56 pence and a normal 2019 vintage, we expect our 2019 result to be at least 10% up on this year's Net Profit After Tax result.

Assuming no price adjustment for the next 12 months, a 1 pence movement in the GBP impacts our Net Profit after tax by approximately \$0.4 million.

A further market update will be provided at our Annual General meeting in November 2018.

## Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of Committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee Member).

During the financial year the company held 12 Board Meetings, 2 Audit Committee Meetings, 2 Risk Committee Meetings and 2 Remuneration Committee meetings.

DIRECTORS'	BOARD MEETINGS ATTENDED	AUDIT COMMITTEE ATTENDED	RISK COMMITTEE ATTENDED	REMUNERATION COMMITTEE ATTENDED
Richard Davis	12	2	2	2
Neil McGuigan	12	2	2	2
Perry Gunner <sup>(1)</sup>	2	1	1	1
John Davies	12	2	2	2
Naseema Sparks	12	2	2	2
Peter Perrin	11	2	1	1
Jiang Yuan	11	1	1	-
<b>Total Meetings Held</b>	<b>12</b>	<b>2</b>	<b>2</b>	<b>2</b>

(1) Retired 30th August 2017.

## Directors' shareholdings

The following table sets out each Director's relevant interest in shares and options in shares of the Company as at the date of this report.

	FULLY PAID ORDINARY SHARES	EXECUTIVE PERFORMANCE RIGHTS AND OPTIONS
Richard Davis	110,000	-
Neil McGuigan	1,005,000	5,300,000
John Davies	300,000	-
Naseema Sparks	23,720	-
Peter Perrin	70,400	-
Jiang Yuan	35,939,389	-

Details of unissued shares or interests under option / performance right as at the date of this report are:

ISSUING ENTITY	NUMBER OF SHARES UNDER OPTION / RIGHT	CLASS OF SHARES	EXERCISE PRICE OF OPTION / RIGHT	EXPIRY DATE OF OPTION / RIGHT
Australian Vintage Ltd	3,825,000	Ordinary	\$0.376	1 November 2020
Australian Vintage Ltd	3,568,000	Ordinary	\$0.528	1 November 2021
Australian Vintage Ltd	3,800,000	Ordinary	\$0.439	1 November 2022
	11,193,000			



## Remuneration Report

For the purpose of the disclosure Key Management Personnel (KMP) are defined as an individual who is responsible for strategic planning, management and performance of a division or function and reports directly to the Chief Executive Officer.

Key Management Personnel for the year comprised:

NAME	POSITION	DATES
<b>Non-executive Directors</b>		
Richard Davis	Chairman	Full Year
Perry Gunner	Non-executive Director	Retired 30th August 2017
John Davies	Non-executive Director	Full Year
Naseema Sparks	Non-executive Director	Full Year
Peter Perrin	Non-executive Director	Full Year
Jiang Yuan	Non-executive Director	Full Year
<b>Executives</b>		
Neil McGuigan	Chief Executive Officer	Full Year
Michael Noack	Company Secretary & Chief Financial Officer	Full Year
Cameron Ferguson	General Manager, Sales & Marketing, Australasia / North America	Full Year
Julian Dyer	General Manager, UK/Europe	Full Year

### Remuneration Committee and Director Compensation

The Remuneration Committee reviews the fee levels for Non-Executive Directors from time to time utilising appropriate remuneration benchmark data from comparable Australian ASX listed companies of similar size as a guide to independent market levels of remuneration such positions attract. A review of fees was undertaken within the year ended 30th June 2018, with advice received that Non-Executive Director compensation is aligned with the market. Currently, Shareholders have approved a pool of funds up to \$600,000 per annum to compensate all Non-Executive Directors remuneration for their ordinary services as Directors.

The current level of Non-Executive Director compensation sits comfortably within the pool of funds approved by the Shareholders.

### Remuneration Components for Non-Executive Directors

Non-executive Directors receive remuneration in cash, superannuation and wine.

### Remuneration Committee and Executive Compensation

The Remuneration Committee reviews the compensation package for the Chief Executive Officer on an annual basis and makes recommendations to the Board for approval.

The Chief Executive Officer reviews the compensation packages of all other Executives and makes recommendations to the Remuneration Committee for approval.

Compensation packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, as well as utilising appropriate remuneration benchmark data from comparable Australian ASX listed companies of similar size as a guide. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

### Remuneration Objectives & Principles

In the 2016/17 review process, the Board revised its remuneration objectives and principles with respect to both the Chief Executive Officer and Executive compensation as follows:

1. To provide a fair and reasonable remuneration structure for all employees
2. To provide attractive rewards and incentives to retain key individuals
3. To link senior executive rewards to accretion in shareholder wealth
4. The remuneration strategy must be easily understood by the board, management and shareholders and must:
  - a) Reinforce organisation strategy and the objectives of the five-year plan
  - b) Facilitate corporate values and behaviours identified as core to the culture
  - c) Be proactive and dynamic so as to reflect changes in trends and future business opportunities

## Remuneration Report (continued)

The below reflects the above and represents a target pay mix for the Chief Executive Officer and other Executives and which was first outlined in the year ended 30th June 2016.

EXECUTIVE TOTAL REWARD FRAMEWORK		
Fixed Remuneration (Target of 50% by FY20)	At Risk Remuneration (Variable Reward)	
	Short-Term Incentive (Target of 25% by FY20)	Long-Term Incentive (Target of 25% by FY20)
<b>Comprises:</b> <ul style="list-style-type: none"> <li>• Cash salary (base);</li> <li>• Salary sacrificed items;</li> <li>• Company motor vehicles;</li> <li>• Allowances; and</li> <li>• Employer superannuation contributions in line with statutory obligations.</li> </ul>	An STI opportunity targeting 25% of Total Remuneration	Comprises a performance rights and share option scheme, with a three year rolling vesting period, performance and in FY15 and FY16, service hurdles. Target of 25% of Total Remuneration.

For FY16 and FY17, the inclusion of service as a Long-Term incentive hurdle reflected the need to focus on both retention of critical key management personnel, who were in positions to influence shareholder return via the delivery of the five-year strategy; as well as incentivise those individuals on performance outcomes. The service hurdle was removed in FY18.

### Remuneration Components

The Chief Executive Officer and other KMP compensation packages consist of the below three components:

#### 1. Base Compensation

This component is not performance linked and generally consists of salary, motor vehicle, wine allowance and post-employment superannuation entitlement (where applicable). The base amount for the Chief Executive Office (CEO) is reviewed annually by the Remuneration Committee. The base amount for other executives is reviewed by the CEO, who makes recommendation to the Remuneration Committee for approval. Any adjustments made during the year will either be as a result of market rate changes in order for the Company to remain competitive or to reflect any changes in level of responsibility.

#### 2. Short Term Incentives

Short term incentive (STI) payments take into account the extent to which specific financial and operating targets are achieved during the financial year have been achieved. The targets consist of a number of key performance indicators (KPI's) covering both financial and non-financial measures of performance. Non-financial measures may include items such as corporate risk control and work health and safety outcomes, as well as related organisational behaviours that may impact culture. However, the primary measure is the performance against profit targets, with Company Performance set at a minimum of 90% achievement of financial year budget and acting as a first gate to determine the incentive opportunity to be made available for assessment in terms of the Financial opportunity. The Remuneration Committee may, from time to time, elect to make exceptions to this principle in the event of extraordinary circumstances and in the circumstances where an incentive payment may support retention of critical talent.

Short term incentive payments are made by way of a cash bonus, incorporating superannuation.

Objectives and performance indicators are determined annually as follows:

- Chief Executive Officer (CEO) – by the Remuneration Committee and approved by the Board, following consultation with the CEO
- Executives – by the CEO and approved by the Remuneration Committee, following consultation with each Executive member

The maximum amount of bonus payable in respect of the financial year is determined by the CEO and the Remuneration Committee. For the purpose of determining any bonus entitlement, along with corporate financial and behavioural objectives, individual performance is assessed against the set objectives and performance indicators set and agreed each year. The objectives and performance indicators relate to specific duties and Company performance, and are calculated as follows:



## Remuneration Report (continued)

The table below shows the maximum STI payments for FY18, the breakdown between financial and operational key performance indicator targets and the actual percentage of the maximum STI achieved:

	2018 MINIMUM BONUS	2018 MAXIMUM BONUS	KEY PERFORMANCE TARGETS			2018 % OF MAXIMUM GRANTED
	\$	\$	FINANCIAL	BEHAVIOURS	OPERATIONAL	
Neil McGuigan	0	300,000	50%	5%	45%	96%
Michael Noack	0	128,408	40%	10%	50%	94%
Cameron Ferguson	0	147,160	25%	10%	65%	87%
Julian Dyer	0	134,915	20%	10%	70%	98%

### 3. Long Term Incentives

#### Performance Rights and Options Plan:

Established in August 2012, the LTI is provided as a right to an issue of shares. This right or option is subject to the achievement of EPS and TSR hurdles until the vesting date and the satisfaction of continuous employment criteria. The plan is available to selected senior management as approved by the Board. Rights and options can be exercised if following criteria are met:

#### Options issued FY16:

- 20% of options will vest if continuous employment is maintained up to 1st July 2019.
- 40% of the options are subject to an EPS hurdle. If the EPS CAGR for the three years FY16 to FY18 inclusive is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting occurs on a straight line between 25% and 100%.
- 40% of the options are subject to a Total Shareholder Return (TSR) hurdle. If TSR for the three years FY16 to FY18 is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting occurs in a straight line between 25% and 100%.

#### Options issued FY17:

- 30% of options will vest if continuous employment is maintained up to 1st July 2020.
- 30% of the options are subject to an EPS hurdle. If the EPS CAGR for the three years FY17 to FY19 inclusive is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting occurs in a straight line between 25% and 100%.
- 40% of the options are subject to a TSR hurdle. If TSR for the three years FY17 to FY19 is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting occurs in a straight line between 25% and 100%.

#### Options issued FY18:

- 50% of the options are subject to an EPS hurdle. If the EPS CAGR for the three years FY18 to FY20 inclusive is less than 10% no options will vest under this performance condition. If the EPS CAGR is between 10% and 20% vesting occurs in a straight line between 25% and 100%.
- 50% of the options are subject to a TSR hurdle. If TSR for the three years FY18 to FY20 is less than 15%, no options will be vested under this performance condition. If the TSR is between 15% and 20% vesting occurs in a straight line between 25% and 100%.

### Key Management Personnel and employee share option and performance rights plans

During and since the end of the financial year under the Performance Rights and Option Plan there were 2,500,000 (2017: 2,852,000) share options granted to key management personnel as part of their remuneration. No shares were issued during or since the end of the financial year as a result of the exercise of performance rights or options under the above Plans.



## Remuneration Report (continued)

Relative proportions of fixed vs variable remuneration:

	FIXED REMUNERATION		AT RISK - STI		AT RISK - LTI	
	2018	2017	2018	2017	2018	2017
<b>Non-executive Directors</b>						
Richard Davis	100%	100%	0%	0%	0%	0%
Perry Gunner <sup>(a)</sup>	100%	100%	0%	0%	0%	0%
John Davies	100%	100%	0%	0%	0%	0%
Naseema Sparks	100%	100%	0%	0%	0%	0%
Peter Perrin	100%	100%	0%	0%	0%	0%
Jiang Yuan	100%	100%	0%	0%	0%	0%
<b>Executives</b>						
Neil McGuigan	65%	70%	24%	22%	11%	8%
Michael Noack	77%	81%	19%	17%	4%	2%
Cameron Ferguson	71%	77%	24%	20%	5%	3%
Julian Dyer	67%	78%	28%	19%	5%	3%

(a) Retired: 30th August 2017

In accordance with the provisions of the Company's share option and performance rights plan, as at the date of this report, key management personnel hold the following performance rights and options:

KEY MANAGEMENT PERSONNEL		NUMBER GRANTED	EXERCISE PRICE	GRANT DATE	EXPIRY DATE
Neil McGuigan	Options	2,000,000	\$0.376	17 November 2015	1 November 2020
	Options	2,000,000	\$0.528	23 November 2016	1 November 2021
	Options	1,300,000	\$0.439	20 November 2017	1 November 2022
Michael Noack	Options	450,000	\$0.376	4 December 2015	1 November 2020
	Options	284,000	\$0.528	19 December 2016	1 November 2021
	Options	400,000	\$0.439	20 December 2017	1 November 2022
Cameron Ferguson	Options	400,000	\$0.376	4 December 2015	1 November 2020
	Options	284,000	\$0.528	19 December 2016	1 November 2021
	Options	400,000	\$0.439	20 December 2017	1 November 2022
Julian Dyer	Options	400,000	\$0.376	4 December 2015	1 November 2020
	Options	284,000	\$0.528	19 December 2016	1 November 2021
	Options	400,000	\$0.439	20 December 2017	1 November 2022
<b>TOTAL</b>		<b>8,602,000</b>			

There were no rights or options exercised during the year. There were 642,509 rights that lapsed during the year (2017 : Nil) and no rights or options vested during the year.

The following table summarises the value of options granted to key management personnel during the financial year:

	VALUE OF OPTIONS GRANTED AT THE GRANT DATE <sup>(1)</sup>
Neil McGuigan	126,295
Michael Noack	40,120
Cameron Ferguson	40,120
Julian Dyer	40,120

(1) The value of options granted during the financial year is calculated as at the grant date using a binomial pricing model. This grant date value is allocated to remuneration on a straight-line basis over the period from grant date to vesting date.

## Remuneration Report (continued)

### Key Management Personnel equity holdings

Fully paid ordinary shares issued by Australian Vintage Ltd and held by key management personnel are as follows:

2018	BALANCE @ 1/7/17 No.	GRANTED AS REMUNERATION No.	RECEIVED ON EXERCISE OF OPTIONS No.	NET OTHER CHANGE No.	BALANCE @ 30/6/18 No.	BALANCE HELD NOMINALLY No.
<b>Non-executive Directors</b>						
Richard Davis	110,000	-	-	-	110,000	-
Perry Gunner <sup>(a)</sup>	1,173,886	-	-	(1,173,886)	-	-
John Davies	300,000	-	-	-	300,000	-
Naseema Sparks	-	-	-	23,720	23,720	-
Peter Perrin	9,800	-	-	60,600	70,400	-
Jiang Yuan	35,939,389	-	-	-	35,939,389	-
<b>Executives</b>						
Neil McGuigan	1,005,000	-	-	-	1,005,000	-
Michael Noack	228,951	-	-	91,401	320,352	-
Cameron Ferguson	-	-	-	100,000	100,000	-
Julian Dyer	-	-	-	-	-	-
	<b>38,767,026</b>	<b>-</b>	<b>-</b>	<b>(898,165)</b>	<b>37,868,861</b>	<b>-</b>

(a) Retired: 30th August 2017

Performance Rights and Options issued by Australian Vintage Ltd and held by key management personnel are as follows:

2018	BAL. @ 1/7/17 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	EXPIRED/ CANCELLED No.	BAL. @ 30/6/18 No.	BAL. VESTED @ 30/6/18 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
Neil McGuigan	4,257,003	1,300,000	-	(257,003)	5,300,000	-	-	-	-
Michael Noack	862,502	400,000	-	(128,502)	1,134,000	-	-	-	-
Cameron Ferguson	812,502	400,000	-	(128,502)	1,084,000	-	-	-	-
Julian Dyer	812,502	400,000	-	(128,502)	1,084,000	-	-	-	-
	<b>6,744,509</b>	<b>2,500,000</b>	<b>-</b>	<b>(642,509)</b>	<b>8,602,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

All performance rights and options granted to key management personnel during the financial year were made in accordance with the provisions of the Australian Vintage Ltd Performance Rights and Options Plan.

## Remuneration Report (continued)

### Key Management Personnel Remuneration

The following table discloses the remuneration for Key Management Personnel of the Company:

2018	SHORT-TERM BENEFITS				POST EMPLOYMENT		SHARE BASED PAYMENTS			TOTAL
	Salary & Fees \$	Bonus \$	Other \$	Non - Monetary (a) \$	Super - annuation \$	Other \$	Cash Settled \$	Equity Settled Options(b) \$	Equity Settled Shares \$	\$
Non-Executive directors										
Richard Davis	107,763	-	-	2,000	10,237	-	-	-	-	120,000
Perry Gunner (d)	11,872	-	-	2,000	1,128	132,800	-	-	-	147,800
John Davies	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Naseema Sparks	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Peter Perrin	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Jiang Yuan	73,709	-	-	-	2,980	-	-	-	-	76,689
Sub-total	407,043	-	-	10,000	34,646	132,800	-	-	-	584,489
Executives										
Neil McGuigan	745,773	288,000	-	1,200	17,525	-	-	130,541	-	1,183,039
Michael Noack	380,635	120,703	-	89,176	25,000	-	-	26,531	-	642,045
Cameron Ferguson	330,308	128,029	-	26,200	31,379	-	-	25,486	-	541,402
Julian Dyer	302,736	132,217	-	-	19,727	-	-	25,486	-	480,166
Sub-total	1,759,452	668,949	-	116,576	93,631	-	-	208,044	-	2,958,652
TOTAL	2,166,495	668,949	-	126,576	128,277	132,800	-	208,044	-	3,431,141

### 2017

	Salary & Fees \$	Bonus \$	Other \$	Non - Monetary <sup>(a)</sup> \$	Super - annuation \$	Other \$	Cash Settled \$	Equity Settled Options <sup>(b)</sup> \$	Equity Settled Shares \$	\$
<b>Non-Executive directors</b>										
Richard Davis	107,763	-	-	2,000	10,237	-	-	-	-	120,000
Perry Gunner <sup>(d)</sup>	71,233	-	-	2,000	6,767	-	-	-	-	80,000
John Davies	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Naseema Sparks	71,233	-	-	2,000	6,767	-	-	-	-	80,000
Peter Perrin	18,841	-	-	500	1,790	-	-	-	-	21,131
Jiang Yuan	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>340,303</b>	<b>-</b>	<b>-</b>	<b>8,500</b>	<b>32,328</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>381,131</b>
<b>Executives</b>										
Neil McGuigan	664,963	229,500	-	29,686	35,000	-	-	77,900	-	1,037,049
Michael Noack	361,442	104,856	-	89,115	35,000	-	-	14,330	-	604,743
Julian Dyer	285,831	85,498	-	-	18,627	-	-	13,285	-	403,241
Cameron Ferguson	311,943	93,259	-	26,200	29,634	-	-	13,285	-	474,321
Flora Sarris <sup>(c)</sup>	31,062	-	-	-	2,951	60,065	-	-	-	94,078
<b>Sub-total</b>	<b>1,655,241</b>	<b>513,113</b>	<b>-</b>	<b>145,001</b>	<b>121,212</b>	<b>60,065</b>	<b>-</b>	<b>118,800</b>	<b>-</b>	<b>2,613,432</b>
<b>TOTAL</b>	<b>1,995,544</b>	<b>513,113</b>	<b>-</b>	<b>153,501</b>	<b>153,540</b>	<b>60,065</b>	<b>-</b>	<b>118,800</b>	<b>-</b>	<b>2,994,563</b>

(a) Non-monetary items include provision of motor vehicle, insurance and wine benefits and applicable fringe benefits tax.

(b) Amortisation of share options granted over the vesting period.

(c) Resigned 17 August 2016. Other post employment relates to payment of leave entitlements.

(d) Retired 30 August 2017. Other post employment benefit is contractual payment made on retirement. No other Directors have a contractual payment on retirement.

No director or executive appointed during the period received a payment as part of his or her consideration for agreeing to the position.



## Remuneration Report (continued)

### Company Performance

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2018:

	30 JUNE 2014 \$ M	30 JUNE 2015 \$ M	30 JUNE 2016 \$ M	30 JUNE 2017 \$ M	30 JUNE 2018 \$ M
Operating Cash Flow	(3.6)	2.1	6.5	14.0	26.7
Total Revenue	214.8	230.9	242.7	226.5	264.6
EBIT	23.8	17.5	3.2	11.3	16.2
EBIT (before one off items)	19.7	16.7	16.4	11.3	16.2
Net Profit/(Loss) after tax	10.5	9.4	(2.2)	4.3	7.7
Net Profit/(Loss) after tax before one off items	7.7	7.1	7.0	4.3	7.7

	30 JUNE 2014	30 JUNE 2015	30 JUNE 2016	30 JUNE 2017	30 JUNE 2018
Earnings per share - cents	5.1	4.0	(0.9)	1.8	2.8
Dividends declared - cents	2.2	Nil	1.5	1.0	1.5

Market capitalisation - \$ million	74.3	84.8	131.2	117.1	151.4
Enterprise value (debt + equity) - \$ million	404.2	373.2	373.9	372.3	377.8

Share price at start of year - \$ per share	0.475	0.320	0.365	0.565	0.425
Share price at end of year - \$ per share	0.320	0.365	0.565	0.425	0.545

### Service Agreements of Key Management Personnel

Compensation and other terms of employment for Key Management Personnel (excluding Non-executive Directors) are formalised in service agreements or letters of appointment. Termination benefits disclosed below do not apply in cases of misconduct or other specified circumstances.

#### Neil McGuigan

- (i) Term of agreement – no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr McGuigan's employment is terminated by the Company, the Company must pay the equivalent of one year's total remuneration (excluding short term incentive). Mr McGuigan may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

#### Michael Noack

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation, life/trauma insurance, motor vehicle allowance and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.

## Remuneration Report (continued)

### Service Agreements of Key Management Personnel (continued)

- (iii) If Mr Noack's employment is terminated by the company, the company must pay Mr Noack the equivalent of one year's total remuneration (excluding short term incentive). Mr Noack may resign by providing 3 months written notice to the Company or a lesser period as agreed by the company.

#### Cameron Ferguson

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation, motor vehicle allowance and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including divisional profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr Ferguson's employment is terminated by the company, the company must pay Mr Ferguson the equivalent of one year's total remuneration (excluding short term incentive). If Mr Ferguson's employment is terminated by the Company, the Company may restrain Mr Ferguson from working for a Business in Competition/Company customer for a period of up to 3 months. The Company will pay Base Salary for the period in which the restraint is enforced. Mr Ferguson may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

#### Julian Dyer

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary and United Kingdom pension payment.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including divisional profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr Dyer's employment is terminated by the company, the company must pay Mr Dyer the equivalent of one year's total remuneration (excluding short term incentive). If Mr Dyer's employment is terminated by the Company, the Company may restrain Mr Dyer from working for a Business in Competition/Company customer for a period of up to 3 months. The Company will pay Base Salary for the period in which the restraint is enforced. Mr Dyer may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

### Changes to the AVL Remuneration Structure for 2018/19 and beyond

The Company announced at the 2017 Annual General Meeting its intention to introduce a new executive incentive scheme which will replace the existing scheme to ensure long term alignment with the Company's growth strategy. A review was conducted in the context of AVL's complex operating environment which involves agricultural volatility and economic uncertainty as well as increased competition. The review prompted the Company to consider ways of making LTI more effective for all stakeholders and enhancing long-term alignment through increased share ownership by key executives.

The review found that, overall, the existing STI (Short Term Incentive) has demonstrated strong alignment between performance and incentive outcomes, although it could be improved with broader and more clearly defined performance measures. The LTI (Long Term Incentive), on the other hand, has not worked as well. Setting appropriate performance hurdles has been challenging in a volatile market that takes into account agricultural and economic risks. Consequently, the current LTI scheme was not well understood or valued by the executives and is not sufficiently driving strategy to create shareholder value.

The new AVL Executive Incentive Plan (EIP) combines the STI and LTI into a single incentive with hurdles that the Company believes provides better correlation to performance and shareholder outcomes and is more tangible for the executives.

The primary hurdle will be Return on Capital Employed (ROCE - EBIT divided by Capital Employed where Capital Employed is total assets less current liabilities). The ROCE target will be based on those calculated using the Company's latest approved 5 Year Plan. The wine industry is a capital-intensive industry and the use of ROCE will ensure that the focus is on obtaining the best return for the capital employed.

## Remuneration Report (continued)

### Changes to the AVL Remuneration Structure for 2018/19 and beyond (continued)

#### Key Design Features of the EIP

**Individual KPI's** Individual KPI's will be agreed with each executive on an annual basis at the beginning of each financial year having regard to their areas of accountability and influence. ROCE will also form part of every executive KPI's and the ROCE will be based on the long-term growth required to meet our 5 Year Plan profit targets.

**EIP Award Structure** Annual targets will be agreed between the Board, CEO and executives. The structure is as follows:

#### EIP Variable Cash

	CEO/CFO	COO's	Executives	Type of EIP Award
Financial	60%	35%	55%	Cash Payment
Behaviours	15%	15%	15%	
Operations/Divisional	25%	50%	30%	
	100%	100%	100%	

#### EIP Deferred Equity

ROCE	100%	100%	100%	Shares in AVL – held in Escrow
------	------	------	------	--------------------------------

**EIP Deferred Equity** At the beginning of each financial year the board will determine the maximum number of Performance Rights that each executive will be entitled to under the EIP Deferred Equity. The existing AVG Employee Share Scheme Trust (Trust) will be used to obtain these Performance Rights and they will be held until the end of the financial year. If the target ROCE is achieved for that financial year then those Performance Rights will be converted to AVG shares by the Trust. These shares (EIP Shares) will be escrowed for a period of 3 years. For FY19 the target ROCE is in the range of 4.2% to 5.1%. Over the next 5 years, and subject to normal agricultural risks, the target ROCE is expected to increase to high single digit returns.

It is planned that the Trust will purchase the shares on market. However, this will be a year by year decision based on future cash flow projections. For the first year the shares will be purchased on market.

The Board will have discretion to instruct the Trust to release the EIP shares from escrow if for example the executive is a good leaver. The dividends received from the EIP shares will be paid to the executives.

**No retesting** There will be no retest applied to the EIP Deferred Equity award other than if a bad leaver.

**Bad Leaver** In the case of a bad leaver, no EIP shares will be transferred. The EIP shares will remain in the Trust to be used in future EIP Deferred Equity awards.

**Clawback** There will be no clawback unless specifically stated.

**Control Event** The board has the discretion to determine the treatment of any EIP award on a change of control event. If a change of control event occurs during the 12 month performance period, executives will receive at least a pro-rata payment of the total EIP.

**Cessation of Employment** During a performance period, should an executive resign, or be terminated, no automatic EIP award will be provided. AVL will have regard to performance against target and the performance period elapsed in determining any EIP award.

#### Executive Engagement

During the phase-in period for the new EIP, the cash component of the existing STI (EIP Variable Cash Component) will be decreased by 15%, and the current lower value of the LTI (EIP Deferred Equity) will be increased by between 70% and 350% in order to accelerate the shift of total remuneration into equity instruments. Based on all performance hurdles being met, the increased cost to the company on the overall key executive remuneration will be between 10% to 15%.

## Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Audit Committee, in conjunction with the Chief Financial Officer, assesses the provision of non-audit services by the auditors to ensure that the auditor independence requirements of the Corporation Act 2001 in relation to the audit are met.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 9 to the financial statements.

The directors are of the opinion that the services as disclosed in note 9 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

## Auditors' independence declaration

The Auditors independence declaration is included on page 38.

## Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named previously), the Company Secretaries and all Executive Officers of the Company and of any related Body Corporate against a liability incurred as a Director, Secretary or Executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors Reports) instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument. Amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## Subsequent Events

In respect of the financial year ended 30 June 2018 a fully franked dividend of 1.5 cent per share was declared on the 29th August 2018 and will be paid on the 9th November 2018.

There have been no other matters or circumstances, other than that referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors



**RICHARD DAVIS**  
Chairman  
29th August 2018



**NEIL MCGUIGAN**  
Chief Executive Officer  
29th August 2018





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29 August 2018

The Board of Directors  
Australian Vintage Ltd  
275 Sir Donald Bradman Drive  
COWANDILLA SA 5033

Dear Board Members

**Australian Vintage Ltd**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Vintage Ltd.

As lead audit partner for the audit of the financial statements of Australian Vintage Ltd for the financial year 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in cursive script, likely belonging to Stephen Harvey.

Stephen Harvey  
Partner  
Chartered Accountants



## Independent Auditor's Report to the members of Australian Vintage Ltd

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of Australian Vintage Ltd (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Carrying value of goodwill and property, plant and equipment associated with the bulk wine and processing cash generating unit</i></p> <p>In assessing the recoverable amounts of assets, focus is given to the bulk wine and processing operations, being the cash generating unit (CGU) with the greatest asset allocation of the Group including goodwill of \$37.7 million and the most significant portion of property, plant and equipment (see Note 17).</p> <p>Evaluation of the recoverable amount of goodwill and property, plant and equipment requires significant judgement in determining the key assumptions supporting the expected future cash flows of the bulk wine and processing CGU including:</p> <ul style="list-style-type: none"> <li>• processed volume growth,</li> <li>• processing margin, and</li> <li>• discount rate.</li> </ul>	<p>In conjunction with valuation experts our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• obtaining an understanding of the Group's process for assessing the carrying value of goodwill and property, plant and equipment, including obtaining an understanding of key controls associated with the preparation of the valuation models used to assess the CGU and the appropriateness of the model;</li> <li>• agreeing the model inputs to the Board approved budget forecasts;</li> <li>• assessing the appropriateness of assets and liabilities allocated to the model;</li> <li>• assessing historical budgeting accuracy;</li> <li>• assessing forecast processed volume growth, with reference to processing capacity;</li> <li>• challenging management's assessment of the forecast processing margin, with reference to external market rates;</li> <li>• challenging the components of the discount rate against independent rates and assessing if the overall rate used is within an acceptable range; and</li> <li>• performing sensitivity analysis to the forecast cash flows to quantify the impact of reasonable changes in processing margin, discount rate and processed volume growth, being the factors with the most significant impact on recoverable value.</li> </ul> <p>We have also assessed the appropriateness of the disclosures included in note 4 and 17 to the financial statements.</p>
<p><i>Recognition of revenue tax losses</i></p> <p>As disclosed in Note 6 the Group has recognised \$41.7 million of deferred tax assets relating to revenue tax losses as at 30 June 2018.</p> <p>Deferred tax assets are only recognised to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the revenue tax losses to be realised. These benefits are realised by reducing tax payable on future taxable profits.</p> <p>Significant judgement is required to assess whether there will be sufficient future taxable profits to utilise the recognised deferred tax assets.</p>	<p>Our procedures to assess the Group's ability to utilise the revenue tax losses recognised based on the expected future taxable profits included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• assessing management's judgements relating to the forecasts of future taxable profit and evaluated the reasonableness of the assumptions underlying the preparation of the forecast, assessing whether the cash flows are consistent with those contained in the models used for impairment analysis;</li> <li>• assessing historical budgeting accuracy; and</li> <li>• applying sensitivity analysis to the forecast taxable profits.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Notes 4 and 6 to the financial statements.</p>



### *Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): Board of Directors Report, Chairman's Report, Chief Executive Officer's Report, Company Profile, Corporate Governance Statement and Shareholders' Information which are expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Board of Directors, Chairman's Report, Chief Executive Officer's Report, Company Profile, Corporate Governance Statement and Shareholders' Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

### *Responsibilities of the Directors for the Financial Report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.





- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 28 to 36 of the Director's Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Australian Vintage Ltd, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

DELOITTE TOUCHE TOHMATSU

Stephen Harvey

Partner

Chartered Accountants

Adelaide, 29 August 2018

## Directors' declaration

The Directors declare that:

- (a) In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 3 to the financial statements;
- (c) In the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving true and fair view of the financial position and performance of the consolidated entity; and
- (d) The Directors' have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by *ASIC Corporations (wholly owned companies) Instrument 2016/78*". The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Director's opinion, there are reasonable grounds to believe that the Company and the companies to which the *ASIC Corporations (wholly owned companies) Instrument 2016/785* applies, as detailed in Note 38 to the Financial Statements will, as a group, be able to meet any obligations or liabilities to which they are or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



**RICHARD DAVIS**  
Chairman  
29th August 2018



**NEIL MCGUIGAN**  
Chief Executive Officer  
29th August 2018





AUSTRALIAN VINTAGE LTD

# 2018 Financial Report

FOR THE FINANCIAL YEAR  
ENDED 30 JUNE 2018



The Farms Vineyard, Barossa Valley

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	NOTE	CONSOLIDATED	
		2018 \$'000	2017 \$'000
Revenue	5	264,613	226,450
Cost of sales	5	(198,066)	(170,518)
<b>Gross Profit</b>		<b>66,547</b>	<b>55,932</b>
Fair value (loss) / gain on grapes picked		(569)	1,394
Investment Income	5	92	97
Other gains and losses	5	590	2,582
Distribution expenses		(13,179)	(12,981)
Sales and marketing expenses		(29,206)	(28,359)
Administration expenses		(7,987)	(7,613)
Finance costs	5	(5,031)	(5,025)
(Loss) / gain on sale of property, plant and equipment	5	(92)	224
<b>Profit before tax</b>		<b>11,165</b>	<b>6,251</b>
Income tax expense	6	(3,471)	(1,948)
<b>Net Profit for the year</b>		<b>7,694</b>	<b>4,303</b>
<b>Other comprehensive income / (loss), net of income tax:</b>			
<i>Items that may be subsequently classified to the profit or loss:</i>			
Loss on hedging		(254)	(302)
Exchange differences arising on translation of foreign operations		134	(68)
<b>Other comprehensive loss for the year, net of income tax</b>		<b>(120)</b>	<b>(370)</b>
<b>Total comprehensive income for the year</b>		<b>7,574</b>	<b>3,933</b>
<b>Earnings Per Share:</b>			
Basic (cents per share)	34	2.8	1.8
Diluted (cents per share)	34	2.7	1.7

Notes to the financial statements are included on pages 49 to 88.



## Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

	NOTE	CONSOLIDATED	
		2018 \$'000	2017 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	41	7,712	2,616
Trade and other receivables	10	45,526	40,197
Inventories	11	139,882	141,553
Other financial assets	12	-	680
Other	13	2,020	2,288
<b>Total Current Assets</b>		<b>195,140</b>	<b>187,334</b>
<b>Non-Current Assets</b>			
Inventories	14	52,164	53,046
Other financial assets	15	362	396
Property, plant and equipment	16	109,095	97,308
Goodwill	17	37,685	37,685
Other intangible assets	18	5,179	5,296
Water Licenses	19	7,554	7,554
Deferred tax assets	6	33,597	36,945
<b>Total Non-Current Assets</b>		<b>245,636</b>	<b>238,230</b>
<b>Total Assets</b>		<b>440,776</b>	<b>425,564</b>
<b>Current Liabilities</b>			
Trade and other payables	21	55,523	46,468
Borrowings	22	503	551
Other financial liabilities	23	477	194
Provisions	24	5,539	5,486
Other	25	596	-
<b>Total Current Liabilities</b>		<b>62,638</b>	<b>52,699</b>
<b>Non-Current Liabilities</b>			
Borrowings	26	84,435	84,880
Other financial liabilities	27	15	28
Provisions	28	795	1,114
<b>Total Non-Current Liabilities</b>		<b>85,245</b>	<b>86,022</b>
<b>Total Liabilities</b>		<b>147,883</b>	<b>138,721</b>
<b>Net Assets</b>		<b>292,893</b>	<b>286,843</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Issued capital	31	463,961	463,009
Reserves	32	1,989	1,829
Accumulated losses	33	(173,057)	(177,995)
<b>Total Equity</b>		<b>292,893</b>	<b>286,843</b>

Notes to the financial statements are included on pages 49 to 88.

## Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	SHARE CAPITAL \$'000	EQUITY - SETTLED EMPLOYEE BENEFITS RESERVE \$'000	HEDGING RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	ACCUMULATED LOSSES \$'000	TOTAL \$'000
<b>Balance at 1 July 2017</b>	<b>463,009</b>	<b>1,698</b>	<b>46</b>	<b>85</b>	<b>(177,995)</b>	<b>286,843</b>
Profit for the period	-	-	-	-	7,694	7,694
Net gain on interest rate swaps	-	-	215	-	-	215
Net loss on foreign exchange hedges	-	-	(578)	-	-	(578)
Exchange differences arising on translation of foreign operations	-	-	-	191	-	191
Income tax relating to components of other comprehensive income	-	-	109	(57)	-	52
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(254)</b>	<b>134</b>	<b>7,694</b>	<b>7,574</b>
Share issues	984	-	-	-	-	984
Share issue costs	(46)	-	-	-	-	(46)
Tax consequences	14	-	-	-	-	14
Dividend paid	-	-	-	-	(2,756)	(2,756)
Recognition of share based payments	-	280	-	-	-	280
<b>Balance at 30 June 2018</b>	<b>463,961</b>	<b>1,978</b>	<b>(208)</b>	<b>219</b>	<b>(173,057)</b>	<b>292,893</b>
<b>Balance at 1 July 2016</b>	<b>443,266</b>	<b>1,546</b>	<b>348</b>	<b>153</b>	<b>(178,813)</b>	<b>266,500</b>
Profit for the period	-	-	-	-	4,303	4,303
Net gain on interest rate swaps	-	-	334	-	-	334
Net loss on foreign exchange hedges	-	-	(765)	-	-	(765)
Exchange differences arising on translation of foreign operations	-	-	-	(97)	-	(97)
Income tax relating to components of other comprehensive income	-	-	129	29	-	158
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(302)</b>	<b>(68)</b>	<b>4,303</b>	<b>3,933</b>
Share issues	20,020	-	-	-	-	20,020
Share issue costs	(395)	-	-	-	-	(395)
Tax consequences	118	-	-	-	-	118
Dividend paid	-	-	-	-	(3,485)	(3,485)
Recognition of share based payments	-	152	-	-	-	152
<b>Balance at 30 June 2017</b>	<b>463,009</b>	<b>1,698</b>	<b>46</b>	<b>85</b>	<b>(177,995)</b>	<b>286,843</b>

Notes to the financial statements are included on pages 49 to 88.

## Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	NOTE	CONSOLIDATED	
		2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		276,850	249,819
Other payments to suppliers and employees		(245,220)	(230,000)
<b>Cash generated from operations</b>		<b>31,630</b>	<b>19,819</b>
Interest and other costs of finance paid		(4,979)	(5,838)
Interest and bill discounts received		16	15
<b>Net cash provided by operating activities</b>	41 (d)	<b>26,667</b>	<b>13,996</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(19,383)	(12,073)
Payments for intangibles	18	(191)	(16)
Payments for investments		-	(119)
Proceeds from sale of property, plant & equipment		314	635
<b>Net cash used in investing activities</b>		<b>(19,260)</b>	<b>(11,573)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	5,300
Proceeds from issue of shares		-	18,398
Share issue costs		(46)	(395)
Dividends paid		(1,772)	(1,862)
Repayment of borrowings	41 (c)	(493)	(27,259)
<b>Net cash used in financing activities</b>		<b>(2,311)</b>	<b>(5,818)</b>
Net increase / (decrease) in cash and cash equivalents		5,096	(3,395)
Cash and cash equivalents at the beginning of the financial year		2,616	6,011
<b>Cash and cash equivalents at the end of the financial year</b>	41	<b>7,712</b>	<b>2,616</b>

Notes to the financial statements are included on pages 49 to 88.

## Note 1: General Information

Australian Vintage Ltd is a public company listed on the Australian Securities Exchange (trading under the symbol 'AVG'), incorporated in Australia and with operations in Australia, Asia, North America, Europe and the United Kingdom.

Australian Vintage Ltd's registered office and principal place of business are as follows:

**Registered Office and principal place of business**  
275 Sir Donald Bradman Drive  
Cowandilla SA 5033  
Tel: (08) 8172 8333

The consolidated entity's principal activities in the course of the financial year were wine making, wine marketing, vineyard management and development.

### Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 29th August 2018.

## Note 2: Adoption of new and revised Accounting Standards

### Application of new and revised International Financial Reporting Standards (IFRSs)

#### 2.1 Application of New and Revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

Apart from the additional disclosures required by AASB107 (refer below), the adoption of these standards did not have a significant impact on the consolidated financial statements.

#### Amendments to AASB 107 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require disclosures to detail changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (notes 22 and 26) and certain other financial liabilities (note 23 and 27).

A reconciliation between the opening and closing balances of these items is provided in note 41(c).

Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period.

#### 2.2 New and revised Australian Accounting Standards in issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective.

#### Standards and Interpretations in Issue Not Yet Adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

STANDARD / INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020

### Impact of New and Revised Requirements

#### AASB 9 'Financial Instruments' (December 2009), and the relevant amending standards

AASB 9 applies to annual periods beginning on or after 1 January 2018 so this would first relate to the half year ending 31 December 2018 and the full year ending 30 June 2019.

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model. The expected credit loss model requires an entity to account for expected lifetime and 12-month expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The main impact on the company is the re-assessment of the provision for doubtful debts based on previous bad debt history and consideration of providing for a proportion of all trade debts due, including those within payment terms. The impact is not expected to be material.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted.



## Note 2: Adoption of new and revised Accounting Standards (continued)

### 2.2 New and revised Australian Accounting Standards in issue but not yet effective (continued)

#### Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of AASB 9. Similar to the Group's current hedge accounting policy, the directors do not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships.

Apart from the above, the directors of the Company anticipate that the application of AASB 9 in the future is not anticipated to have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities, but will require additional disclosures with respect to financial instruments and the company's risk management policies in the Group's consolidated financial statements.

#### ***AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15***

AASB 15 applies to annual periods beginning on or after 1 January 2018 so this would first relate to the half year ending 31 December 2018 and the full year ending 30 June 2019. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Accordingly, the new revenue standard requires that consideration payable, such as some rebates, be accounted for as a reduction of the transaction price. This would result in a proportion of rebates being classified out of cost of sales and as a reduction in revenue.

The company has performed a preliminary calculation and expects that the application of the standard would require a reduction in revenue and cost of sales of approximately \$10 million to \$15 million per annum. This estimate has been calculated on current rebate structures and is subject to major changes in these structures. There is no effect on the Net Profit of the company or the consolidated group.

The application of AASB 15 in the future will also impact some of the disclosures on the Group's revenue transactions made in the Group's consolidated financial statements.

#### ***AASB 16 'Leases'***

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

The new standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.

The accounting model will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the outstanding lease payments. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

The classification of cash flows will also be affected as operating lease payments are currently presented as operating cash flows; whereas under the new standard, the lease payments will be split into principal and interest which will be presented as financing and operating cash flows.

AASB 16 applies to annual periods beginning on or after 1 January 2019 so this would first relate to the half year ending 31 December 2019 and the full year ending 30 June 2020.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of approximately \$19.7 million (refer Note 36). A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases and any other leases contained within contracts upon the application of AASB 16.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements.

The company has commenced a process to review all existing lease agreements and performed a preliminary calculation and expects that the application of the standard could have the following impact on the Group's consolidated financial statements:

#### ***Balance Sheet - (based on "prospective basis" per transitional provisions of AASB 16)***

- Recognition of Right to Use asset and Lease Liability of approximately \$17 million to \$22 million based on current committed leases at balance date
- Recognition of a further Right to Use asset and Lease Liability of approximately \$27 million to \$32 million based on planned extensions of current lease agreements

#### ***Ongoing Profit and Loss impacts – (based on "prospective basis" per transitional provisions of AASB 16)***

- Lease expense (operating item), with the majority recorded in inventory/cost of sales as a large proportion relates to lease payments on leased vineyards, replaced with depreciation/amortisation and interest.
- EBITDA increases by approximately \$7 million to \$8 million
- Depreciation/amortisation increases by approximately \$6.5 million to \$7.5 million
- Interest expense increases by approximately \$0.1 million to \$0.3 million

The company is still reviewing the transitional provisions of the standard and the impact they would have on the Group's consolidated financial statements. If a choice is made to transition using the retrospective or modified retrospective basis, then this will impact the above disclosed ranges. The above impact will change if new leases are entered into prior to adoption of the standard.

## Note 3: Summary of accounting policies

### 3.1 Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report comprises the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

### 3.2 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below and biological assets which are presented at market value.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 102, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors Reports) instrument 2016/191 dated 24 March 2016, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### 3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and other component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests.

Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 3.4 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 3.5 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and have maturity of less than 3 months at date of acquisition.

## Note 3: Summary of accounting policies (continued)

### 3.6 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward exchange contracts, foreign currency options and interest rate swaps. Further details of derivative financial instruments are disclosed in note 42 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

#### Hedge accounting

The Group designates certain hedging instruments, which include derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges.

Hedges of foreign exchange risk on firm commitments and highly probable forecast transactions are accounted for as cash flow hedges. At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 42 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve are shown in the Statement of Changes in Equity.

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

### 3.7 Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

## Note 3: Summary of accounting policies (continued)

### 3.8 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

#### Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Investments in controlled entities

Investments in controlled entities are recorded at cost in the Company financial statements. Investments in associates have been accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements. Other investments are recorded at fair value with gains or losses arising on re-measurement recognised in profit or loss. Dividends are recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets classified as at FVTPL.

#### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate, except for short term receivables when the effect of discounting is immaterial.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity is recognised in profit and loss.

On derecognition of a financial asset other than in its entirety, (e.g. when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit and loss. A cumulative gain or loss that has been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

## Note 3: Summary of accounting policies (continued)

### 3.9 Financial instruments issued by the Group

#### Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

#### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 3.10 Foreign currency

#### Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Australian Vintage Ltd, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings (refer note 3.8);
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 3.8); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

#### Foreign operations

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Australian dollars at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Exchange differences arising are recognised in equity.

### 3.11 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date).

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.



## Note 3: Summary of accounting policies (continued)

### 3.11 Goodwill (continued)

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 3.12 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### 3.13 Produce extracted from vines

Produce harvested from vines owned by the Group are measured as revenue at fair value less estimated costs to sell at the point of harvest (including production costs). A gain or loss arising from a change in fair values less estimated costs to sell is included in the profit and loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventory.

### 3.14 Impairment of long-lived assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### 3.15 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## Note 3: Summary of accounting policies (continued)

### 3.15 Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

#### Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Australian Vintage Ltd is the head entity in the tax-consolidated group.

Current tax liabilities and assets, and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Australian Vintage Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

### 3.16 Intangible assets

#### Brand names and Registered Trademarks

Brand names recognised by the Group are considered to have an indefinite useful life and are not amortised. Each period, the useful life of this type of asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in Note 3.14.

#### Software

Software is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the estimated useful life. The estimated useful life of the software package is 10 years. Estimated useful lives and amortisation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### 3.17 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Inventory is assessed for obsolescence on an ongoing basis and adjusted to net realisable value as required. The assessment takes into account the quality, age and saleability of the inventory on hand.

### 3.18 Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### Group as lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. However, contingent rentals arising under operating leases are recognised as income in a manner consistent with the basis on which they are determined.

#### Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3.4.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## Note 3: Summary of accounting policies (continued)

### 3.19 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when management are committed to the sale, the sale is highly probable and the asset is available for immediate sale in its present condition and the sale of the asset is expected to be completed within one year from the date of classification.

### 3.20 Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

### 3.21 Property, plant and equipment

Property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Buildings, plant and equipment, vines and vineyard improvements and equipment under finance lease are measured at cost less accumulated depreciation and impairment. Freehold land is not depreciated.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line and diminishing value basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Vineyard improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Depreciation related to wineries, production and some vineyards is capitalised into inventory.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

The following estimated useful lives are used in the calculation of depreciation:

• Buildings	50 years
• Vineyard improvements	15-20 years
• Plant and equipment	5-33 years
• Plant and equipment under lease	5-15 years
• Vines	30 years

### 3.22 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### 3.23 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and other similar allowances.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Note 3: Summary of accounting policies (continued)

### 3.23 Revenue (continued)

#### Vineyard development/management contracts

Revenue is earned from the development and management of vineyards. Revenue from cost plus development contracts is recognised by reference to the recoverable costs incurred during the financial year plus the percentage of fees earned. Percentage of fees earned is measured by the proportion that costs incurred to date relate to the estimated total cost of the stage of the contract. Where a loss is expected to occur it is recognised immediately. Revenue from vineyard management contracts is recognised based on a percentage of completion method.

#### Contract Processing

Revenue from contract processing is recognised based on the percentage of winemaking process completed.

#### Interest Revenue

Interest revenue is accrued on a time basis by reference to the principal balance and the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income from a financial asset is recognised when it is probable that the economic benefit will flow to the Group and the amount of revenue can be measured reliably.

#### Rental Income

Rent is accrued on a time basis by reference to the total rent due to the Group for the reporting period.

### 3.24 Share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

### 3.25 Trade credits

Trade credits are recorded at the net present value of expected future usage. The Group reviews the recoverable amount of the trade credits at each reporting date and any shortfall against carrying value is charged to profit and loss.

### 3.26 Water licences

Water allocations with permanent rights are measured at cost on the date of acquisition. The permanent water licences have an indefinite useful life and are not subject to amortisation. Water allocations with permanent rights are assessed for impairment in each reporting period, with reference to current market prices. Water allocations with temporary rights are expensed in the year of purchase.

## Note 4: Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical accounting judgments and key sources of estimation uncertainty that management has made in applying the Group's accounting policies:

#### Impairment of goodwill

The goodwill arising from the acquisition of businesses has been reassessed through the estimation of the value in use of the bulk wine and processing cash generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units based on forecasted volume, processing margin and select a discount rate in order to calculate present value.

Details of the assumptions and sensitivities performed are outlined in Note 17.

#### Income tax losses

The Group has recognised deferred tax assets in relation to unused tax losses and temporary differences as at the end of the reporting period. The recognition of deferred tax assets is after considering whether it is probable that the Group will have sufficient taxable profit in the foreseeable future and against which the deferred tax assets can be recovered.

The assessment of whether there will be sufficient taxable profit is subject to a level of judgment and if the actual conditions vary to the assumptions adopted, the carrying value of the asset would need to be reassessed.

#### Impairment of other intangibles

The carrying values of the brand names have been individually assessed as part of separate cash generating units (CGUs).

Impairment tests were performed on brand names using a discounted cash flow model.

There have been estimations applied to assumptions in the cash flow from the CGUs. Should these estimations vary, the carrying amount of the intangible assets would need to be re-assessed.

Details of the assumptions and sensitivities performed are outlined in Note 18.

## Note 5: Profit / (Loss) from operations

The following is an analysis of the Group's revenue for the year from continuing operations

		CONSOLIDATED	
		2018	2017
		\$'000	\$'000
<b>(a) Revenue – continuing operations</b>			
Revenue from the sale of goods		257,971	222,130
Revenue from contract processing		1,079	521
Revenue from rendering contract vineyard services		5,563	3,799
<b>Total</b>		<b>264,613</b>	<b>226,450</b>
<b>Investment income</b>			
Rental income		76	82
Interest income		16	15
<b>Total</b>		<b>92</b>	<b>97</b>
<b>Other gains / (losses)</b>			
Wine equalisation tax rebate		500	500
(Loss) / Gain on unrealised foreign exchange		(587)	1,284
Other rebates		594	488
Other		83	310
<b>Total</b>		<b>590</b>	<b>2,582</b>
<b>(b) Profit / (Loss) before income tax</b>			
Profit / (loss) before income tax has been arrived at after crediting / (charging) the following gains and losses:			
(Loss) / Gain on disposal of property, plant and equipment		(92)	224
(Loss) / Gain on unrealised foreign exchange		(587)	1,284
Profit from rendering contract vineyard services		332	200
Profit / (Loss) before income tax has been arrived at after charging the following expenses:			
Cost of sales		198,066	170,518
Operating lease rental expenses (minimum lease payments)		6,705	6,533
Employee benefit expense:			
Share-based payments:			
Equity settled share-based payments (refer note 8)		280	152
		280	152
Termination benefits		124	98
Superannuation benefits		2,694	2,561
Other employee benefits (incl. salaries and wages)		36,302	33,914
<b>Total employee benefits expense</b>		<b>39,400</b>	<b>36,725</b>
<b>(c) Depreciation and amortisation expense:</b>			
Depreciation of non-current assets - charged to cost of sales		5,189	4,943
Depreciation of non-current assets - other		1,999	2,002
Amortisation of non-current assets		308	504
<b>Total depreciation and amortisation expense</b>		<b>7,496</b>	<b>7,449</b>
<b>(d) Finance costs:</b>			
Interest on bank overdrafts and loans		4,695	4,902
Interest on obligations under finance lease		289	22
		4,984	4,924
Unwinding of discounts		47	101
<b>Total finance costs</b>		<b>5,031</b>	<b>5,025</b>

The weighted average rate on funds borrowed is 3.84% per annum (2017: 4.32% per annum).



## Note 6: Income taxes

		CONSOLIDATED	
		2018 \$'000	2017 \$'000
<b>(a) Income tax recognised in profit or loss</b>			
Current tax			
Current tax (benefit) / expense in respect of the current year		-	-
		-	-
Deferred tax			
Deferred tax expense relating to the current year		3,414	1,957
Adjustments recognised in the current year in relation to the current tax of prior years		57	(9)
		3,471	1,948
Total income tax expense / (benefit) recognised in the current year relating to continuing operations		3,471	1,948
The prima facie income tax expense / (benefit) on pre-tax accounting income/(loss) from operations reconciles to the income tax expense in the financial statements as follows:			
Profit from operations		11,165	6,251
Income expense calculated at 30%		3,350	1,875
Non-deductible expenses		121	82
Adjustments recognised in the current year in relation to tax of prior years		-	(9)
Total tax expense / (benefit)		3,471	1,948
The tax rate used for the 2018 and 2017 reconciliations above is the corporation tax rate of 30% payable by Australian Corporate entities on taxable profits under Australian tax law.			
<b>(b) Income tax recognised in other comprehensive income</b>		66	276

**(c) Taxable and deductible temporary differences arise from the following:**

CONSOLIDATED

	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Temporary differences 2018</b>					
<b>Gross deferred tax liabilities:</b>					
Inventories	(5,538)	1,233	-	-	(4,305)
Intangibles	(1,552)	81	-	-	(1,471)
Property, plant and equipment	(7,269)	17	-	-	(7,252)
Other	(29)	4	-	-	(25)
	<b>(14,388)</b>	<b>1,335</b>	<b>-</b>	<b>-</b>	<b>(13,053)</b>
<b>Gross deferred tax assets:</b>					
Trade and other receivables	1	1	-	-	2
Inventories	1,243	(549)	-	-	694
Trade and other payables	1,146	197	-	-	1,343
Provisions	2,428	(191)	-	-	2,237
Tax losses	46,009	(4,335)	-	-	41,674
Other	506	128	66	-	700
	<b>51,333</b>	<b>(4,749)</b>	<b>66</b>	<b>-</b>	<b>46,650</b>
<b>Net deferred tax asset</b>	<b>36,945</b>	<b>(3,414)</b>	<b>66</b>	<b>-</b>	<b>33,597</b>

## Note 6: Income taxes (continued)

(c) Taxable and deductible temporary differences arise from the following (continued):

### CONSOLIDATED

	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Temporary differences 2017</b>					
<b>Gross deferred tax liabilities:</b>					
Inventories	(6,232)	694	-	-	(5,538)
Intangibles	(1,472)	(80)	-	-	(1,552)
Property, plant and equipment	(5,306)	(1,963)	-	-	(7,269)
Other	(34)	5	-	-	(29)
	<b>(13,044)</b>	<b>(1,344)</b>	-	-	<b>(14,388)</b>
<b>Gross deferred tax assets:</b>					
Trade and other receivables	26	(25)	-	-	1
Inventories	118	1,125	-	-	1,243
Trade and other payables	1,309	(163)	-	-	1,146
Provisions	2,651	(223)	-	-	2,428
Tax losses	47,170	(1,161)	-	-	46,009
Other	414	(166)	258	-	506
	<b>51,688</b>	<b>(613)</b>	<b>258</b>	-	<b>51,333</b>
<b>Net deferred tax asset</b>	<b>38,644</b>	<b>(1,957)</b>	<b>258</b>	-	<b>36,945</b>

There are no unrecognised revenue tax losses relating to the Group. The Group has not recognised \$1,666,402 (2017: \$1,127,615) of capital losses. The Directors expect the future financial performance of the Group will facilitate the full recovery of the revenue tax losses.

### Tax Consolidation

#### Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Vintage Ltd. The members of the tax-consolidated group are identified in note 38.

#### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Australian Vintage Ltd and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. The tax funding arrangement requires each subsidiary to prepare an individual tax calculation to determine the amount payable or receivable. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation or income tax liabilities between the entities should the head entity default on its tax payment obligation. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

## Note 7: Key management personnel compensation

The aggregate compensation of the key management personnel of the Group and the company is set out below:

	CONSOLIDATED	
	2018 \$	2017 \$
Short-term employee benefits	2,962,020	2,662,158
Post-employment benefits	261,077	213,605
Share based payments	208,044	118,800
Termination benefits	-	-
	<b>3,431,141</b>	<b>2,994,563</b>

## Note 8: Executive performance rights and share option plan

The following share based payments arrangements were in existence during the current and prior reporting periods.

### Australian Vintage Ltd Performance Rights and Option Plan

Established in August 2012, this long-term incentive is provided as either a right to an issue of shares or an option to purchase shares. These rights and options are subject to the achievement of set growth rates in earnings per share over a 4 year period up until the vesting date and continuous employment which are assessed annually. The plan is available to senior management as approved by the board. There were 4,100,000 options issued in the current year under this plan to employees (2017: 4,000,000). These rights and options were priced using a binominal option pricing model.

The table below summarises all performance rights on issue:

	2018 NUMBER	2017 NUMBER
Balance at the beginning of the financial year (i)	8,802,912	6,539,914
Granted during the financial year (ii)	4,100,000	4,000,000
Exercised during the financial year	-	-
Lapsed/cancelled during the financial year (iii)	(1,709,912)	(1,737,002)
Balance at the end of the financial year (iv)	11,193,000	8,802,912

#### (i) Balance at the Beginning of the Financial Year

2018	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Rights issued 22 July 13	950,912	-	950,912	22/07/13	22/07/17	21/08/17	N/A
Options issued 17 November 15	2,000,000	-	2,000,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	2,000,000	-	2,000,000	04/12/15	31/08/18	01/11/20	0.376
Options issued 23 November 16	2,000,000	-	2,000,000	23/11/16	31/08/19	01/11/21	0.528
Options issued 19 December 16	1,852,000	-	1,852,000	19/12/16	31/08/19	01/11/21	0.528
	8,802,912	-	8,802,912				

#### (ii) Granted during the Financial Year

2018	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 20 November 17	1,300,000	-	1,300,000	20/11/17	31/08/20	01/11/22	0.4387
Options issued 20 December 17	2,800,000	-	2,800,000	20/12/17	31/08/20	01/11/22	0.4387
	4,100,000	-	4,100,000				

The weighted average fair value of the share options granted during the financial year is \$0.099 (2017: \$0.095). Options were priced using a binomial option pricing model. Details of inputs to the model are set out below:

Options grant date	No.	Grant date Share Price	Exercise Price	Expected Volatility	Option Life (days)	Dividend Yield	Risk-free Interest Rate
Options issued 20 November 17	1,300,000	0.455	0.4387	35.00%	1,411	2.17%	2.05%
Options issued 20 December 17	2,800,000	0.450	0.4387	35.00%	1,381	2.20%	2.20%

#### (iii) Lapsed/cancelled during the Financial Year

2018	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Rights issued 22 July 13	950,912	-	950,912	22/07/13	22/07/17	21/08/17	N/A
Options issued 4 December 15	175,000	-	175,000	04/12/15	31/08/18	01/11/20	0.376
Options issued 19 December 16	284,000	-	284,000	19/12/16	31/08/19	01/11/21	0.528
Options issued 20 December 17	300,000	-	300,000	20/12/17	31/08/20	01/11/22	0.4387
	1,709,912	-	1,709,912				

#### (iv) Balance at End of Financial Year

2018	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 17 November 15	2,000,000	-	2,000,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	1,825,000	-	1,825,000	04/12/15	31/08/18	01/11/20	0.376
Options issued 23 November 16	2,000,000	-	2,000,000	23/11/16	31/08/19	01/11/21	0.528
Options issued 19 December 16	1,568,000	-	1,568,000	19/12/16	31/08/19	01/11/21	0.528
Options issued 20 November 17	1,300,000	-	1,300,000	20/11/17	31/08/20	01/11/22	0.4387
Options issued 20 December 17	2,500,000	-	2,500,000	20/12/17	31/08/20	01/11/22	0.4387
	11,193,000	-	11,193,000				

## Note 9: Remuneration of auditors

	CONSOLIDATED	
	2018 \$	2017 \$
<b>Auditor of the parent company</b>		
Audit or review of financial report	393,800	386,100
Other services – other audit services	36,015	48,448
Other services – taxation compliance	35,910	37,419
	<b>465,725</b>	<b>471,967</b>

The external auditor of Australian Vintage Ltd is Deloitte Touche Tohmatsu.

## Note 10: Current trade and other receivables

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Trade receivables (i)	44,579	39,142
Allowance for doubtful debts	(7)	(4)
	<b>44,572</b>	<b>39,138</b>
Other receivables	954	1,059
	<b>45,526</b>	<b>40,197</b>

- (i) The average credit period on sales of goods and rendering of services is 57 days (2017: 65 days). No interest is charged on outstanding trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Before accepting any new customers, the Group uses a third party to assess the potential customer's credit quality and defines credit limits by customer. Limits provided on customer accounts are reviewed throughout the year. Of the trade receivables balance at the end of the year, \$20.6 million (2017: \$21.6 million) is due from international and domestic supermarket groups. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$4.2 million (2017: \$2.0 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

### Ageing of past due but not impaired

30 – 60 days	4,103	1,992
60 – 90 days	75	1
90 – 120 days	48	18
<b>Total</b>	<b>4,226</b>	<b>2,011</b>
<b>Average age (days)</b>	<b>42</b>	<b>40</b>

### Movement in the allowance of doubtful debts

Balance at the beginning of the year	(4)	(22)
Impairment (losses) / reversals recognised on receivables	(173)	(30)
Amounts written off as not collectable	170	48
<b>Balance at the end of the year</b>	<b>(7)</b>	<b>(4)</b>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are no individually impaired trade receivables (2017: Nil) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds.

## Note 11: Current inventories

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Work in progress - bulk wine	93,990	101,779
Other stores and raw materials	3,589	3,939
Work in progress - other	6,153	4,828
Bottled wine	36,150	31,007
	<b>139,882</b>	<b>141,553</b>

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$198.1 million (2017: \$170.5 million).

## Note 12: Other financial assets

Hedge assets – foreign currency forwards and options	-	680
	<b>-</b>	<b>680</b>

## Note 13: Other current assets

Prepayments	2,020	2,288
	<b>2,020</b>	<b>2,288</b>

## Note 14: Non-current inventories

Work in progress - bulk wine	50,261	51,414
Bottled wine	1,903	1,632
	<b>52,164</b>	<b>53,046</b>

## Note 15: Other non-current financial assets

Investments in companies (i)	178	178
Prepaid borrowing costs	184	218
	<b>362</b>	<b>396</b>

(i) Relates to investments in wine related businesses

## Note 16: Property, plant and equipment

<b>(a) Vineyard Improvements</b>		
at cost	14,786	14,492
accumulated depreciation	(9,704)	(8,984)
	<b>5,082</b>	<b>5,508</b>
<b>Freehold Land</b>		
at cost	<b>12,868</b>	<b>12,868</b>
<b>Vines</b>		
at cost	34,595	33,497
accumulated depreciation	(23,498)	(22,585)
	<b>11,097</b>	<b>10,912</b>



## Note 16: Property, plant and equipment (continued)

		CONSOLIDATED	
		2018 \$'000	2017 \$'000
<b>(a) Vineyard Improvements (continued)</b>			
Buildings			
At cost		19,704	18,900
accumulated depreciation		(5,537)	(5,087)
		<b>14,167</b>	<b>13,813</b>
Plant and equipment under lease			
at cost		6,340	6,340
accumulated amortisation		(486)	(262)
		<b>5,854</b>	<b>6,078</b>
Plant and equipment			
at cost		122,249	105,469
accumulated depreciation		(62,222)	(57,340)
		<b>60,027</b>	<b>48,129</b>
Total Property, Plant and Equipment			
at cost		210,542	171,016
accumulated depreciation and amortisation		(101,447)	(73,708)
		<b>109,095</b>	<b>97,308</b>
<b>(b) Reconciliations</b>			
Vineyard Improvements			
carrying amount at beginning of the financial year		5,508	5,880
additions		294	329
disposals		-	(1)
depreciation		(720)	(700)
at end of year		<b>5,082</b>	<b>5,508</b>
Freehold land			
carrying amount at beginning of the financial year		12,868	13,076
transfers		-	(208)
at end of year		<b>12,868</b>	<b>12,868</b>
Vines			
carrying amount at beginning of the financial year		10,912	11,217
additions		1,239	672
disposals		(141)	(3)
depreciation		(913)	(974)
at end of year		<b>11,097</b>	<b>10,912</b>
Buildings			
carrying amount at beginning of the financial year		13,813	11,165
transfers		498	208
additions		306	2,845
disposals		-	(10)
depreciation		(450)	(395)
at end of year		<b>14,167</b>	<b>13,813</b>
Plant and equipment under lease			
carrying amount at beginning of the financial year		6,078	1,152
additions		-	5,300
transfers		-	(244)
amortisation		(224)	(130)
at end of year		<b>5,854</b>	<b>6,078</b>
Plant and equipment			
carrying amount at beginning of the financial year		48,129	50,101
Additions		17,543	2,927
transfers		(498)	244
disposals		(266)	(397)
depreciation		(4,881)	(4,746)
at end of year		<b>60,027</b>	<b>48,129</b>

## Note 17: Goodwill

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Gross carrying amount:		
Balance at beginning of the financial year	44,085	44,085
Balance at end of the financial year	<b>44,085</b>	<b>44,085</b>
Accumulated impairment losses		
Balance at beginning of financial year	6,400	6,400
Balance at end of financial year (i)	<b>6,400</b>	<b>6,400</b>
Net book value		
At the beginning of the financial year	37,685	37,685
At the end of the financial year	<b>37,685</b>	<b>37,685</b>
Allocation of goodwill to cash-generating units		
Goodwill has been allocated for impairment testing purposes to the following cash generating unit:		
Bulk wine and contract processing business	<b>37,685</b>	<b>37,685</b>

- (i) The impairment of goodwill is tested each reporting date and is based on determining the recoverable amount of the bulk wine and processing cash generating unit (CGU). Given the unique nature of the assets, it is not possible to obtain comparable fair values to the assets owned by this Group and therefore the value in use method is the method used by the Group for assessing whether the assets in the CGU are impaired. The recoverable amount of this CGU has been determined based on a value in use method which calculates the net present value of the forecast cash flows expected from the CGU. The cash flows are based on the current management budgets and forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5th year. In preparing the impairment model, the Group started with the cash flows from the year ended 30 June 2018 and adjusted that base year for the budgets and 5-year plans approved by the Board of Directors.

The cash flows in the impairment model have been discounted to present value using a discount rate applicable to the cash flow. The Group has used the weighted average cost of capital as a guide to determine the discount rate applied to the cash flows as it is considered the most appropriate discount rate for the risk specific to the assets in the CGU.

The net present value of the cash flows has been compared to the assets within the CGU which include the goodwill balance above. In the current year, the Group applied a pre-tax discount rate of 12.00% p.a. (2017: 12.00% p.a.) to account for the risk associated with the assets in the current financial markets.

### Assumptions

Key assumptions relate to forecast volume growth and processing margin, which have been sensitised and the results are outlined below.

The other assumptions used in the value in use calculations are as follows:

- Working capital levels used in future years;
- Pre-tax Discount rate of 12.00% (2017: 12.00%);
- Terminal Growth Rate of 2.5% (2017: 2.5%).

### Discount Rate

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the Group; and the debt /equity ratio.

The inputs used in the model have been sourced from industry and financial market reports relevant to the Group and the Australian wine industry and have been considered in relation to the Group.

### Sensitivity Analysis

The bulk wine and processing business includes sales of bulk wine and contract processing to external customers, and processing of wine to internal business units.

Cash flow forecasts are based upon our most recent budget and 5-year financial plans approved by the Board. The 5-year plan incorporates assumptions regarding volume growth which are based upon anticipated market demand and past experience.

The Group has performed sensitivity analysis on the value in use calculation as follows:

- Volume growth is based upon Board approved budgets and 5-year plan forecasts. The net cash flow can be reduced by \$3.5 million per annum (representing a 24% decline) before an impairment is recognised;
- The model is sensitive to the amount of the internal charge for wine processing. This charge can be reduced by 30% before an impairment is recognised;
- The discount rate can be increased by 2.6 percentage points (to 14.60%) before an impairment is recognised;
- Reducing the terminal growth rate to 0% does not cause the associated goodwill to be impaired;

The calculations are not very sensitive to exchange rates as the majority of cash flows from this business unit are denominated in Australian dollars.

## Note 18: Other intangible assets

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Brand Names and Registered Trademarks:</b>		
Balance at 1 July	4,828	4,828
Disposed during the year	-	-
<b>Balance at 30 June</b>	<b>4,828</b>	<b>4,828</b>
<b>Software:</b>		
Balance at 1 July	468	956
Costs incurred during the year	191	16
Amortisation expense	(308)	(504)
Balance at 30 June	351	468
<b>Total other intangible assets</b>	<b>5,179</b>	<b>5,296</b>

Brand names have been assessed as having an indefinite useful life as the assets are integral to the business. Brand names can be managed by another management team and similar assets in the wine industry are commonly defined as having an indefinite useful life. The impairment of brand names is tested each reporting date and is based on the cash flows generated by each brand. The cash flows are based on the current management budgets and forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5th year.

### Discount Rate

The cash flows have been discounted to present value. In the current year, the Group applied a pre-tax discount rate of 17.04% p.a. (2017: 16.98% p.a.) to account for the risk associated with the assets in the current financial markets.

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the Group; and the debt /equity ratio.

The inputs used in the model have been sourced from industry and financial market reports relevant to the Group and the Australian wine industry and have been considered in relation to the Group.

### Key Assumptions

The key assumptions used in the value in use calculations are as follows:

- Terminal Growth Rate of 2.5% (2017: 2.5%)
- Discount rate of 17.04% (2017: 16.98%)
- Revenue growth rate of 13% (2017: 7%)

No impairment charges relating to brands were recorded as the cash flows continued to support the carrying values of these brands.

### Sensitivity Analysis

The Group has performed sensitivity analysis on the brand names valuation models as follows:

- The discount rate can be increased to 23.00% before an impairment is recognised.
- A decline of \$0.5 million per annum (representing a 44% decline) in the net cash flow can occur before an impairment arises.
- Reducing revenue growth rates to 0% does not cause the brand names to be impaired.
- Reducing the terminal growth rate to 0% does not cause the brand names to be impaired.

## Note 19: Water licences

Permanent water licences – at cost	7,554	7,554
Balance at 1 July	7,554	7,554
<b>Balance at 30 June</b>	<b>7,554</b>	<b>7,554</b>

## Note 20: Assets pledged as security

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
In accordance with the security arrangements of liabilities, as disclosed in notes 22 and 26 to the financial statements, the majority of tangible assets of the Group have been covered by a first registered fixed and floating charge to the National Australia Bank. The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default. The following assets have been pledged as security:		
Inventory	192,046	194,599
Receivables	45,526	40,197
Property, plant and equipment	109,095	97,308
	<b>346,667</b>	<b>332,104</b>

## Note 21: Current trade and other payables

Trade payables (i)	37,542	31,676
Goods and services tax payable	2,318	2,886
Value added tax payable	646	-
Other accounts payable and accruals	15,017	11,906
	<b>55,523</b>	<b>46,468</b>

(i) The average credit period on purchase of goods is 40 days (2017: 38 days); no interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## Note 22: Current borrowings

Secured, at amortised cost:		
Finance lease liabilities (i)	503	551
	<b>503</b>	<b>551</b>

(i) Secured by assets subject to the finance lease (refer note 36).

## Note 23: Other current financial liabilities

Hedge liability – foreign currency forwards and options	470	-
Interest rate swap	7	194
	<b>477</b>	<b>194</b>

## Note 24: Current provisions

Directors retirement benefit (note 29)	-	149
Onerous contracts (note 29)	183	450
Employee entitlements (i)	5,356	4,887
	<b>5,539</b>	<b>5,486</b>

(i) The current provision for employee entitlements includes \$4,126,770 (2017 : \$3,866,179) of annual leave and vested long service leave entitlements.

## Note 25: Other current liabilities

Income in advance	596	-
	<b>596</b>	<b>-</b>

## Note 26: Non-current borrowings

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Secured - at amortised cost:		
Commercial Bills (i)	80,000	80,000
Finance lease liabilities (ii)	4,435	4,880
	<b>84,435</b>	<b>84,880</b>

- (i) Commercial bills with a variable interest rate were issued in 2018. The current weighted average interest rate on the bills is 3.72% (2017: 4.21%). The commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 20).
- (ii) Secured by assets subject to the finance lease (refer note 36).

## Note 27: Non-current other financial liabilities

Hedge liability – foreign currency forwards and options	15	-
Interest rate swaps	-	28
	<b>15</b>	<b>28</b>

## Note 28: Non-current provisions

Employee entitlements	587	769
Onerous contracts (note 29)	208	345
	<b>795</b>	<b>1,114</b>

## Note 29: Provisions

	CONSOLIDATED			
	2018		2017	
	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)
Balance at beginning of year	795	149	1,198	149
Reductions arising from payments/other sacrifices of future economic benefits	(489)	(133)	(501)	-
Unwinding of discount and effect of changes in the discount rate	47	-	101	-
Reductions resulting from re-measurement, contract re-negotiation or settlement without cost	38	(16)	(3)	-
<b>Balance at end of year</b>	<b>391</b>	<b>-</b>	<b>795</b>	<b>149</b>

- (i) The provision for onerous contracts represents two components:
- the present value of the future grape payments that the Group is presently obligated to make in respect of onerous grape purchase contracts under non-cancellable grape agreements, less the estimate of the market value of the grapes. The estimate may vary in future as a result of changes in the market.
  - the present value of future contract processing payments that the Group is presently obligated to make in respect of onerous contract processing contracts under non-cancellable agreements, above the estimate of the market value for these services. The estimate may vary in future as a result of changes in the market.
- (ii) The provision for Directors' Retirement represents the present value of the directors' best estimate of the costs likely to be incurred as a result of either termination or retirement of directors. The provision at 30 June 2017 has since been paid and no other directors are entitled to a retirement benefit.

## Note 30: Employee superannuation plans

The Group made contributions to accumulation style superannuation plans during the year. The total expense recognised in the statement of comprehensive income was \$2,694,000 (2017: \$2,561,000). As at 30 June 2018, contributions of \$233,637 (2017: \$153,316) due in respect of the reporting period had not been paid over to the plans. The amounts were paid in July 2018.



## Note 31: Issued capital

CONSOLIDATED				
		2018	2017	
		\$'000	\$'000	
277,838,771 Fully paid ordinary shares (2017: 275,568,321)		463,961	463,009	

CONSOLIDATED				
	2018	2018	2017	2017
	Number	\$'000	Number	\$'000
<b>Fully paid ordinary share capital</b>				
Beginning of financial year	275,568,321	463,009	232,262,382	443,266
<b>Issued during the year</b>				
Share Issue <sup>(1)</sup>	-	-	35,939,389	16,536
Dividend reinvestment plan	2,270,450	984	7,366,550	3,484
Share issue costs	-	(46)	-	(395)
Tax consequence of share issue costs	-	14	-	118
End of financial year	277,838,771	463,961	275,568,321	463,009

(1) Shares issued to Vintage China Funds Gp. Limited, released from escrow as follows:

- 11,979,796 on 4th November 2017
- 11,979,796 on 4th May 2018
- 11,979,797 on 4th November 2018

Changes to the Corporations Act 2001 abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

All fully paid ordinary shares carry one vote per share and carry the right to dividends.

### Performance Right and Share Options

Details of share options granted and on issue are disclosed in Note 8.

Share options or performance rights carry no rights to dividends and no voting rights.

## Note 32: Reserves

CONSOLIDATED		
	2018	2017
	\$'000	\$'000
Employee equity-settled benefits (i)	1,978	1,698
Hedging reserve (ii)	(208)	46
Foreign currency translation reserve (iii)	219	85
	<b>1,989</b>	<b>1,829</b>

- (i) The employee equity-settled benefits reserve arises on the granting of shares, performance rights and share options to directors and employees. The fair value of share based payments provided to directors and employees of the Group are recorded within the reserve account and amounts are released into issued capital as options are exercised. Further details on share based payments are made in Note 8.
- (ii) The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit and loss when the hedge transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.
- (iii) The foreign currency translation reserve contains exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars.

Movements in reserves balances are disclosed in the Statement of Changes in Equity.

## Note 33: Accumulated losses

Balance at beginning of financial year	(177,995)	(178,813)
Net profit / (loss)	7,694	4,303
Dividends paid (note 35)	(2,756)	(3,485)
End of financial year	<b>(173,057)</b>	<b>(177,995)</b>

## Note 34: Earnings per share

	CONSOLIDATED	
	2018 Cents Per Share	2017 Cents Per Share
Basic earnings per share	2.8	1.8
Diluted earnings per share	2.7	1.7

Basic earnings per share:

The earnings and weighted average numbers of ordinary shares used in the calculation of basic earnings per share are as follows:

	2018 \$'000	2017 \$'000
Profit / (Loss) for the year	7,694	4,303
	2018 '000 Number of Shares	2017 '000 Number of Shares
<b>Basic earnings per share</b>		
Weighted average number of ordinary shares used in calculating basic earnings per share	277,011	242,577
<b>Diluted earnings per share</b>		
Weighted average number of ordinary shares used in calculating diluted earnings per share	281,675	248,681

## Note 35: Dividends

	2018		2017	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares:				
Interim dividend – franked to 30%	-	-	-	-
Final dividend – franked to 30%	1.0	2,756	1.5	3,485
	1.0	2,756	1.5	3,485
Adjusted franking account balance		6,244		7,425

In respect of the financial year ended 30 June 2018, a fully franked dividend of 1.5 cents per share will be paid on the 9th November 2018.  
In respect of the financial year ended 30 June 2017 a fully franked dividend of 1.0 cents per share was paid on the 10th November 2017.  
There are no income tax consequences of unrecognised dividends.

## Note 36: Leases and other commitments

### (a) Non-cancellable operating leases

The Group leases the following assets under normal economic terms.

- Vineyards (lease terms from 2 to 6 years)
- Plant and equipment (lease terms from 1 – 7 years)

The following sets out payments recognised as an expense

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Minimum lease payments	19,730	25,122
The following sets out the commitments to future lease payments relating to operating leases:		
- not longer than 1 year	6,512	6,469
- longer than 1 year and not longer than 5 years	13,168	18,511
- longer than 5 years	50	142
	<b>19,730</b>	<b>25,122</b>

### (b) Finance leases

Finance leases relate to plant and equipment with a lease term of up to 7 years, expiring between 30 June 2018 and 30 June 2024.

	Minimum Future Lease payments Consolidated		Present Value of Minimum Future Lease payments Consolidated	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
No Later than 1 year	763	840	503	551
Later than 1 year and not later than 5 years	2,820	2,820	2,046	1,935
Later than 5 years	2,507	3,212	2,389	2,945
Minimum lease payments*	6,090	6,872	4,938	5,431
Less future finance changes	(1,152)	(1,441)	-	-
Present value of minimum lease payments	4,938	5,431	4,938	5,431
Current borrowings (note 22)			503	551
Non-Current borrowings (note 26)			4,435	4,880
			<b>4,938</b>	<b>5,431</b>

\* Minimum lease payments include the aggregate of all lease payments and any guaranteed residual.

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

### (c) Capital expenditure commitments

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Property, Plant and Equipment – no longer than 1 year	2,049	4,398
	<b>2,049</b>	<b>4,398</b>

## Note 37: Contingent liabilities

Bank guarantees	1,472	865
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## Note 38: Subsidiaries

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP OF INTEREST	
		2018 %	2017 %
<b>Parent Entity</b>			
Australian Vintage Ltd	Australia		
<b>Controlled Entity</b>			
Simeon Wines Pty Ltd (1)	Australia	100	100
Vintners Australia Pty Limited (1)	Australia	100	100
Barossa Valley Wine Company Pty Limited (1)	Australia	100	100
Coldridge Development Pty Limited (1)	Australia	100	100
McGuigan Simeon Wines Pty Ltd (1)	Australia	100	100
Mourquong Pty Limited (1)	Australia	100	100
Buronga Hill Pty Limited (1)	Australia	100	100
Austvin Pty Ltd (1)	Australia	100	100
Australian Flavours Pty Limited (1)	Australia	100	100
Austvin Holdings Pty Limited (1)	Australia	100	100
Australian Vintage (Domestic) Pty Ltd (1)	Australia	100	100
Miranda Wines Pty Limited (1)	Australia	100	100
Miranda Wines (Leasing) Pty Limited (1)	Australia	100	100
Miranda Family Investments Pty Limited (1)	Australia	100	100
Miranda Wines Holdings Pty Ltd (1)	Australia	100	100
Australian Vintage (Europe) Limited	United Kingdom	100	100
MGW Executive Options Pty Limited (1)	Australia	100	100

- (1) These wholly-owned controlled entities have entered into a deed of cross guarantee with Australian Vintage Ltd pursuant to ASIC Corporations (wholly owned companies) Instrument 2016/785 and are relieved from the requirement to prepare and lodge an audited financial report.

As a condition of this Instrument, Australian Vintage Ltd has guaranteed to pay any deficiency in the event of winding up of any of its controlled entities. The controlled entities have also given a similar guarantee in the event Australian Vintage Ltd is wound up.

These wholly-owned controlled entities all form part of the tax consolidated group. Australian Vintage Ltd is the head entity within the tax consolidated group.

## Note 38: Subsidiaries (continued)

The consolidated statement of comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee are:

### Consolidated Statement of Comprehensive Income – Closed Group For the financial year ended 30 June 2018

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Revenue	264,613	226,450
Cost of sales	(198,066)	(170,518)
<b>Gross Profit</b>	<b>66,547</b>	<b>55,932</b>
Fair value (loss) / gain on grapes picked	(569)	1,394
Investment income	92	97
Other gains and losses	590	2,582
Distribution expenses	(13,179)	(12,981)
Sales and marketing expenses	(29,206)	(28,359)
Administration expenses	(7,987)	(7,613)
Finance costs	(5,031)	(5,025)
(Loss) / gain on sale of other property, plant and equipment	(92)	224
<b>Profit before income tax</b>	<b>11,165</b>	<b>6,251</b>
Income tax expense	(3,471)	(1,948)
<b>Net Profit for the year</b>	<b>7,694</b>	<b>4,303</b>
<b>Other comprehensive (loss) / income net of income tax:</b>		
Loss on hedging	(254)	(302)
Exchange differences arising on translation of foreign operations	134	(68)
<b>Other comprehensive loss for the year, net of income tax</b>	<b>(120)</b>	<b>(370)</b>
<b>Total comprehensive income for the year</b>	<b>7,574</b>	<b>3,933</b>



## Note 38: Subsidiaries (continued)

Consolidated Statement of Financial Position – Closed Group  
As at 30 June 2018

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Current Assets</b>		
Cash and cash equivalents	7,692	2,602
Trade and other receivables	45,526	40,197
Inventories	139,882	141,553
Other financial assets	-	680
Other	1,972	2,239
<b>Total Current Assets</b>	<b>195,072</b>	<b>187,271</b>
<b>Non-Current Assets</b>		
Inventories	52,164	53,046
Other financial assets	362	396
Property, plant and equipment	109,095	97,308
Goodwill	37,685	37,685
Other intangible assets	5,179	5,296
Water Licences	7,554	7,554
Deferred tax assets	33,597	36,945
<b>Total Non-Current Assets</b>	<b>245,636</b>	<b>238,230</b>
<b>Total Assets</b>	<b>440,708</b>	<b>425,501</b>
<b>Current Liabilities</b>		
Trade and other payables	55,496	46,443
Borrowings	503	551
Other financial liabilities	477	194
Provisions	5,539	5,486
Other	596	-
<b>Total Current Liabilities</b>	<b>62,611</b>	<b>52,674</b>
<b>Non-Current Liabilities</b>		
Borrowings	84,435	84,880
Other financial liabilities	15	28
Provisions	795	1,114
<b>Total Non-Current Liabilities</b>	<b>85,245</b>	<b>86,022</b>
<b>Total Liabilities</b>	<b>147,856</b>	<b>138,696</b>
<b>Net Assets</b>	<b>292,852</b>	<b>286,805</b>
<b>Equity</b>		
Issued capital	463,872	462,921
Reserves	2,009	1,851
Accumulated losses	(173,029)	(177,967)
<b>Total Equity</b>	<b>292,852</b>	<b>286,805</b>

## Note 39: Segment information

The Group's reportable segments are as follows:

### **Australasia / North America Packaged**

- supplies packaged wine within Australia, New Zealand, Asia and North America through retail and wholesale channels.

### **UK / Europe**

- supplies packaged and bulk wine in the United Kingdom and Europe through retail and distributor channels.

### **Cellar Door**

- supplies wine direct to the consumer through regional outlets.

### **Australasia / North America bulk wine and processing**

- supplies bulk wine, grapes, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.

### **Vineyards**

- provides vineyard management and maintenance services within Australia and includes fair value of grapes picked.

The revenue reported represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment revenue represents revenue generated from external customers. There were no inter-segment sales in the current year (2017 : Nil).

Segment profit represents the profit earned by each segment without allocation of interest revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the group's revenue and results by reportable operating segment for the period:

### **Segments**

#### *Segments Revenue, Results and other segmental information*

	REVENUE	REVENUE	RESULTS	RESULTS
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australasia / North America packaged	107,261	103,830	7,382	6,100
UK / Europe	111,003	88,454	5,614	208
Cellar door	10,588	10,009	1,617	1,614
Australasia / North America bulk wine and processing	30,198	20,358	(470)	(1,075)
Vineyards	5,563	3,799	2,037	4,414
<b>Total</b>	<b>264,613</b>	<b>226,450</b>	<b>16,180</b>	<b>11,261</b>
Finance costs – interest paid			(5,031)	(5,025)
Interest received			16	15
<b>Profit before tax</b>			<b>11,165</b>	<b>6,251</b>

## Note 39: Segment information (continued)

### Geographical Segments

	REVENUE FROM CUSTOMERS	
	2018 \$'000	2017 \$'000
Australia	110,431	105,781
UK / Europe	111,003	88,454
North America	15,719	13,342
Asia	21,925	14,371
Other	5,535	4,502
	<b>264,613</b>	<b>226,450</b>

The group has sales to two major customers (2017: two) who individually account for greater than 10% of annual sales. The total sales for these customers were \$76.1 million (2017: \$63.4 million).

## Note 40: Related party transactions

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group are eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

### Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 38 to the financial statements.

### Key management personnel remuneration

Details of key management personnel compensation are disclosed in note 7 to the financial statements.

### Other transactions with key management personnel

- (i) During the year the Group entered into the following transactions with Woodnibs Pty Ltd and HVV Management Pty Ltd (entities associated with Neil McGuigan):
  - (a) The Group charged rent to the value of \$8,877 (2017: \$8,711) on normal commercial terms.
  - (b) In the prior year, the Group sold concentrate to the value of \$1,565 (2018: Nil) on normal commercial terms.
- (ii) During the year the Group sold packaged wine to Vintage China (entity associated with Jiang Yuan) to the value of \$926,969 (2017 : Nil) on normal commercial terms.

### Parent entity

The ultimate parent company in the wholly-owned group is Australian Vintage Ltd.

## Note 41: Notes to the cash flow statement

### (a) Reconciliation of cash

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

CONSOLIDATED		
	2018 \$'000	2017 \$'000
Cash	7,712	2,616
<b>(b) Financing Facilities</b>		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount Used	-	-
Amount Unused	5,000	5,000
	5,000	5,000
Reducing lease facility:		
Amount Used	4,938	5,300
Amount Unused	-	-
	4,938	5,300
Unsecured revolving lease facility:		
Amount Used	-	-
Amount Unused	350	350
	350	350
Bank Guarantee / Surrender facility:		
Amount Used	1,472	865
Amount Unused	1,178	1,785
	2,650	2,650
Corporate purchasing card facility:		
Amount Used	247	12
Amount Unused	253	488
	500	500
Cash advance facility:		
Amount Used	80,000	80,000
Amount Unused	25,000	30,000
	105,000	110,000
Total facility	118,438	123,800

### (c) Non-cash financing and investing activities

During the current year, the Group entered into the following non-cash investing and finance activities which are not reflected in the statement of cash flows:

- Australian Vintage Ltd operates a "Performance Rights and Options Plan". This long term incentive plan provides the right to an issue of shares subject to continuous employment, and achievement of set growth rates in earnings per share and total shareholder return over a 4 year period. During the reporting period there were 4,100,000 options issued with a fair value of \$0.099 per option (2017: 4,000,000 with fair value of \$0.095 per option). During the period 1,709,912 options lapsed (2017: 1,737,002).
- The Group issued 2,270,450 shares for \$984,000 (2017 : 3,429,898 shares for \$1,622,000) under its Dividend Reinvestment Plan.

Reconciliation of liabilities arising from financial activities:

The table below details the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

CONSOLIDATED \$'000			
	1/7/17	Financing cash flows	Fair value adjustments (non-cash)
Commercial bills (note 26)	80,000	-	-
Finance leases (notes 22 & 26)	5,431	(493)	-
Interest rate swaps (notes 23 & 27)	222	-	(215)
	85,653	(493)	(215)
			84,945

## Note 41: Notes to the cash flow statement (continued)

### (d) Reconciliation of profit / (loss) for the period to net cash flows from operating activities

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Profit / (Loss) from ordinary activities after income tax	7,694	4,303
Depreciation and amortisation of non-current assets	7,496	7,449
Loss / (Gain) on sale of non-current assets	92	(224)
Share based payments	280	152
<b>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses</b>		
<b>(Increase)/decrease in assets</b>		
Trade and other receivables	(5,329)	2,592
Inventories	2,553	(3,100)
Other current assets	268	(666)
Deferred tax assets	4,956	1,699
<b>Increase/(decrease) in liabilities</b>		
Current trade and other payables	9,055	2,334
Provisions	(266)	(266)
Other	(132)	(277)
<b>Net cash provided by operating activities</b>	<b>26,667</b>	<b>13,996</b>

## Note 42: Financial instruments

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's general strategy remains unchanged from 2017.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 22 and 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 31, 32 and 33 respectively. The Group operates primarily through distributor relationships established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the group's assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to borrow centrally to meet anticipated future funding requirements.

#### Gearing ratio

The Board reviews the capital structure on an annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% in line with the industry norm, which is determined as the proportion of net debt to equity.

The gearing ratio at year end was as follows:

#### Financial assets

Debt (i)	84,938	85,431
Cash and cash equivalents	(7,712)	(2,616)
Net Debt	77,226	82,815
Equity (ii)	292,893	286,843
Net debt to equity ratio	26.4%	28.9%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 22 and 26.

The Group is also subject to bank covenants with its primary financier as follows:

- Leverage (Net Debt / EBITDA) must be below pre-defined levels.
- Interest coverage (EBITDA / Interest) must be above pre-defined levels.
- Gearing (Gross debt / Gross debt plus Equity) must be below pre-defined levels.
- The Group is able to declare a dividend provided certain ratios are met or the dividend is approved by the National Australia Bank or the dividend is underwritten

(ii) Equity includes all capital and reserves.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.



## Note 42: Financial instruments (continued)

### (b) Categories of financial instruments

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Financial assets</b>		
Available for sale	178	178
Receivables	45,526	40,197
Cash and cash equivalents	7,712	2,616
Derivative instruments in designated hedge accounting relationships	-	680
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	492	222
Carried at amortised cost	140,461	131,899

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss.

The carrying amount reflected above represents the Groups maximum exposure to credit risk for such loans and receivables.

### (c) Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 42(e)) and interest rates (refer note 42 (f)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward exchange contracts and foreign currency options to hedge the exchange rate risk arising on the export of wine to North America, Europe and United Kingdom; and
- interest rate swaps to mitigate the risk of rising interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

### (e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts and foreign exchange options.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	LIABILITIES		ASSETS	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
US dollars	647	615	439	369
GB pounds	5,832	6,089	14,120	10,674
Euro	1,717	-	1,671	593
Canadian Dollars	-	-	1,681	1,468
New Zealand Dollars	-	89	-	-

### Foreign currency sensitivity analysis

The Group is exposed to US dollars, GB pounds, Euros and Canadian Dollars.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar weakens 10% against the relevant currency. For a 10% strengthening of the Australian dollar against the currency, there would be a comparable impact on the profit or equity and the balances below would be negative.

## Note 42: Financial instruments (continued)

### (e) Foreign currency risk management (continued)

For a weakening or strengthening of the Australian Dollar against the respective currency, the impact on the net profit after tax would be as follows:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Increase (Deterioration) in foreign exchange rate by 10%</b>		
Profit or loss – GBP Impact	(526)	(300)
Profit or loss – USD Impact	13	5
Profit or loss – EURO Impact	3	(38)
Profit or loss – CAD Impact	(107)	(95)
Profit or loss – NZD impact	-	6
<b>Decrease (Improvement) in foreign exchange rate by 10%</b>		
Profit or loss – GBP Impact	643	340
Profit or loss – USD Impact	(16)	(30)
Profit or loss – EURO Impact	(4)	47
Profit or loss – CAD Impact	131	116
Profit or loss – NZD impact	-	(7)

It is the policy of the Group to enter into foreign exchange contracts to cover specific foreign currency exposure.

The Group also enters into forward and option foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions.

The amount of cover taken out depends on the actual and forecast exchange rates and how the rates compare to the 3 year historical exchange rates. Foreign Exchange contracts are taken out in the following periods: 1-12 months, 13-24 months and 25-36 months based on highly probable sales. Foreign currency expenses are estimated and the net exposure is hedged.

If exchange rates are within normal historical bands, the following cover is taken out : 25-75% of net exposure of 1-12 months, 0-50% of net exposure of 13-24 months and 0-25% of net exposure of 25-36 months.

Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

The Group has entered into contracts to supply wine to customers in the UK, Europe and North America. The Group has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

The following table details the forward foreign currency contracts and foreign exchange option contracts as at 30 June 2018:

CURRENCY	EXCHANGE RATE	FOREIGN CURRENCY FC '000	CONTRACT VALUE AUD \$'000	FAIR VALUE AUD \$'000
<b>Forward Contracts:</b>				
Sell Euros	0.6481	300	463	11
Sell Euros	0.6634	250	377	18
Sell Euros	0.6623	250	377	18
Sell Euros	0.6615	250	378	18
Sell Euros	0.6466	300	464	12
Sell Euros	0.6465	350	541	15
Sell Euros	0.6524	500	766	28
Sell Euros	0.6868	250	364	34
Sell Euros	0.6415	960	1,496	35
<b>Forward Contracts:</b>				
Sell GB Pounds	0.5805	1,000	1,723	61
Sell GB Pounds	0.5568	500	898	(5)
Sell GB Pounds	0.5793	1,500	2,589	96
Sell GB Pounds	0.5611	1,000	1,782	11
Sell GB Pounds	0.5586	1,000	1,790	5
Sell GB Pounds	0.5659	500	884	16
Sell GB Pounds	0.5652	500	885	15
Sell GB Pounds	0.5459	1,000	1,832	(30)
Sell GB Pounds	0.5525	1,000	1,810	6
Sell GB Pounds	0.5530	1,000	1,808	10

## Note 42: Financial instruments (continued)

## (e) Foreign currency risk management (continued)

CURRENCY	EXCHANGE RATE	FOREIGN CURRENCY FC '000	CONTRACT VALUE AUD \$'000	FAIR VALUE AUD \$'000
<b>Option Contracts:</b>				
Sell GB Pounds	0.5475 - 0.5800	2,000	3,653	25
Sell GB Pounds	0.5427 - 0.5800	4,000	7,371	69
Sell GB Pounds	0.5335 - 0.5700	2,000	3,749	1
<b>Forward Contracts:</b>				
Sell Canadian Dollars	1.0013	350	350	10
Sell Canadian Dollars	0.9650	250	259	(2)
Sell Canadian Dollars	0.9931	350	352	7
Sell Canadian Dollars	0.9920	350	353	7
Sell Canadian Dollars	0.9649	300	311	(2)
Sell Canadian Dollars	0.9647	300	311	(2)
Sell Canadian Dollars	0.9695	300	309	(1)
Sell Canadian Dollars	0.9884	300	304	5
Sell Canadian Dollars	0.9649	600	622	(4)
Sell Canadian Dollars	0.9651	300	311	(2)
Sell Canadian Dollars	0.9783	300	307	2
<b>Forward Contracts:</b>				
Sell Hong Kong Dollars	5.7623	15	86	-

The following table details the forward foreign currency contracts and foreign exchange option contracts as at 30 June 2017:

<b>Forward Contracts:</b>				
Sell Euros	0.6898	275	399	(11)
Sell Euros	0.67107	250	373	(1)
Sell Euros	0.6656	500	751	(1)
Sell Euros	0.6538	950	1,453	17
Sell Euros	0.6623	750	1,132	(13)
Sell Euros	0.6415	960	1,496	17
Sell Euros	0.6524	500	766	(1)
Sell Euros	0.6941	250	360	(19)
<b>Option Contracts:</b>				
Sell Euros	0.6700-0.5940	700	1,044	19
<b>Forward Contracts:</b>				
Sell GBP	0.5957	1,000	1,679	20
Buy GBP	0.58106	(1,500)	(2,581)	32
Sell GBP	0.58085	1,000	1,722	29
Sell GBP	0.58148	1,000	1,720	27
<b>Option Contracts:</b>				
Sell GB Pounds	0.5100-0.4722	177	346	48
Sell GB Pounds	0.5100-0.4690	177	346	48
Sell GB Pounds	0.5200-0.4865	2,000	3,846	454
<b>Forward Contracts:</b>				
Sell Canadian Dollars	0.95554	500	523	24
Sell Canadian Dollars	0.99143	350	353	1
Sell Canadian Dollars	0.99969	300	300	(2)
Sell Canadian Dollars	1.0013	700	699	(7)
Sell Canadian Dollars	1.0014	250	250	(3)
Sell Canadian Dollars	0.99305	350	352	(2)
Sell Canadian Dollars	0.992	350	353	(2)
Sell Canadian Dollars	0.965	500	518	6
<b>Forward Contracts:</b>				
Sell Hong Kong Dollars	5.9764	18	3	-

## Note 42: Financial instruments (continued)

### (e) Foreign currency risk management (continued)

As at reporting date the aggregate amount of unrealised profits/(losses) under foreign exchange contracts deferred in the hedging reserve relating to the exposure on anticipated future transactions is \$290 thousand profit before tax (2017: a loss of \$288 thousand before tax). It is anticipated that the sales will take place in the periods prescribed in the table below at which stage the amount deferred in equity will be released into the profit or loss.

OUTSTANDING CONTRACTS	YEAR END EXCHANGE RATE		FOREIGN CURRENCY FC '000		NOTIONAL VALUE \$'000		FAIR VALUE \$'000	
	30/06/18	30/06/17	30/06/18	30/06/17	30/06/18	30/06/17	30/06/18	30/06/17
<b>Forward contracts:</b>								
<b>Cash flow hedges</b>								
<b>Sell Euro</b>								
Less than 3 months	0.6341	0.6728	1,350	275	2,059	399	(76)	(11)
3 to 6 months			1,740	250	2,669	373	(99)	(1)
6 to 9 months			320	1,100	499	1,669	(13)	11
9 to 12 months			-	600	-	896	-	(13)
More than 12 months			-	2,210	-	3,395	-	4
<b>Sell GB Pounds</b>								
Less than 3 months	0.5605	0.5903	1,500	3,000	2,621	5,162	(56)	87
3 to 6 months			3,500	-	6,162	-	(112)	-
6 to 9 months			2,000	-	3,600	-	-	-
9 to 12 months			2,000	-	3,618	-	(16)	-
<b>Sell CAD</b>								
More than 3 months	0.9734	0.9974	600	-	609	-	(7)	-
3 to 6 months			700	-	705	-	(14)	-
6 to 9 months			600	-	622	-	5	-
9 to 12 months			-	-	-	-	-	-
More than 12 months			1,800	-	1,852	-	(1)	-
<b>Option Contracts:</b>								
<b>Cash flow hedges</b>								
<b>Sell GB Pounds</b>								
Less than 3 months	0.5605	0.5903	-	1,353	-	2,615	-	327
3 to 6 months			2,000	1,000	3,652	1,923	(25)	223
6 to 9 months			-	-	-	-	-	-
9 to 12 months			4,000	-	7,371	-	(69)	-
More than 12 months			2,000	-	3,749	-	(1)	-
<b>Sell EURO</b>								
3 to 6 months	0.6341	0.6728	-	700	-	1,045	-	18
<b>Sell CAD</b>								
Less than 3 months	0.9734	0.9974	-	500	-	523	-	21
3 to 6 months			-	650	-	653	-	(2)
6 to 9 months			-	600	-	609	-	3
9 to 12 months			-	250	-	250	-	(3)
More than 12 months			-	1,300	-	1,314	-	(4)

### (f) Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

It is the policy of the group to designate the Interest Rate Swap as a hedge against the variability in the cash flow arising from future changes in the interest rate.

The Group policy requires fixed interest cover on up to 70% of all outstanding average net debt usage.

## Note 42: Financial instruments (continued)

### (f) Interest rate risk management (continued)

#### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net profit after tax would increase and decrease by \$241,000 (2017: increase/decrease by \$108,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowing which are not covered by the interest rate swap agreements.

#### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows at reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

At balance date, the Group has three (2017: three) interest rate swap agreements with a notional amount of \$60 million (2017: \$70 million), as follows:

EXPIRY DATE	CURRENCY	AMOUNT	PAY	ROLLOVER FREQUENCY	RECEIVE
			RATE		RATE
17-Jul-18	AUD	\$20,000,000	1.89%	Monthly	AUD-BBR-BBSY
26-Jul-18	AUD	\$25,000,000	2.29%	Monthly	AUD-BBR-BBSY
28-Dec-18	AUD	\$15,000,000	1.99%	Monthly	AUD-BBR-BBSY
		<u>\$60,000,000</u>			

The swaps in place cover 78% (2017: 85%) of the total net debt as at 30 June 2018. It is anticipated that the coverage will be below 70% when the swaps expires in July 2018.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

#### Cash flow hedges

	AVERAGE CONTRACTED FIXED INTEREST RATE		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2018 %	2017 %	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Outstanding floating for fixed contracts</b>						
Less than 1 year	2.08	2.25	60,000	25,000	(7)	(36)
1 – 2 years	-	2.11	-	45,000	-	(186)
2 – 5 years	-	-	-	-	-	-

The interest rate swaps settle on a monthly or quarterly basis. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

### (g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group undertake credit worthiness reviews on all customers and where appropriate obtains debtor insurance for all significant customers. Credit exposure is controlled by counterparty limits that are reviewed and approved.

Trade receivables consist of a large number of customers, spread across several geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. Details of the Groups exposure to significant counterparties at the end of the reporting period are disclosed in note 10.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Group does not hold any collateral or other credit enhancements to cover this credit risk.



## Note 42: Financial instruments (continued)

### (h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 42 (b) is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities.

The contractual maturity is based on the earliest date on which the Group may be required to pay. The amounts below are based on undiscounted cash flows and include principal and interest:

CONSOLIDATED	WEIGHTED AVERAGE INTEREST RATE	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000
<b>2018</b>						
Non-interest bearing assets	-	11,145	23,244	11,145	-	-
Non-interest bearing liabilities	-	23,174	32,496	330	15	-
Finance Lease liability	5.65	59	118	528	2,877	2,507
Floating interest rate liabilities	3.70	77	154	463	20,231	-
Fixed interest rate liabilities	3.73	157	91	137	60,000	-
Fixed interest rate assets	-	-	-	-	-	-
Financial Guarantees	-	-	1,472	-	-	-
<b>2017</b>						
Non-interest bearing assets	-	9,786	20,130	10,286	-	-
Non-interest bearing liabilities	-	19,367	27,150	145	28	-
Finance Lease liability	5.65	74	149	618	2,820	3,211
Floating interest rate liabilities	3.85	40	80	241	10,120	-
Fixed interest rate liabilities	4.26	248	406	1,421	70,217	-
Fixed interest rate assets	-	-	-	-	-	-
Financial Guarantees	-	-	865	-	-	-

The amounts included above for financial guarantee contract are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, the estimate is subject to change depending on the probability if the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The Group has access to financing facilities of which \$31.8 million were unused at the end of the reporting period (2017: \$37.6 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000
<b>2018</b>					
Net settled:					
Interest rate swaps	(4)	(2)	(1)	-	-
Net settled:					
Forward exchange contracts	(82)	(59)	(235)	(15)	-
Foreign currency options	-	-	(94)	-	-
	(86)	(61)	(330)	(15)	-
<b>2017</b>					
Net settled:					
Interest rate swaps	-	(36)	(158)	(28)	-
Net settled:					
Forward exchange contracts	76	45	(10)	-	-
Foreign currency options	96	454	19	-	-
	172	463	(149)	(28)	-

## Note 42: Financial instruments (continued)

### (i) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts and discounted at a rate that reflects the credit risk of various counterparties and the entity's own credit risk.

Foreign currency option contracts are measured using quoted exchange rates, market implied volatilities and yield curves derived from quoted interest rates matching maturities of the contracts and discounted at a rate that reflects the credit risk of various counterparties and the entity's own credit risk.

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and discounted at a rate that reflects the credit risk of various counterparties and the entity's own credit risk.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets designated in cash flow hedges</b>				
Derivative financial assets – 30 June 2018	-	-	-	-
Derivative financial assets – 30 June 2017	-	680	-	680
<b>Financial liabilities designated in cash flow hedges</b>				
Derivative financial liabilities – 30 June 2018	-	492	-	492
Derivative financial liabilities – 30 June 2017	-	222	-	222

The above table includes both forward exchange contracts and foreign exchange options.

There were no items relating to Levels 1 and 3 in the year or the prior year. Therefore there were no transfers between levels.

## Note 42: Financial instruments (continued)

### (i) Fair value of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE AS AT 30/6/18 \$ 000	FAIR VALUE AS AT 30/6/17 \$ 000	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
A) Forward exchange contracts	Liabilities \$391	Assets \$111	Level 2	(1)	N/A	N/A
B) Foreign currency options	Liabilities \$94	Assets \$569	Level 2	(1)	N/A	N/A
C) Interest rate Swaps	Liabilities \$7	Liabilities \$222	Level 2	(2)	N/A	N/A

(1) Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(2) Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no items relating to Levels 1 and 3 in the period or the prior period.

**Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

## Note 43: Events after the reporting period

In respect of the financial year ended 30 June 2018, a fully franked dividend of 1.5 cents per share was declared on the 29th August 2018 and will be paid on the 9th November 2018.

There have been no other matters or circumstances, other than that referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Note 44: Parent Entity Disclosures

<b>44.1 Financial Position</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Assets</b>		
Current assets	195,797	185,611
Non-current assets	260,293	257,457
Total assets	456,090	443,068
<b>Liabilities</b>		
Current liabilities	58,089	47,653
Non-current liabilities	161,712	154,813
Total liabilities	219,801	202,466
<b>Net Assets</b>	<b>236,289</b>	<b>240,602</b>
<b>Equity</b>		
Issued Capital	463,961	463,009
Accumulated Losses	(229,365)	(224,074)
<b>Reserves</b>		
Equity settled employee benefits	1,978	1,698
Hedging	(208)	46
Foreign currency translation	(77)	(77)
Total reserves	1,693	1,667
<b>Total equity</b>	<b>236,289</b>	<b>240,602</b>

<b>44.2 Financial Performance</b>	<b>Year ended 30 June 2018 \$'000</b>	<b>Year ended 30 June 2017 \$'000</b>
Profit / (Loss) for the year	(2,535)	(2,324)
Other comprehensive income/(loss)	(254)	(302)
Total comprehensive income	(2,789)	(2,626)

<b>44.3 Guarantees entered into by parent entity</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Guarantee provided under the deed of cross guarantee (i)	5,675	5,022

(i) The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 38.

<b>44.4 Contingent Liabilities of the parent entity</b>		
Bank Guarantees	1,472	865

<b>44.5 Capital Commitments of the parent entity</b>		
Plant and Equipment		
Not longer than 1 year	433	4,398

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