



AUSTRALIAN VINTAGE LTD

2019
—
ANNUAL
REPORT
—

AN AUSTRALIAN FIRST.

Having been awarded the trophy for White Winemaker of the Year in 2009, 2012 and 2013, on July 9th 2019, Neil McGuigan received a record fourth White Winemaker of the Year title at the International Wine Challenge, London.



As a company so reliant on our environment and natural resources, we at Australian Vintage Limited are proud to produce our 2019 Annual Report on Carbon Neutral and 100% recycled paper.

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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) 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, 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 2019 Annual Report for Australian Vintage Limited (AVL).

Ignoring the poor 2019 vintage, fiscal 2019 (FY19) was a year of strong performance as we continue our transition from a bulk wine company to a well respected branded wine company. Underpinning this transition was our continued investment in our business through increased capital spend, our brands and our people.

In the year ended 30 June 2019, the Net Profit after tax and before SGARA (Self Generating and Regenerating Assets) improved 48% to \$11.9 million due mainly to a significant uplift in the contribution from our UK/Europe segment. Unfortunately, this significant improvement in our underlying business did not filter through to our bottom line due to the poor 2019 vintage which resulted in our SGARA being down \$4.9 million against last year and \$6.9 million against expectation. If the vintage was in line with expectation our Net Profit result would have been \$12.9 million rather than \$8.1 million.

Our financial position continues to improve with net borrowings as at 30 June 2019 at \$72.4 million, the lowest it has been since this company was formed back in 2002. With a reduced capital spend planned for FY20 we expect net debt to continue to decrease and as a result, the Board has declared a fully franked dividend of 2 cents per share, the highest payout ratio since this Company was formed. The Company's operating cash flow was positive \$23.6 million against \$26.7 million last year.

The continued focus on our 3 core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales of these 3 brands increasing by 10% during the year.

Our decision to continue to focus on the UK market, post the Brexit vote in 2016, has been vindicated with UK/Europe sales up 15% and contribution up 94% to \$10.9 million. A focus on sales mix has resulted in the increase in sales of the higher quality and higher priced McGuigan Black Label and Reserve ranges, which now represent 40% of all sales compared to 30% in FY17.

Whilst the UK continues to be our main overseas market, we continue to have a strong focus on growing and strengthening our distribution channels in the other key overseas markets. In the 12 month period to 30 June 2019, our sales to Asia increased by 24% and sales to New Zealand increased by 45%. Sales to North America decreased by 11% on the back of significant growth in previous periods.

Overview of FY19 Result (by Segment)

- **Australasia/North America** reported a 7% EBIT growth to \$7.9 million. There was strong growth in Australia with sales up 6% due to a shift in the mix to higher priced, premium products. Sales of the McGuigan brand continued its growth with sales up 8% and the higher priced Tempus Two and Nepenthe brand sales improving by 6%. Five years ago, Tempus Two sales represented 10% of total Company bottled sales in Australia and are now 18%. Sales to New Zealand have improved 42% due to the outstanding performance of the McGuigan Private Bin range which grew 45%. Sales to Asia have grown by 24% with McGuigan up 23% and Tempus Two up 25%.

This performance is against a 7% increase for the entire Australian wine industry for sales to Asia.

North America sales are down 11% on the back of significant growth in previous periods. Over the last 2 years, sales to North America have grown by 19%

- **UK/Europe** reported a significant 94% EBIT growth to \$10.9 million due mainly to the improvement in sales mix, focus on growing independents and the ongoing sales growth of the relatively new generic Shy Pig brand. Favourable foreign currency during the year provided an extra \$2.8 million to the EBIT.
- **Cellar Door** reported a 39% EBIT decline to \$1.0 million mainly due to decreased visitor numbers in the Hunter Valley where our two key cellar doors are located.
- **Australasia/North America Bulk and Processing** EBIT improved by \$1.8 million due to the removal of a significant portion of loss-making bulk wine sales.
- **Vineyard** Segment (including SGARA) EBIT declined by \$6.9 million due mainly to the poor 2019 vintage. Against expectation our yield from our owned and leased vineyards fell by 12,600 tonnes and against last year it was 7,900 tonnes down. The frost and the significant heat contributed to the poor 2019 yield.

Capital Expenditure

Over the last 2 years the Company has invested \$35.6 million in various capital projects including \$11 million on a new packaging line and various long-term investments in winemaking, plus a premium winery at our Buronga winery facility. The return on investment on the new packaging line is currently lower than expected but above cost of funding. Over time and with increased throughput the expected target of 12 % will be met.

The premium winery, at a total cost of \$10.0 million, will be operational next year and all our premium grapes will be processed at Buronga in 2020. We remain confident that the target return of 15% will be achieved on this investment.

For FY20, our total capital expenditure is expected to be \$12.0 million with \$4.0 million to be spent on the completion of the premium winery and the balance on further vineyard development and normal capital replacement programs.

Cash Flow and Financial Position

The cash flow from operating activities was \$23.6 million, \$3.1 million below the previous period. The decline in operating cash flow was due to the poor 2019 vintage, which required the Company to purchase \$9.7 million of bulk wine. This purchase of wine was essential to meet our future sales forecasts.

The Company's net debt position declined by \$4.8 million to \$72.4 million and the gearing ratio is at a comfortable 24% (26% as at 30 June 2018).

During June 2019, we extended the existing banking facility to September 2022.

Outlook

The Company continues to focus on its three 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 our core business. This is reflected by the 48% growth in Net profit (after tax and before SGARA).

The cash flow from operating activities remains strong and with a decline in FY20 capital spend we expect our debt to decrease significantly in the near future.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 11% and our higher priced brand, Tempus Two, increasing by 9%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

The UK has performed exceptionally well in an environment that has seen total volume of Australian wine sales to the UK decline by 4%. The Company will be investing more on advertising and marketing in the UK to keep this momentum going.

Our recent growth in Asia has been above industry average and the Company continues to work hard with our key distributors.

In 2019 the Company invested \$16.2 million on capital projects covering winery and packaging equipment. This brings the total capital spend over the last two years to \$35.6 million. In the next 12 months our total capital is expected to decrease to \$12.0 million which, under normal vintage conditions, will mean that our net debt should decrease significantly.

Australian Vintage has transformed over the last 12 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue with the premiumisation of our sales mix.

The poor 2019 vintage has meant that the processing cost of our wine has increased due to the lower than expected utilisation of our Buronga winery. This will impact our margins in FY20. A normal 2020 vintage will more than offset the higher cost of the 2019 wine through a significant improvement in SGARA.

The Company, together with the entire wine industry will have several short term challenges, including Brexit, the drought and the increasing cost of grapes and wine processing. This is in an environment where retail prices of wine have remained relatively flat.

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 2.0c per share. This dividend reflects a payout ratio of 70% and is based on an improved operating cash flow and reduced FY20 capital spend. This dividend will be paid to all shareholders on 8 November 2019 and the Record Date to establish shareholder dividend entitlements is 18 October 2019. The Company's Dividend Reinvestment Plan (DRP) will be suspended for the dividend payable on 8 November 2019.

Sustainability

The success of this Company is underpinned by being sustainable in everything we do and therefore, we have an ongoing commitment to operate sustainably, safely and responsibly. Our strategies and activities include –

- Adhering to product quality and safety standards and certifications to produce exceptional quality wine
- Good corporate governance and transparency. AVL complies with the ASX Corporate Governance Principles and Recommendations which set out recommended corporate governance practices for ASX listed entities

- Effective risk management through the establishment of the Risk Committee which reviews the Risk Management Policy at least annually. This Policy provides guidance on the management risk in AVL and enforces our commitment to the management of risk to reduce uncertainty in the Company's financial performance.
- Minimising any adverse impacts of AVL's operations and products on the environment through compliance with environmental regulations, reducing and/or optimising resource use, waste reduction and monitoring environmental risk.
- Monitoring water availability, use and conservation through improved practices in our vineyards and wineries and investment in innovation and technology.

Conclusion and Thanks

AVL enters FY20 in a strong financial position and with strong customer partnerships across various regions we are confident that our strategies are appropriate to deliver sustainable long term growth for our shareholders. Delivering revenue growth and margin accretion remains a high priority.

In July 2019 we announced to the market that Neil McGuigan will be resigning as CEO after spending 15 years with AVG with 9 of those years as CEO.

During Neil's time at AVG, he has been awarded the International Winemaker of the Year four times at the International Wine and Spirits Competition, London. This is an amazing achievement and is testament to Neil's desire to make the 'wine the hero' in every bottle of wine that we make.

Neil has a great passion for the wine industry and has done a tremendous job as CEO of this company. During his time as CEO he has transformed this company into a well-respected quality branded wine company with a clear focus on developing world leading quality wine. We thank him for all his efforts in the role of CEO.

In view of Neil's knowledge and expertise in the wine industry, the Board of AVG have reached an agreement with Neil McGuigan to remain with AVL as a consultant in the role as Technical Advisor.

At the same time as AVL announced Neil's retirement, the board announced that Craig Garvin has been appointed as CEO elect to 20 November 2019. Thereafter, Craig will be appointed as CEO. Craig was previously the CEO of leading dairy manufacturer, Parmalat, where he held that position for 9 years until February 2019. Prior to Parmalat, Craig held a range of senior executive positions at Star City Casino, Campbell Arnott's and Lion Nathan.

Craig is an experienced CEO with a demonstrated history of building sustainable above average business performance. He has a track record of building high calibre teams and strategic thinking.

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 2019 has been a significant growth year for AVL with the sales of our three key brands, McGuigan, Tempus Two and Nepenthe up 10% over the previous year.

The UK/EU division has performed very well with McGuigan sales up 13% and Tempus Two up 14%. The McGuigan brand is now the 3rd largest global brand in the UK, 2nd in supermarkets and 13th in independents, up from 19th position last year. We believe there is still growth potential in the UK, and in FY20 we will be continuing to push our brand through a fifty-two-week television campaign on Timeless Entertainment on the UKTV's Drama Channel.

Strong growth was also seen in Australia with sales up 6%. Product mix was a major contributor to the result with strong sales and increased distribution of Tempus Two and the Barossa Valley Wine Company (BVWC) creating a great springboard for FY20. FY20 will see the first above the line advertising campaign for Tempus Two, which will appear on prominent outdoor billboard sites, shopper "lites", bus shelters, in print and across an integrated upweighted social media push, plus trade websites. BVWC has won two significant international awards this year, which will be capitalised on by our retail partners through point of sale, instore catalogues and further distribution and promotional drives.

While this is happening, the McGuigan brand will benefit from continued above the line investment as in previous years with the second iteration of the "Bring a McGuigan" campaign being rolled out across Australia.

New Zealand has had a stellar year, up 42% on FY18 created by distribution drives with our key retailers. Asia was also up with 25% growth on last year.

One disappointment this year was the performance of our cellar doors with the below-budgeted result being partly attributed to the lower than expected footfall experienced in the Hunter Valley this financial year. That said, strong performance in our cellar doors is paramount to the success of our brands and a robust "fightback" plan is already in place for FY20.

This year we have further invested in our People and Performance team and are working hard to provide an engaging workplace for all staff and formulating clearer pathways for advancement within the business. Also, our Work Health and Safety division has been working very proactively at all levels of the business to further embed a robust safety culture.

The last twelve months has seen a continuation of our capital investment, which will help underpin our cost base for the future as well as continuing to enhance wine quality.

Key capital expenditure items include:

1. At the Buronga Hill Winery the completion of the super-premium facility which will see the first full crush of 2,200 tonnes in Vintage 2020.
2. In the Vineyards AVL has planted an additional 38Ha across our sites in Sunraysia, the Riverland and in the Barossa Valley. In FY20 we will plant a further 30Ha of predominately Malbec at our Grand Junction Vineyard in Sunraysia.

Our continued strong performance across the world's leading wine shows has helped establish AVL as a well-respected branded wine company. We remain committed to continuing this journey and, once again, we have had a stellar set of results in FY19. Some of the key awards include:

McGuigan

In FY19 McGuigan received a total of 464 awards, including 26 Trophies, 93 Gold and 167 Silver medals.

Key highlights:

- **International Wine Challenge: White Winemaker of the Year** – This is the 4th time that we have won this very prestigious award. Which is a first for an Australian wine company
- Decanter World Wine Awards: Best in Show - 2007 McGuigan Bin 9000 Semillon
- International Wine & Spirits Competition: Semillon Trophy - 2007 McGuigan Bin 9000 Semillon
- China Wine and Spirits Awards: Coonawarra Wine of the Year - 2016 McGuigan Shortlist Cabernet Sauvignon
- China Wine and Spirits Awards: Barossa Valley Wine of the Year - 2016 McGuigan Shortlist Shiraz
- National Wine Show of Australia: Rosé Trophy - 2018 McGuigan Cellar Select Rosé
- NSW Wine Awards: Best Semillon - 2013 McGuigan Bin 9000 Semillon
- International Wine Challenge: Trophy for Best Eden Valley Wine - Eden Valley Riesling - 2013 McGuigan Shortlist Riesling

Tempus Two

In FY19 Tempus Two received a total of 241 awards, including 4 Trophies, 44 Gold and 74 Silver medals.

Key highlights:

- Melbourne International Wine Competition: Hunter Valley Semillon of the Year - 2014 Tempus Two Pewter Semillon
- International Wine Challenge: Hunter Valley Semillon - 2014 Tempus Two Pewter Uno Semillon
- Hong Kong International Wine and Spirits Competition: Best White Wine from Australia - 2015 Tempus Two Pewter Semillon
- Decanter Asia Wine Awards: Platinum Medal - 2018 Tempus Two Copper Semillon

Nepenthe

In FY19 Nepenthe received a total of 243 awards, including 3 Trophies, 37 Gold and 64 Silver medals.

Key highlights:

- Melbourne International Wine Competition: Adelaide Pinot Noir Winery of the Year
- Global Chardonnay Masters: Master Medal - 2016 Nepenthe Apex Chardonnay
- Australian Cool Climate Wine Show: Best Other Dry White - 2017 Nepenthe Winemakers Select Gruner Veltliner

BVWC

The Barossa Valley Wine Company was awarded a number of high-profile medals throughout the year as the brand continued to excel on the world stage. A key win was at the prestigious New York International Wine Competition where the brand was named Shiraz Wine Company of the Year and Barossa Winery of the Year. **A truly outstanding achievement.**

AVL is exposed to global market forces and the vagaries of agriculture both of which could provide possible headwinds during FY20. Such issues could include:

- The forecasted slowing of the Chinese economy, which may slow our short-term expectations
- The outcome of Brexit and its effect on the exchange rate
- The lack of significant rain that could affect water prices in the long term. Our FY20 expectation is that we will have adequate supply as long as we have a "normal" year
- Increase input costs of grapes, electricity and insurance

We have faced similar challenges before, but now, we have a stronger company with an outstanding branded global distribution footprint, lower debt, excellent cashflow and a group of high-quality devoted personnel that continue to execute our three core strategies –

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

AVL is in great shape and as we continue on the journey to become a fully-branded wine business I believe that we have the brands, distribution, partnerships, wine quality and loyal staff with the appropriate expertise to deliver a return on capital employed that is demanded by the market.

As I conclude my tenure as CEO, I would like to thank the board for their support, especially the Chairman, our Leadership team, who have been with me over the last nine years, and of course our dedicated staff.

I would also like to welcome Craig Garvin to AVL and to wish him and our loyal shareholders the best for the future.

Regards,



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 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 464 trophies and medals, including 26 Trophies; 93 Gold; and 167 Silver medals.

Key highlights included McGuigan being named White Winemaker of the Year at the International Wine Challenge in London. This was the fourth time McGuigan has been awarded this highly prestigious trophy, and in doing so became the only winery in Australia to have won the title four times. Further success was enjoyed at the Decanter World Wine Awards where McGuigan was awarded Best in Show whilst at the International Wine & Spirits Competition the brand picked up the Semillon Trophy for the eighth time in ten years. In a fantastic achievement, the China Wine and Spirits Awards saw McGuigan awarded both the Coonawarra Wine of the Year and the Barossa Valley Wine of the Year, whilst at the National Wine Show of Australia the brand took home the Rosé Trophy for the first time.

Tempus Two continued to enjoy stand out success on the domestic and international show circuits, receiving a total of 241 trophies and medals, including 4 Trophies; 44 Gold; and 74 Silver medals over the past twelve months.

One of the highlights was the Hong Kong International Wine and Spirits Competition with the brand winning Best White Wine from Australia, which was closely followed with being crowned Hunter Valley Semillon of the Year at the Melbourne International Wine Competition. The success continued at the International Wine Challenge with Tempus Two awarded the Hunter Valley Semillon Trophy, whilst the Decanter Asia Wine Awards the brand took home the fiercely contested Platinum Medal for Semillon.

Small batch boutique winery Nepenthe continued to shine, being awarded a total of 243 trophies and medals, including 3 Trophies; 37 Gold; and 64 Silver medals. Highlights included the Adelaide Hills Pinot Noir Winery of the Year Trophy at the Melbourne International Wine Competition whilst at the Australian Cool Climate Wine Show Nepenthe was awarded the Best Other Dry White Trophy. In addition, the newly released super-premium Nepenthe Apex Chardonnay was awarded the Master Medal at the Global Chardonnay Masters.

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 first 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.

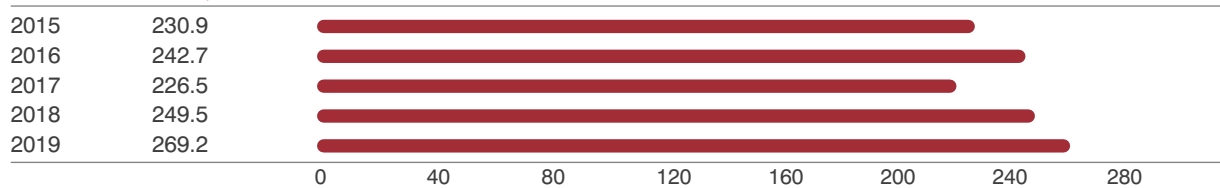
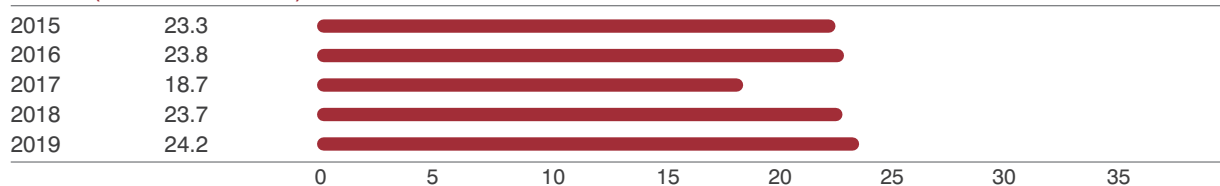
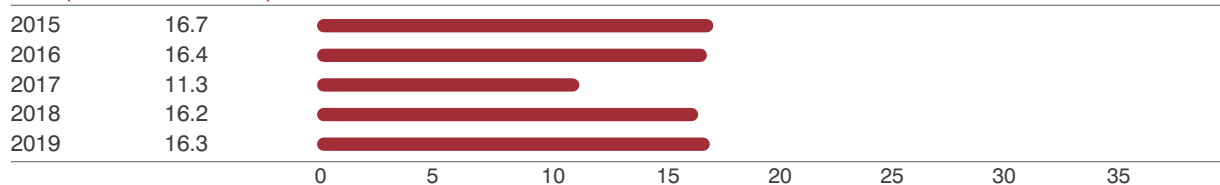
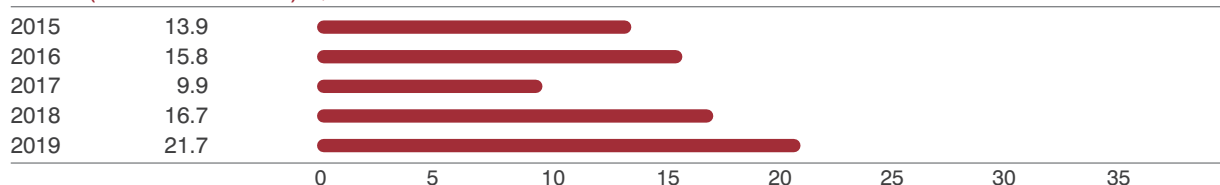
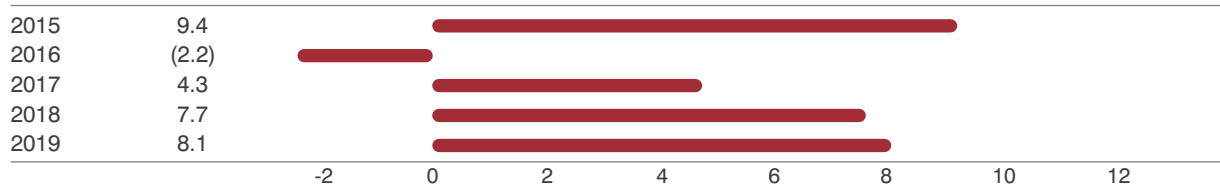
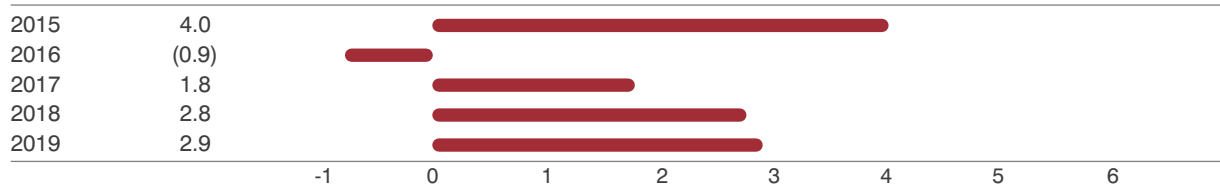
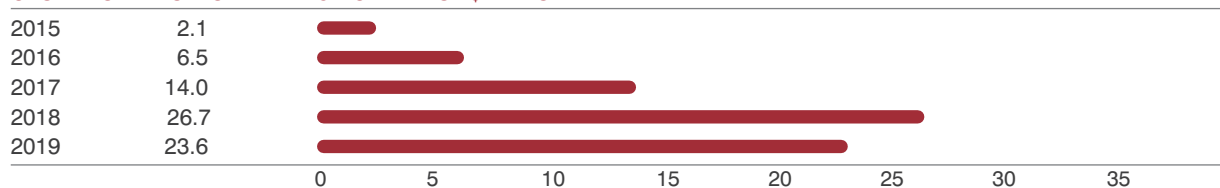
Tempus Two

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 pride ourselves to always be 'distinctively bold'.

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.

TOTAL REVENUE - \$MILLION**EBITDA (before one off items) - \$MILLION****EBIT (before one off items) - \$MILLION****EBITS* (before one off items) - \$MILLION****NET PROFIT - \$MILLION****EARNINGS PER SHARE - CENTS****CASH FLOW FROM OPERATING ACTIVITIES - \$MILLION**

* EBITs is earnings before interest, tax and SGARA.

Corporate governance

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 2019.

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.

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 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 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 FY19, along with outcomes achieved are as follows:

Workplace Diversity Objective FY19	Workplace Diversity Outcomes FY19
Strategy <ul style="list-style-type: none"> • Continue to drive and bring to life the gender objectives and strategies outlined in the Company's Diversity Policy. • Communicate the Company's diversity agenda to the business and actively promote its benefits. 	<ul style="list-style-type: none"> • 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.
Stakeholder Management <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Improved workplace flexibility with increased job share and part-time arrangements.
Gender Composition <ul style="list-style-type: none"> • Maintain female representation at 25% of Independent Non-Executive directors on the Board. • Maintain female representation in management roles in line with national benchmarks. 	<ul style="list-style-type: none"> • Female representation accounts for 16.67% of the Board, 20% of Non-Executive directors and 25% of Independent Non-Executive directors. • Female representation on the Company's Leadership Team equates to 22.22% however representation temporarily reduced to 11.11% during the financial year as a result of employee turnover.

Workplace Diversity Objective FY19	Workplace Diversity Outcomes FY19
Talent Pipeline <ul style="list-style-type: none"> Ensure that the Company's recruitment and selection procedure reflects candidate and interview panel diversity along with equal gender candidate split where possible. Analyse talent matrix to identify female talent for mentoring/succession planning. 	<ul style="list-style-type: none"> The Company's recruitment and selection processes resulted in 36.62% of all permanent appointments within FY19 being female. The Company's succession planning was undertaken at senior management level in FY19, with 33.33% of potential successors identified being female. The company is targeting an equitable ratio for succession by FY22.
Benefits <ul style="list-style-type: none"> Promote the Company's parental leave procedures and flexible work arrangements policy to retain talent. 	<ul style="list-style-type: none"> 8 employees enjoyed the benefits of parental leave during FY19 with a 62.5% return to work rate in either a full time or part time capacity.

The Company's FY19 objectives, as stated above, remain in place for FY20 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 2019.

Workforce Gender Profile

ALL STAFF		TOTAL FEMALES	TOTAL MALES	% OF FEMALES	% OF MALES
Total Employees	433	147	286	33.95	66.05
Non-Executive Directors	5	1	4	20.00	80.00
Senior Executives*	9	2	7	22.22	77.78
Other (Non Production) (inc UK / HK)**	174	81	93	46.55	53.45
Other (Production)	259	66	193	25.48	74.52

* 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 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 FY19 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 current matrix of skills and experience of the Board, relevant to the Company's business, is shown below.

Skills/experience	Number of directors possessing considerable skills
Business management	6
Wine industry	4
Accounting/finance	2
Marketing/digital	3
International business	4

The experience, expertise and period in office of each Director are detailed in the Director's Report included in this Annual Report.

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 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 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 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 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 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 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 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 FY19 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 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 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.

The shareholder information set out below was applicable at 10th September 2019.

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	1,497
1,001 - 5,000	2,070
5,001 - 10,000	588
10,001 - 100,000	844
100,001 Over	148
	5,147

The percentage of the total holding of the twenty largest holders of Ordinary Shares was 73.58%.

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	54,973,464
Vintage China Funds GP Limited	39,056,127
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	43,561,911	15.52
2	Vintage China Funds GP Limited	35,939,389	12.80
3	HSBC Custody Nominees (Australia) Limited	35,016,527	12.47
4	J P Morgan Nominees Australia Pty Limited	32,143,735	11.45
5	National Nominees Limited	26,058,358	9.28
6	Sandhurst Trustees Ltd (Wentworth Williamson A/C)	7,290,875	2.60
7	Garrett Smythe Ltd	3,495,041	1.25
8	Vintage China Funds GP Limited	3,116,138	1.11
9	Secvest Capital Pty Limited	2,870,000	1.02
10	BNP Paribas Noms (NZ) Ltd (DRP)	2,407,377	0.86
11	Mr Graham John Harvey	2,100,000	0.75
12	Sunrise Vineyards Pty Ltd (Moularadellis S/F A/C)	2,020,000	0.72
13	BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP)	1,839,468	0.66
14	Henleaze Investments Pty Ltd	1,500,000	0.53
15	BNP Paribas Noms Pty Ltd (DRP)	1,498,587	0.53
16	Neweconomy Com Au Nominees Pty Limited (900 Account)	1,330,848	0.47
17	Secvest Capital Pty Ltd	1,150,000	0.41
18	Mr Perry Richard Gunner + Mrs Felicity Jane Gunner (Perry Gunner Superfund A/C)	1,100,682	0.39
19	127 Victoria Pty Ltd	1,100,000	0.39
20	Mr Trevor Gregory Burke	1,010,795	0.36
Top 20 Holders of Fully Paid Ordinary Shares (Total)		206,549,731	73.58
Total Remaining Holders Balance		74,158,340	26.42

Directors' report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2019. 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 H Davis B. Ec, Age 63

(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 A McGuigan B. App. Sc. (OENO), Age 61

(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.

John D Davies FCA, Dip. Bus S, Age 66

(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 66

(Non-Executive) Director since 28 January 2015

Currently Chairperson of Sniip. Non-Executive Director of Arq Group (previously known as Melbourne IT Limited) 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 J Perrin, Age 61

(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 42

(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 H Davis	InvoCare Limited	Since 2012
	Monash IVF Group Limited	Since 2014
Naseema Sparks	Arq Group (previously known as Melbourne IT Limited)	Since 2012
	Sniip	Since 2017
	IncentiaPay	2017 to 2019
	Grays e-Commerce Group Limited	2014 to 2016
	PMP Limited	2010 to 2017

Company Secretary

Michael H 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 2019, a fully franked dividend of 2.0 cents per share has been declared and will be paid on 8th November 2019. In respect of the financial year ended 30 June 2018, a fully franked dividend of 1.5 cents per share was paid on the 9th November 2018.

Review of operations and future developments

Key Points

- EBITs (Earnings before Interest, Tax and SGARA) up 30% to \$21.7 million
- Net Profit after Tax (NPAT) and before SGARA improved 48% to \$11.9 million
- 2019 vintage conditions impacted result by negative \$4.9 million compared to prior period
- NPAT up 6% to \$8.1 million
- Cash Flow from Operating Activities positive \$23.6 million
- Net Debt of \$72.4 million compared to \$77.2 million as at 30 June 2018
- Revenue up \$19.7 million to \$269.2 million
- Sales of McGuigan, Tempus Two and Nepenthe up 10%
- 2.0 cent per share fully franked final dividend, up 33% on prior period

Review of operations and future developments (continued)

The significant improvement in our underlying business result shows that our key, long-term strategies are correct. The Net Profit after tax and before SGARA improved 48% to \$11.9 million mainly due to a significant improvement in the contribution from our UK/Europe segment. Unfortunately, this improvement in our underlying business did not filter through to the bottom line due to the poor 2019 vintage, which resulted in our SGARA being down \$4.9 million against last year and \$6.9 million against expectation.

Our financial position continues to improve with net borrowings of \$72.4 million at 30 June 2019, the lowest it has been since this company was formed back in 2002. With a reduced capital spend planned for FY20, we expect net debt to continue to decrease and, as a result, the Board has declared a fully franked dividend of 2 cents per share, the highest payout ratio since this Company was formed. The Company's operating cash flow was positive \$23.6 million against \$26.7 million last year. The slight decline in operating cash flow was due to unplanned bulk wine purchases of \$9.4 million to cover the shortfall from this year's vintage.

The continued focus on our three core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales increasing by 10% during the year. In the UK, McGuigan sales grew by 13% and Tempus Two by 14%. McGuigan is the third largest global brand in the UK market. The business has good momentum and, together with our organisational talent, operational efficiencies, brands and customer partnerships we are confident that our business will continue to grow.

The unswerving emphasis we place on driving wine quality has again been rewarded with the company's wines continuing to win awards at well-respected global wine competitions. At the recent 2019 International Wine Challenge, held in London, McGuigan was awarded White Winemaker of the Year. This is now the fourth time we have won this award, which is unprecedented for an Australian wine company.

Key Segment Highlights

- Australasia/North America reported a 7% EBIT growth to \$7.9 million. Strong growth in Australia with sales up 6%, New Zealand up 42% and Asia up 24% contributed to the growth of this segment. Sales to North America were down 11% due mainly to lower than expected sales in Canada.
- UK/Europe reported a significant 94% EBIT growth to \$10.9 million mainly due to the improvement in sales mix, focus on growing independents and the ongoing sales growth of the relatively new generic Shy Pig brand. Favourable foreign currency during the year provided an extra \$2.8 million to the EBIT.
- Cellar Door reported a 39% EBIT decline to \$1.0 million mainly due to decreased visitor numbers in the Hunter Valley where our two key cellar doors are located.
- Australasia/North America Bulk and Processing EBIT improved by \$1.8 million due to the removal of a significant portion of loss-making bulk wine sales.

Vineyard Segment (including SGARA) EBIT declined by \$6.9 million mainly due to the poor 2019 vintage. Against expectation our yield from our owned and leased vineyards fell by 12,600 tonnes and against last year it was 7,900 tonnes down. The frost and the significant heat contributed to the poor 2019 yield.

Sales

Revenue for the year increased 8% or \$19.7 million due to the continued growth in our branded products.

TOTAL SALES BY SEGMENT	12 MONTHS TO		CHANGE	
	30/06/19 \$000	30/06/18 \$000	Variation \$000	%
Australasia/North America Packaged	105,870	98,166	7,704	8
UK/Europe	121,180	104,961	16,219	15
Cellar Door	9,441	10,588	(1,147)	(11)
Australasia/North America bulk & processing	27,644	30,198	(2,554)	(8)
Vineyards	5,031	5,563	(532)	(10)
	269,166	249,476	19,690	8

Australasia/North America

Australasia/North America packaged sales were up 8% on last year with most of the growth coming from increased branded sales. Cask sales improved by 1% during the year against a long-term trend of declining sales.

Review of operations and future developments (continued)

Sales within the Australasia/North America packaged segment: -

	SALES (\$000)	
	FY19	FY18
Australia	78,105	73,906
New Zealand	5,623	3,973
Asia	14,226	11,431
North America	7,916	8,856
Australasia/North America	105,870	98,166

Australia has experienced both an increase in sales and shift in mix to higher-priced, premium products. Sales of the McGuigan brand continued its growth with sales up 8% and the higher priced Tempus Two and Nepenthe brand sales improving by 6%. Five years ago, Tempus Two sales represented 10% of total Company bottled sales in Australia and are now 18%. Sales of lower margin products such as Miranda declined 9% during the year.

Sales to New Zealand have improved significantly due to the outstanding performance of the McGuigan Private Bin range which grew 45%.

Sales to Asia have grown by 24% with McGuigan up 23% and Tempus Two up 25%. This performance is against a 7% increase for the entire Australian wine industry for sales to Asia.

North America sales are down 11% on the back of significant growth in previous periods. Over the last 2 years, sales to North America have grown by 19%. In the United States, sales to our distributor, Palm Bay remained small with little volume growth over the last 12 months. The United States remains a challenging market for Australian wines.

UK/Europe

UK/Europe sales were up 15% on last year with the McGuigan brand continuing to grow in all parts of the UK market.

Mix is improving with the ongoing increase in sales of the higher priced McGuigan Black Label and Reserve ranges, which now represents 40% of all sales compared to 30% in FY17. The McGuigan brand has grown 13% in FY19 with the less known generic Shy Pig brand growing 16%. Lower volume brands, Tempus Two and Nepenthe, have increased sales by 36% and 14% respectively. The GBP positively impacted sales by \$4.7 million when compared to the previous period.

EBIT and Net Profit

EBITS (Earnings before Interest, Tax and SGARA) improved by 30% to \$21.7 million.

Net Profit after tax improved by 6% to \$8.1 million even allowing for a significant decrease in SGARA due to the poor crop from our owned and leased vineyards.

The UK/Europe segment contribution increased by 94% due to the ongoing improved sales mix through the expansion of the McGuigan Black Label and Reserve brands and the added focus on growing our sales footprint in all channels. When compared to the previous period, the favourable GBP added \$2.8 million to the contribution of the UK/Europe segment.

Australasia / North America Packaged EBIT increased by 7% mainly due to an increase in the contribution from the Australia, New Zealand and Asian divisions. North America contribution decreased due to reduced sales.

	EBIT (\$000)	
	FY19	FY18
Australia	4,767	4,418
New Zealand	889	748
Asia	1,684	1,563
North America	565	653
Australasia/North America	7,905	7,382

Review of operations and future developments (continued)

Group Net Profit

PROFIT	12 MONTHS TO		CHANGE	
	30/6/19 \$000	30/6/18 \$000	\$000	%
Australasia/North America Packaged	7,905	7,382	523	7
UK/Europe	10,919	5,614	5,305	94
Cellar Door	991	1,617	(626)	(39)
Australasia/North America bulk & processing	1,307	(470)	1,777	378
Vineyard Management/Prior year grape price adjustments	609	2,606	(1,997)	(77)
EBITS	21,731	16,749	4,982	30
Finance costs	(4,059)	(5,031)	972	(19)
Interest received	25	16	9	56
Tax	(5,759)	(3,642)	(2,117)	(58)
Net Profit (after tax and before SGARA)	11,938	8,092	3,846	48
SGARA	(5,450)	(569)	(4,881)	(858)
Tax on SGARA	1,635	171	1,464	858
SGARA (after Tax)	(3,815)	(398)	(3,417)	858
Net Profit (after Tax)	8,123	7,694	429	6

Capital Expenditure

Over the last 2 years the Company has invested \$35.6 million in various capital projects including \$11 million on a new packaging line and various long-term investments in winemaking, plus a premium winery at our Buronga winery facility. The return on investment on the new packaging line is currently lower than expected but above cost of funding. Over time and with increased throughput the expected target of 12% will be met.

The premium winery, at a total cost of \$10.0 million, will be operational next year and all our premium grapes will be processed at Buronga in 2020. We remain confident that the target return of 15% will be achieved on this investment.

For FY20, our total capital expenditure is expected to be \$12.0 million with \$4.0 million to be spent on the completion of the premium winery and the balance on further vineyard development and normal capital replacement programs.

Cash Flow and Financial Position

The cash flow from operating activities was \$23.6 million, \$3.1 million below the previous period. The decline in operating cash flow was due to the poor 2019 vintage, which required the Company to purchase \$9.7 million of bulk wine. This purchase of wine was essential to meet our future sales forecasts.

The Company's net debt position declined by \$4.8 million to \$72.4 million and the gearing ratio is at a comfortable 24% (26% as at 30 June 2018).

During June 2019, we extended the existing banking facility to September 2022.

Outlook

The Company continues to focus on its three 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 our core business. This is reflected by the 48% growth in Net profit (after tax and before SGARA).

The cash flow from operating activities remains strong and with a decline in FY20 capital spend we expect our debt to decrease significantly in the near future.

Review of operations and future developments (continued)

Our major brands continue to perform well with sales of the McGuigan brand increasing by 11% and our higher priced brand, Tempus Two, increasing by 9%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

The UK has performed exceptionally well in an environment that has seen total volume of Australian wine sales to the UK decline by 4%. The Company will be investing more on advertising and marketing in the UK to keep this momentum going.

Our recent growth in Asia has been above industry average and the Company continues to work hard with our key distributors.

In 2019 the Company invested \$16.2 million on capital projects covering winery and packaging equipment. This brings the total capital spend over the last two years to \$35.6 million. In the next 12 months our total capital is expected to drop to \$12.0 million which, under normal vintage conditions, will mean that our net debt should decrease significantly.

Australian Vintage has transformed over the last 12 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue with the premiumisation of our sales mix.

The Company, together with the entire wine industry will have several challenges in the next 12 months, including Brexit, the drought and the increasing cost of grapes and wine processing. This is in an environment where retail prices of wine have remained relatively flat.

The poor 2019 vintage has meant that the processing cost of our wine has increased due to the lower than expected utilisation of our Buronga winery. This will impact our margins in FY20. A normal 2020 vintage will more than offset the higher cost of the 2019 wine through a significant improvement in SGARA.

A further market update will be provided at our Annual General meeting in November 2019.

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 2.0c per share. This dividend reflects a payout ratio of 70% and is based on an improved operating cash flow and reduced FY20 capital spend. This dividend will be paid to all shareholders on 8 November 2019 and the Record Date to establish shareholder dividend entitlements is 18 October 2019. The Company's Dividend Reinvestment Plan (DRP) will be suspended for the dividend payable on 8 November 2019.

Material business risks

The Group has an established risk committee, which monitors risks to the business on an ongoing basis and ensures they are identified in a timely manner and managed accordingly. Below are those risks that AVL considers of greatest materiality to the business, and existing mitigations against these risks.

Material business risk	Details of risk	Mitigation strategies in place
Constrained grape supply	<p>AVL's ability to fulfil demand, in particular growing demand for wine, is restricted by the availability of grapes. Climate change, agricultural and other factors, such as disease, pests, extreme weather conditions, water scarcity and competing land use, create increased risk that AVL will be unable to fulfil demand.</p> <p>To the extent that any of the foregoing impact the quality and quantity of grapes available to AVL for the production of wine, the financial prospects of operations could be adversely affected, both in the year of harvest and in future periods.</p>	<ul style="list-style-type: none"> • Long-term vintage planning and ongoing integrated business planning processes. • Where possible, balanced grape intake between owned/leased vineyards and third party suppliers. • Multi-regional growing and sourcing. • Innovative agronomic practices. • Strong grower relationships and defined agreements. • Innovation investment, including collaboration with research institutes on climate change adaption and water efficiency research
Brand reputation	<p>The strength of AVL's portfolios of brands is key to the success of the business. As a brand-led organisation, managing the reputation of brands is critical to AVL's ongoing success.</p> <p>Failure to protect and effectively manage brands could have significant reputational and financial repercussions.</p>	<ul style="list-style-type: none"> • Brand portfolio and product strategy, including portfolio rationalisation, prioritisation and targeted investment in consumer marketing. • Consumer insights supporting the monitoring and awareness of brand health and consumer trends. • Product pricing strategy. • Corporate Responsibility program.

Review of operations and future developments (continued)

Material business risk	Details of risk	Mitigation strategies in place
Loss of key leadership and talent	<p>AVL's ability to deliver on strategic targets is reliant on attracting and retaining experienced, skilled and motivated talent in core functions such as winemaking, sales, marketing and finance.</p> <p>Inability to retain key leaders and talent can impact relationships with AVL's key partners, result in lost business knowledge, increase risk of employee burnout and hamper the business' ability to deliver on key initiatives.</p>	<ul style="list-style-type: none"> • Talent review and succession planning processes. • Employee safety (including health and wellbeing) program. • Incentive and reward programs aligned to AVL's vision and growth behaviours.
Partner performance	<p>AVL relies on a number of key partners (suppliers, distributors, retailers) to support delivery of key strategic initiatives. The performance of these partners, and/or their market concentration and power, could have a significant impact on AVL's ability to deliver these initiatives.</p>	<ul style="list-style-type: none"> • Defined and pre-approved terms of engagement. • Investment in strong partner relationships. • Joint business planning processes to support and align internal and partner incentives. • Regular performance reviews.
Changing laws and government regulations	<p>AVL operates in a highly regulated industry in many of the markets in which it makes and sells wine. Each of these markets have differing regulations that govern many aspects of AVL's operations, including taxation, production, manufacturing, pricing, marketing, advertising, distribution and sales of wine.</p> <p>Remaining compliant with and abreast of changes to such regulations requires diligent and ongoing monitoring by the business. Additionally, changes and additional regulations can significantly impact the nature of operations in these markets.</p>	<ul style="list-style-type: none"> • Company-wide policies, standards and procedures. • AVL's compliance framework. • Business Continuity Plans. • Specialised and experienced resources and teams. • Executive Leadership Team oversight via the Risk Committee. • Relationships and engagement (where relevant) with key government, industry advocacy and regulatory bodies.
Significant business disruption	<p>AVL's scope of operations exposes it to a number of business disruption risks, such as environmental catastrophes, natural and man-made hazards and incidents or politically motivated violence.</p> <p>Significant business disruption could result in AVL's sites or employees being harmed or threatened, loss of key infrastructure, inventory shortages or loss, customer dissatisfaction, or financial and reputation loss.</p>	<ul style="list-style-type: none"> • Dedicated health and safety team oversight, audit programs and training. • Preventative repair and maintenance program. • Comprehensive insurance program.
Foreign exchange	<p>AVL is exposed to foreign exchange risk from a number of sources, namely from the export of Australian produced wine to offshore markets. Foreign exchange rate movements impact AVL's earnings.</p>	<ul style="list-style-type: none"> • Active foreign exchange hedging strategy. • Partial natural hedges (purchases and sales within the same currency) where possible.
Cyber security	<p>Data/information security is essential to protect business critical intellectual property and privacy of data. Continuing advances in technology, systems and communication channels mean increasing amounts of private and confidential data are now stored electronically. This, together with increasing cyber-crime, heightens the need for robust data security measures.</p>	<ul style="list-style-type: none"> • Information Security Policy, supporting framework and specialised resources. • Restricted and segregated management of sensitive business/supplier/customer data. • Periodic employee training and alerts to ensure secure handling of sensitive data. • Crisis management and IT Disaster Recovery Plans.
Infrastructure supporting growth	<p>The business relies on IT infrastructure, systems and processes to support ongoing business growth. Where such infrastructure cannot efficiently support the changing needs of the business, there is risk of process inefficiency and/or error increasing costs, processing time and damaging business reputation.</p>	<ul style="list-style-type: none"> • Defined IT roadmap and strategy approved by the Board/Executive Leadership Team. • IT policies and supporting procedures (security, change management, project management, etc.). • Documentation and mapping of key processes and controls across the business.

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 11 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 H Davis	11	2	2	2
Neil A McGuigan	11	2	2	2
John D Davies	11	2	2	2
Naseema Sparks	10	2	1	2
Peter J Perrin	11	2	2	2
Jiang Yuan	9	0	0	0
Total Meetings Held	11	2	2	2

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	4,500,000
John D Davies	400,000	-
Naseema Sparks	43,240	-
Peter Perrin	121,174	-
Jiang Yuan	39,055,527	-

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	2,295,000	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
	9,663,000			

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
Non-executive Directors		
Richard H Davis	Chairman	Full Year
John D 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
Executives		
Neil McGuigan ⁽¹⁾	Chief Executive Officer ('CEO')	Full Year
Mike Noack	Company Secretary & Chief Financial Officer	Full Year
Cameron Ferguson	Chief Operating Officer, Australasia / North America	Full Year
Julian Dyer	Chief Operating Officer, UK/Europe	Full Year

(1) On the 29th July 2019 it was announced Neil McGuigan will resign as CEO, effective 20th November 2019. Craig Garvin will commence as CEO on the 21st November 2019. Further information on this announcement can be accessed at: <https://www.asx.com.au/asxpdf/20190729/pdf/446yyhzw1sy426.pdf>

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. For the year ended 30 June 2019, the Remuneration Committee formed the view that Non-Executive Director compensation is aligned with the market. 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 which has no variable component.

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

Remuneration objectives and principles with respect to both the Chief Executive Officer and Executive compensation are 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 represents a target pay mix for the Chief Executive Officer and other Executives.

EXECUTIVE TOTAL REWARD FRAMEWORK		
50% for CEO 60% for other Executives	At Risk Remuneration	
	Variable Cash Incentive 25% for CEO 20% for other Executives	Deferred Equity Incentive 25% for CEO 20% for other Executives
Comprises: <ul style="list-style-type: none"> Cash salary (base); Salary sacrificed items; Company motor vehicles; Allowances; and Employer superannuation contributions in line with statutory obligations. 	A Variable Cash opportunity targeting: <ul style="list-style-type: none"> 25% of Total Remuneration for the CEO 20% of Total Remuneration for other Executives 	From 1st July 2018, comprises a deferred equity scheme targeting: <ul style="list-style-type: none"> 25% of Total Remuneration for the CEO 20% of Total Remuneration for other Executives.

Remuneration Components

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

- Fixed Remuneration
- Variable Cash Incentive
- Deferred Equity Incentive

1. Fixed Remuneration

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 Officer ('CEO') is reviewed annually by the Remuneration Committee. The base amount for other Executives is reviewed by the CEO, who makes recommendations 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. Variable Cash Incentive

Variable Cash incentive payments take into account the extent to which specific financial and operating targets are achieved during the financial year. The targets consist of a number of key performance indicators ('KPIs') 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.

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

Variable Cash Incentive

	CEO/CFO	COO'S	KEY MANAGEMENT PERSONNEL	TYPE OF AWARD
Financial	60%	35%	55%	Cash Payment
Behaviours	15%	15%	15%	
Operations/Divisional	25%	50%	30%	
	100%	100%	100%	

Remuneration Report (continued)

The primary measure is performance against financial targets (in particular EBITs, (Earnings before interest, tax and Self-Generating and Regenerating Assets income ('SGARA')). Company Performance is set at a minimum of 90% achievement of the financial year budget and is the first gate to determine the incentive opportunity to be made available for individual assessment. 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.

Due to the organisation's ability to exceed its financial year budget, the Variable Cash incentive can be assessed to a maximum of 120% achievement. Objectives and performance indicators are determined annually as follows:

- Chief Executive Officer – by the Remuneration Committee and approved by the Board, following consultation with the CEO
- Key Management Personnel – by the CEO and approved by the Remuneration Committee, following consultation with each Executive member

For the purpose of determining eligibility for payment of variable cash incentives, corporate financial and behavioural objectives as well as individual performance is assessed against set performance targets agreed each year.

The table below shows the maximum Variable Cash Incentive payments for FY19, the breakdown between financial and operational key performance indicator targets and the actual percentage of the maximum Variable Cash incentive achieved:

	2019 MINIMUM BONUS	2019 MAXIMUM BONUS ⁽¹⁾	KEY PERFORMANCE TARGETS			2019 % OF MAXIMUM GRANTED
	\$	\$	FINANCIAL	BEHAVIOURS	OPERATIONAL	
Neil McGuigan	0	306,000	60%	15%	25%	81%
Michael Noack	0	137,359	60%	15%	25%	83%
Cameron Ferguson	0	160,610	35%	15%	50%	81%
Julian Dyer	0	155,915	35%	15%	50%	92%

(1) Maximum bonus is based on achievement of 120% of financial target.

3. Deferred Equity Incentive

From the 1st July 2018 – Deferred Equity Incentive

At the beginning of each financial year the Board will determine the maximum number of Performance Rights that each executive will be entitled to. If the target Return on Capital Employed (1) ('ROCE' - defined as EBIT divided by capital employed where capital employed is total assets less current liabilities.) is achieved for that financial year then those Performance Rights will be converted to AVG shares, which will be escrowed for a period of 3 years.

The target ROCE is:

- For FY19 the target ROCE was in the range of 4.2% to 5.1%.
- For FY20 the target ROCE is in the range 4.3% to 5.7%.

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 shares will be purchased on market. However, this will be a year by year decision based on future cash flow projections. The Board will have discretion to release the shares from escrow, if for example, the Executive is a good leaver. The dividends received from the shares will be paid to the Executives.

Certain conditions apply to the issue of the incentives as follows:

- **No retesting** - there will be no retest applied to the Deferred Equity award other than if a bad leaver.
- **Bad Leaver** - In the case of a bad leaver, no shares will be transferred. The shares will remain in the Trust to be used in future 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 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 award.
- **Cessation of Employment** - during a performance period, should an executive resign, or be terminated, no automatic award will be provided. AVL will have regard to performance against target and the performance period elapsed in determining any award.

Remuneration Report (continued)

3. Deferred Equity Incentive (continued)

There were 1,651,366 Performance Rights issued on the Deferred Equity Incentive during the year (2018 : n/a). As the minimum target ROCE was not reached, none of these rights will be converted into shares and the rights have been cancelled.

Prior to 1st July 2018 – Performance Rights and Options Plan

Established in August 2012, this plan provided a right to an issue of shares. This right or option was subject to the achievement of Earnings per share ('EPS') and Total Shareholder Return ('TSR') hurdles until the vesting date and the satisfaction of continuous employment criteria. The plan was available to selected senior management as approved by the Board. Rights and options can be exercised if the following criteria are met:

Options issued FY16 (exercise price \$0.376):

- 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 Compound Annual Growth Rate ('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 (exercise price \$0.528):

- 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 (exercise price \$0.4387):

- 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%.

As this Performance Rights and Option Plan ceased on 30th June 2018, there were no share options issued during the year (2018: 2,500,000) 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 this Plan.

Remuneration Report (continued)

Key Management Personnel equity, option and performance rights

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	1,200,000	\$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	270,000	\$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	240,000	\$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	240,000	\$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
TOTAL		7,302,000			

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

	BALANCE @ 1/7/18 No.	GRANTED AS REMUNERATION No.	RECEIVED ON EXERCISE OF OPTIONS No.	NET OTHER CHANGE No.	BALANCE @ 30/6/19 No.	BALANCE HELD NOMINALLY No.
2019						
Non-executive Directors						
Richard H Davis	110,000	-	-	-	110,000	-
John Davies	300,000	-	-	100,000	400,000	-
Naseema Sparks	23,720	-	-	19,520	43,240	-
Peter Perrin	70,400	-	-	50,774	121,174	-
Jiang Yuan	35,939,389	-	-	3,116,138	39,055,527	-
Executives						
Neil McGuigan	1,005,000	-	-	-	1,005,000	-
Michael Noack	320,352	-	-	102	320,454	-
Cameron Ferguson	100,000	-	-	-	100,000	-
Julian Dyer	-	-	-	-	-	-
	37,868,861	-	-	3,286,534	41,155,395	-

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

	BAL. @ 1/7/18 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	EXPIRED/ CANCELLED No.	BAL. @ 30/6/19 No.	BAL. VESTED @ 30/6/19 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
2019									
Neil McGuigan	5,300,000	488,630	-	(1,288,630)	4,500,000	800,000	-	800,000	800,000
Michael Noack	1,134,000	262,877	-	(442,877)	954,000	180,000	-	180,000	180,000
Cameron Ferguson	1,084,000	241,299	-	(401,299)	924,000	160,000	-	160,000	160,000
Julian Dyer	1,084,000	216,046	-	(376,046)	924,000	160,000	-	160,000	160,000
	8,602,000	1,208,852	-	(2,508,852)	7,302,000	1,300,000	-	1,300,000	1,300,000

Remuneration Report (continued)

Key Management Personnel Remuneration

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

2019	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
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	79,358	-	-	-	3,209	-	-	-	-	82,567
Sub-total	400,820	-	-	8,000	33,747	-	-	-	-	442,567
Executives										
Neil McGuigan	750,841	237,150	-	1,200	15,250	-	-	63,894	-	1,068,335
Michael Noack	396,182	114,180	-	89,176	25,000	-	-	15,498	-	640,036
Cameron Ferguson	391,507	129,292	-	26,200	37,193	-	-	15,045	-	599,237
Julian Dyer	381,210	142,922	-	-	18,486	-	-	15,045	-	557,663
Sub-total	1,919,740	623,544	-	116,576	95,929	-	-	109,482	-	2,865,271
TOTAL	2,320,560	623,544	-	124,576	129,676	-	-	109,482	-	3,307,838

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 ^(c)	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	-	2,846,652
TOTAL	2,166,495	668,949	-	126,576	128,277	132,800	-	208,044	-	3,431,141

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

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

(c) 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 2019:

	30 JUNE 2015 \$ M	30 JUNE 2016 \$ M	30 JUNE 2017 \$ M	30 JUNE 2018 \$ M	30 JUNE 2019 \$ M
Operating Cash Flow	2.1	6.5	14.0	26.7	23.6
Total Revenue	230.9	242.7	226.5	249.5	269.2
EBITS (before one off items) ⁽¹⁾	13.9	15.8	9.9	16.7	21.7
EBIT	17.5	3.2	11.3	16.2	16.3
EBIT (before one off items)	16.7	16.4	11.3	16.2	16.3
Net Profit/(Loss) after tax	9.4	(2.2)	4.3	7.7	8.1
Net Profit/(Loss) after tax before one off items	7.1	7.0	4.3	7.7	8.1

(1) EBITS is earnings before interest, tax and SGARA.

	30 JUNE 2015	30 JUNE 2016	30 JUNE 2017	30 JUNE 2018	30 JUNE 2019
Earnings per share - cents	4.0	(0.9)	1.8	2.8	2.9
Dividends declared - cents	Nil	1.5	1.0	1.5	2.0
Market capitalisation - \$ million	84.8	131.2	117.1	151.4	134.7
Enterprise value (debt + equity) - \$ million	373.2	373.9	372.3	377.8	379.3
Share price at start of year - \$ per share	0.320	0.365	0.565	0.425	0.545
Share price at end of year - \$ per share	0.365	0.565	0.425	0.545	0.480

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. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain 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 Variable Cash incentive). Mr McGuigan may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

Remuneration Report (continued)

Service Agreements of Key Management Personnel (continued)

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. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain conditions.
- (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 Variable Cash 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. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain 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 Variable Cash 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. Variable Cash incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and behavioural targets.
 - c. Deferred Equity - entitlement to an issue of Performance Rights. The Performance Rights are subject to meeting set ROCE and are subject to certain 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 Variable Cash 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.

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 21 to the financial statements.

The directors are of the opinion that the services as disclosed in note 21 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 39.

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 2019 a fully franked dividend of 2.0 cents per share was declared on the 28th August 2019 and will be paid on the 8th November 2019.

There have been no other matters or circumstances, other than that referred to in note 26 to the financial statements, 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
28th August 2019



NEIL MCGUIGAN
Chief Executive Officer
28th August 2019



Deloitte Touche Tohmatsu
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Australia

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28 August 2019

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 2019, 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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Penny Woods", enclosed within a circular stamp.

Penny Woods
Partner
Chartered Accountants



Deloitte Touche Tohmatsu
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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 2019, 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 2019 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 of \$65.9 million (see Note 10).</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"> • processed volume growth, • processing margin, and • discount rate. 	<p>In conjunction with valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • 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; • agreeing the model inputs to the Board approved budget forecasts; • assessing historical budgeting accuracy; • assessing the appropriateness of assets and liabilities allocated to the model; • assessing forecast processed volume growth, with reference to processing capacity; • challenging management's assessment of the forecast processing margin, with reference to external market rates; • challenging the components of the discount rate against independent rates and assessing if the overall rate used is within an acceptable range; and • 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. <p>We also assessed the appropriateness of the disclosures in Notes 10 and 11 to the financial statements.</p>
<p><i>Recognition of revenue tax losses</i></p> <p>As at 30 June 2019 the Group has recognised \$29.4 million of deferred tax assets and \$36.3 million tax losses relating to revenue tax losses as disclosed in Note 4.</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 included, but were not limited to:</p> <ul style="list-style-type: none"> • 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; • assessing historical budgeting accuracy; and • applying sensitivity analysis to the forecast taxable profits. <p>We also assessed the appropriateness of the disclosures in Note 4 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 30 to 37 of the Director's Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Australian Vintage Ltd, for the year ended 30 June 2019, 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
DELOITTE TOUCHE TOHMATSU

Penny Woods
Partner
Chartered Accountants
Adelaide, 28 August 2019

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 1 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 23 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
28th August 2019



NEIL MCGUIGAN
Chief Executive Officer
28th August 2019



AUSTRALIAN VINTAGE LTD

2019 Financial Report

FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	NOTE	2019 \$'000	RESTATED 2018 \$'000
Revenue	3	269,166	249,476
Cost of sales	3	(194,296)	(182,929)
Gross Profit		74,870	66,547
Fair value (loss) / gain on grapes picked		(5,450)	(569)
Other income	3	957	590
Distribution expenses		(14,338)	(13,179)
Sales and marketing expenses		(31,365)	(29,206)
Administration expenses		(8,368)	(7,987)
Finance costs	3	(4,059)	(5,031)
Profit before tax		12,247	11,165
Income tax expense	4	(4,124)	(3,471)
Net Profit for the year		8,123	7,694
Other comprehensive income / (loss), net of income tax:			
<i>Items that may be subsequently classified to profit or loss:</i>			
Change in fair value of hedging instruments		231	(254)
Exchange differences arising on translation of foreign operations		72	134
Other comprehensive loss for the year, net of income tax		303	(120)
Total comprehensive income for the year		8,426	7,574
Earnings Per Share:			
Basic (cents per share)	5	2.9	2.8
Diluted (cents per share)	5	2.8	2.7

The above consolidated statement of profit or loss and other comprehensive income should be read along with the accompanying notes.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2019

	NOTE	2019 \$'000	2018 \$'000
Current Assets			
Cash and cash equivalents	6	8,057	7,712
Trade and other receivables	7	49,357	47,546
Inventories	8	156,346	139,882
Other financial assets	15	57	-
Total Current Assets		213,817	195,140
Non-Current Assets			
Inventories	8	34,268	52,164
Other financial assets	15	816	362
Property, plant and equipment	9	117,482	109,095
Goodwill and other intangible assets	10	50,249	50,418
Deferred tax assets	4	29,380	33,597
Total Non-Current Assets		232,195	245,636
Total Assets		446,012	440,776
Current Liabilities			
Trade and other payables	12	59,353	55,523
Borrowings	14	470	503
Other financial liabilities	15	331	477
Provisions	13	5,933	5,539
Income received in advance		88	596
Total Current Liabilities		66,175	62,638
Non-Current Liabilities			
Borrowings	14	79,965	84,435
Other financial liabilities	15	321	15
Provisions	13	720	795
Total Non-Current Liabilities		81,006	85,245
Total Liabilities		147,181	147,883
Net Assets		298,831	292,893
Equity			
<i>Capital and reserves</i>			
Issued capital	16	465,490	463,961
Reserves	18	2,443	1,989
Accumulated losses		(169,102)	(173,057)
Total Equity		298,831	292,893

The above consolidated statement of financial position should be read along with the accompanying notes.

Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	SHARE CAPITAL \$'000	EQUITY - SETTLED EMPLOYEE BENEFITS RESERVE \$'000	HEDGING RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	ACCUMULATED LOSSES \$'000	TOTAL \$'000
Balance at 30 June 2017	463,009	1,698	46	85	(177,995)	286,843
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
Total comprehensive income for the period	-	-	(254)	134	7,694	7,574
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
Balance at 30 June 2018	463,961	1,978	(208)	219	(173,057)	292,893
Profit for the period	-	-	-	-	8,123	8,123
Net (loss) on interest rate swaps	-	-	(645)	-	-	(645)
Net gain on foreign exchange hedges	-	-	975	-	-	975
Exchange differences arising on translation of foreign operations	-	-	-	103	-	103
Income tax relating to components of other comprehensive income	-	-	(99)	(31)	-	(130)
Total comprehensive income for the period	-	-	231	72	8,123	8,426
Share issues	1,543	-	-	-	-	1,543
Share issue costs	(21)	-	-	-	-	(21)
Tax consequences	7	-	-	-	-	7
Dividend paid	-	-	-	-	(4,168)	(4,168)
Recognition of share based payments	-	151	-	-	-	151
Balance at 30 June 2019	465,490	2,129	23	291	(169,102)	298,831

The above consolidated statement of changes in equity should be read along with the accompanying notes.

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	NOTE	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		283,647	276,850
Other payments to suppliers and employees		(256,168)	(245,220)
Cash generated from operations		27,479	31,630
Interest and other costs of finance paid		(3,886)	(4,963)
Net cash provided by operating activities	6 (a)	23,593	26,667
Cash flows from investing activities			
Payments for property, plant and equipment		(16,177)	(19,383)
Payments for intangibles		-	(191)
Proceeds from sale of property, plant & equipment		78	314
Net cash used in investing activities		(16,099)	(19,260)
Cash flows from financing activities			
Share issue costs		(21)	(46)
Dividends paid		(2,625)	(1,772)
Repayment of borrowings	6 (c)	(4,503)	(493)
Net cash used in financing activities		(7,149)	(2,311)
Net increase / (decrease) in cash and cash equivalents		345	5,096
Cash and cash equivalents at the beginning of the financial year		7,712	2,616
Cash and cash equivalents at the end of the financial year		8,057	7,712

The above consolidated statement of cash flows should be read along with the accompanying notes.

Note 1: About this report

General information

Australian Vintage Ltd (the 'Company') is a for-profit entity, incorporated and domiciled in Australia and limited by shares which are traded on the Australian Securities Exchange (trading under the ticker code 'AVG'). The consolidated financial report comprises the Company and its controlled entities (the 'Group') and was authorised for issue by the Board of Directors on 28 August 2019. The Directors have the power to amend and reissue the financial report.

The Group's registered office is 275 Sir Donald Bradman Drive, Cowandilla SA 5033 and its principal activities are wine making, wine marketing, and vineyard management.

Basis of preparation

This financial report:

- is a general purpose financial report;
- has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'), International Financial Reporting Standards ('IFRSs') and the *Corporations Act 2001*;
- has been prepared on a historical cost basis except for those items measured at fair value, as detailed in the policies that follow;
- is presented in Australian dollars, which is the Group's functional and presentational currency, with all values rounded to the nearest thousand, as permitted under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* unless otherwise stated;
- includes foreign currency transactions that are translated into the Group's functional currency using the prevailing exchange rate at the date of the transaction;
- where required, presents restated comparative information to enhance comparability; and
- has been prepared on a going concern basis.

Basis of consolidation

The consolidated financial report incorporates the financial report of the Company and its subsidiaries. Subsidiaries are entities over which the Company has control. A list of such entities is provided in Note 23. The Company controls an entity when it has:

- power to direct the activities of the entity, through voting rights;
- exposure to variable returns from its involvement with the entity; and
- the ability to use its power to affect its returns.

Total comprehensive income of subsidiaries is attributed to the owners of the Company. 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. All amounts referenced in these financial statements and the accompanying notes are the Consolidated Group figures, unless otherwise indicated.

Significant accounting estimates and judgements

Management has identified the following critical accounting policies where significant judgements, estimates and assumptions are made. Actual results may differ from these estimates and may materially affect financial results or the financial position reported in future periods. Further information on policies where critical estimates and judgements are made, are listed within the following notes:

- Key assumptions used in impairment testing for goodwill and other intangible assets (note 11)
- Recognition of income tax losses (note 4)

New and amended standards adopted by the Group

The Group adopted a number of new accounting standards and amendments for the first time for the annual reporting period commencing 1 July 2018. Those which had a significant impact on the Group are detailed below.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue and AASB 111 Construction Contracts. The new standard replaces the existing notion of risk and rewards with the notion of control to recognise when goods have been transferred to a customer.

The Group adopted AASB 15 using the retrospective method, restating comparatives. The adoption of AASB 15 has resulted in a change in the Group's policy for revenue recognition, which is detailed in note 3. The only impact of adopting the new standard is that some rebates paid to customers are now recorded as a net reduction in the transaction price of the sale they relate to. Previously the rebates were recorded as a cost of goods sold. Accordingly, there is no impact on profit on adopting AASB 15 and no impact on the Group's consolidated statement of financial position. A summary of the restatements made to comparatives is shown in the table below:

Consolidated statement of profit or loss and other comprehensive income – for the year ended 30 June 2018 (\$'000)

	As originally presented	AASB 15 Restatement	Restated
Revenue	264,613	(15,137)	249,476
Cost of sales	(198,066)	15,137	(182,929)
Gross profit	66,547	-	66,547

Note 1: About this report (continued)

AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group adopted AASB 9 without restating comparatives, as is allowed under the transition options. The adoption of AASB 9 has resulted in the following impacts on the Group:

Impairment of trade receivables

The Group now assesses debts based on an expected credit loss model, which is detailed further in the policy for impairment of trade receivables (note 25). This did not result in any material adjustments to the Group's provision for doubtful debts.

Hedge accounting

The Group has reassessed existing hedging relationships and updated the Group's policy (note 25) and hedge documentation to be compliant with AASB 9. This did not result in any changes to the underlying substance of the Group's hedging relationships, or adjustments to any related financial assets or liabilities.

Classification and measurement

The Group has assessed the categories in which financial instruments should be recorded under AASB 9. No significant changes in the classification or measurement resulted from adopting AASB 9.

The Group did not restate comparatives in adopting AASB 9 and there is no significant impact on the balance sheet or the profit and loss of the Group as a result on adopting AASB 9.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 Leases

AASB 16 will replace the current standard on lease accounting, AASB 117 Leases. AASB 16 introduces a single lessee accounting model and requires the lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

To date, the Group has reviewed all existing lease contracts, as well as service and other supplier agreements to determine which contracts across the business meet the definition of a lease under AASB 16. The Group will adopt AASB 16 when it becomes mandatory on 1 July 2019 and will take transition using the modified retrospective approach. The standard will be applied to all leases except leases of intangible assets (water licenses). Right-of-use assets relating to vineyard leases will be measured under Option 1, retrospectively as if AASB 16 had applied from the commencement of the lease. All other non-vineyard leases will be measured under Option 2, equal to the lease liability at the date of adoption. Comparatives will not be restated and cumulative differences in profit and loss will be adjusted in opening retained earnings.

The Group has assessed the financial impacts of transitioning to AASB 16 to be as follows:

Impact on the consolidated statement of financial position (as at 1 July 2019):

- Right-of-use asset: \$44m
- Lease liability: (\$50m)
- Deferred tax asset: \$2m
- Increase in opening accumulated losses: \$4m

Impact on profit and loss for the year ended 30 June 2020:

There will be a change in the presentation of the Consolidated statement of profit or loss and other comprehensive income, with \$9m of operating lease expenses being replaced with \$6m of amortisation expense and \$3.7m of interest expense. Of total interest charges, \$3.4m will be capitalised under AASB 102, as it relates to leases of vineyards used for producing grapes which are qualifying assets. The impact on FY20 EBIT and profit before tax ('PBT') is summarised in the table below (negative values are a reduction in profit).

	\$M
Vineyard leases (SGARA - includes capitalised interest)	(0.5)
Non vineyard leases	0.1
TOTAL EBIT impact	(0.4)
Interest expense (net of amounts capitalised under AASB 102)	(0.3)
TOTAL PBT impact	(0.7)

There are no significant impacts expected on the classification of cashflows.

Note 2: Segment information

Accounting policy– segment reporting

Operating segments are determined based on the reporting to the Chief Operating Decision Maker ('CODM'). The Group's CODM, who is responsible for allocating resources and assessing the performance of the Group has been identified as the Chief Executive Officer ('CEO').

The CODM assesses the performance of the Group by the following five identified segments:

- 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. This segment includes fair value gains and losses resulting from the harvest of grapes from AVL's owned and leased vineyards.

The accounting policies of the reportable segments are the same as the Group's accounting policies noted in these financial statements. Interest income and finance cost are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. The segment information provided to the CODM, which is reviewed on at least a monthly basis is as follows:

Revenue and profit information by segment

	Revenue 2019 \$'000	Restated Revenue 2018 \$'000	Profit before tax 2019 \$'000	Profit before tax 2018 \$'000
Australasia / North America packaged	105,870	98,166	7,905	7,382
UK / Europe	121,180	104,961	10,919	5,614
Cellar door	9,441	10,588	991	1,617
Australasia / North America bulk wine and processing	27,644	30,198	1,307	(470)
Vineyards	5,031	5,563	(4,841)	2,037
Total	269,166	249,476	16,281	16,180
Net interest expense - Corporate			(4,034)	(5,015)
Profit before tax			12,247	11,165

Geographical breakdown of revenues

	2019 \$'000	Restated 2018 \$'000
Australia	105,245	101,632
UK / Europe	121,180	104,961
North America	16,064	15,719
Asia	20,047	21,791
Other	6,630	5,373
	269,166	249,476

The Group has two major customers (2018: two) who individually account for greater than 10% of annual sales, one each within the Australasia / North America packaged and the UK / Europe segments. The total sales for these customers in 2019 is \$79.8 million (restated 2018: \$71.6 million).

Note 3: Revenue and expenses

Accounting policy - revenue

Revenue is measured based on the consideration to which the group expects to be entitled in a contract with a customer. The group recognises revenue when it transfers control of a product or service to a customer. The transaction price is net of rebates and discounts.

- Sale of goods is the sale of bottled and bulk wine and wine products to wholesale and retail customers. There is one performance obligation associated with the sale of goods, being the delivery of the product to the location specified in the agreement with the customer. Accordingly, revenue is recognised at the point in time at which control of the product is passed from the Group to the customer. This is typically by way of delivery to the customer's warehouse for wholesale customers, or at the point of sale at a cellar door outlet for a retail customer.
- Contract processing involves manufacturing a wine product based on the agreed specifications required by the customer. There is one performance obligation, being the delivery of the completed wine product to the site or location in the agreement with the customer. Accordingly, revenue is recognised at a point in time once control of the completed product has passed to the customer.
- Vineyard services is the development of customer's vineyards. This involves planting vines and installing trellising and irrigation. Typically, there are multiple performance obligations within a customer agreement, which are grouped in stages. Revenue is recognised at a point in time when a stage of development is completed and there is objective evidence of acceptance by the customer that the work has been completed to the agreed specifications and standard.

Any amounts received from customers prior to the performance obligations being completed are recorded as Income received in advance and held on the balance sheet, until the relevant performance obligations have been completed in line with the policies above.

Accounting policy – consumption taxes

Revenues, expenses and assets are recognised net of consumption taxes. Receivables and payables are recorded gross of consumption taxes, with the net amount of consumption taxes recoverable from, or payable to the relevant tax authority recorded on the balance sheet. Cash flows are presented on a gross basis, with any consumption taxes relating to investing or financing activities being recorded in operating cash flows.

	2019 \$'000	Restated 2018 \$'000
(a) Revenue from contracts with customers		
Sale of goods	262,665	242,834
Contract processing	2,206	1,079
Rendering contract vineyard services	4,295	5,563
	269,166	249,476
(b) Cost of goods sold		
Cost of goods sold	194,735	185,382
Amounts related to prior year SGARA change	(439)	(2,453)
	194,296	182,929
	2019 \$'000	2018 \$'000
(c) Other income		
Wine equalisation tax rebate	350	500
Gain / (Loss) on unrealised foreign exchange	157	(587)
Other rebates	150	594
Rental income	78	76
Gain / (Loss) on disposal of property, plant and equipment	34	(92)
Interest income	25	16
Other	163	83
	957	590
(d) Disclosure of specific expenses		
Employee benefits expense	38,973	36,706
Superannuation expense	2,867	2,694
Operating lease rental expense	8,168	6,705
Depreciation and amortisation	7,914	7,496
(e) Finance costs		
Accounting policy – borrowing costs		
Borrowing costs incurred for the production or construction of a qualifying asset are added to the cost base of the asset during the time the asset is being prepared for its intended use. Other borrowing costs are expensed as incurred.		
Interest on bank overdrafts and loans	3,766	4,695
Interest on obligations under finance lease	260	289
Unwinding of discounts	33	47
	4,059	5,031

Note 4: Income taxes

Accounting policy – income taxes

Income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. This is calculated based on tax laws enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised for taxable temporary differences. Deferred income tax assets are recognised for deductible temporary Differences, to the extent it is probable there will be sufficient future profits in the Group to utilise them against. 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.

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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the way 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.

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. The members of the tax-consolidated group are identified in note 23.

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 have 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.

Significant accounting estimates and judgement – recognition of 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 judgement and if the actual conditions vary to the assumptions adopted, the carrying value of the asset would need to be reassessed.

	2019 \$'000	2018 \$'000
(a) Income tax recognised in profit or loss		
Income tax comprises		
Current tax expense	-	-
Net deferred tax expense	4,094	3,414
(Over) / Under provision from prior year	30	57
	4,124	3,471
(b) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	12,247	11,165
Tax at the Australian Corporate tax rate of 30%	3,674	3,350
Non-deductible expenses	73	121
(Over) / Under provision from prior year	377	-
Total tax expense / (benefit)	4,124	3,471
(c) Income tax recognised in other comprehensive income		
	(123)	66

Note 4: Income taxes (continued)

(d) Deferred tax assets and liabilities

2019 composition and movement schedule	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
Gross deferred tax liabilities:					
Inventories	(4,305)	452	-	-	(3,853)
Intangibles	(1,471)	(159)	-	-	(1,630)
Property, plant and equipment	(7,252)	(10)	-	-	(7,262)
Other	(25)	(1)	-	-	(26)
	(13,053)	282	-	-	(12,771)
Gross deferred tax assets:					
Inventories	694	1,237	-	-	1,931
Trade and other payables	1,343	(104)	-	-	1,239
Provisions	2,237	(57)	-	-	2,180
Tax losses	41,674	(5,368)	-	-	36,306
Other	702	(84)	(123)	-	495
	46,650	(4,376)	(123)	-	42,151
Net deferred tax asset	33,597	(4,094)	(123)	-	29,380

2018 composition and movement schedule	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
Gross deferred tax liabilities:					
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)
	(14,388)	1,335	-	-	(13,053)
Gross deferred tax assets:					
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	507	129	66	-	702
	51,333	(4,749)	66	-	46,650
Net deferred tax asset	36,945	(3,414)	66	-	33,597

There are no unrecognised revenue tax losses relating to the Group. The Group has not recognised \$1,666,402 (2018: \$1,666,402) of capital losses.

Note 5: Earnings per share

Accounting policy – earnings per share

Basic earnings per share is determined by dividing net profit attributable to equity holders of the Group, by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share uses an adjusted weighted average number of ordinary shares in the same calculation, which assumes the conversion of all dilutive potential ordinary shares.

	2019	2018
Weighted average number of ordinary shares ('000) used in calculating basic earnings per share	279,670	277,011
Weighted average number of ordinary shares ('000) used in calculating diluted earnings per share	289,982	281,675
	2019	2018
	\$'000	\$'000
Profit / (Loss) for the year	8,123	7,694
Basic earnings per share (cents per share)	2.9	2.8
Diluted earnings per share (cents per share)	2.8	2.7

Note 6: Notes to the cash flow statement

Accounting policy – cash and cash equivalents

Cash comprises cash on hand, term deposits and deposits held on demand with financial institutions. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of less than 3 months. Bank overdrafts are presented as current liabilities on the balance sheet.

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

	2019	2018
	\$'000	\$'000
Profit from ordinary activities after income tax	8,123	7,694
Depreciation and amortisation of non-current assets	7,914	7,496
Loss / (Gain) on sale of non-current assets	(34)	92
Share based payments	151	280
Net cash provided by operating activities before net changes in assets and liabilities	16,154	15,562
<i>Changes in assets and liabilities, net of effects from acquisition and disposal of businesses</i>		
(Increase) / decrease in trade and other receivables	225	(5,329)
(Increase) / decrease in inventories	1,432	2,553
(Increase) / decrease other assets	(2,036)	268
(Increase) / decrease deferred tax assets	4,217	4,956
Increase / (decrease) trade and other payables	3,830	9,055
Increase / (decrease) in provisions and other liabilities	319	(266)
Other	(548)	(132)
Net cash provided by operating activities	23,593	26,667

(b) Net debt reconciliation

Cash and cash equivalents	8,057	7,712
Borrowings (current)	(470)	(503)
Borrowings (non-current)	(79,965)	(84,435)
Net debt	(72,378)	(77,226)

(c) Reconciliation of movements in liabilities from financing activities to cash flows from financing activities

LIABILITIES FROM FINANCING ACTIVITIES					
	Finance leases due within 1 year \$'000	Finance leases due after 1 year \$'000	Borrowings due within 1 year \$'000	Borrowings due after 1 year \$'000	Total \$'000
Balances at 30 June 2017	(551)	(4,880)	-	(80,000)	(85,431)
Cash flows	551	-	-	-	551
Non-cash movements	(503)	445	-	-	(58)
Balances at 30 June 2018	(503)	(4,435)	-	(80,000)	(84,938)
Cash flows	503	-	-	4,000	4,503
Non-cash movements	(470)	470	-	-	-
Balances at 30 June 2019	(470)	(3,965)	-	(76,000)	(80,435)

Non-cash movements include interest payments which are presented as operating cash flows in the statement of cash flows.

Note 7: Trade and other receivables

Accounting policy – trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The average credit period granted to customers for trade receivables is 60 days (2018: 57 days) and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 25.

	2019 \$'000	2018 \$'000
Trade receivables	44,638	44,579
Loss allowance	(144)	(7)
	44,494	44,572
Prepayments	4,056	2,020
Other receivables	807	954
	49,357	47,546

Note 8: Inventories

Accounting policy – 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 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.

Accounting policy – 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 profit or loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventories and is converted to wine products.

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

	2019 \$'000	2018 \$'000
Current		
Bulk wine	101,224	93,990
Bottled wine	42,827	36,150
Work in progress	7,363	6,153
Consumables and raw materials	4,932	3,589
	156,346	139,882
Non-current		
Bulk wine	31,780	50,261
Bottled wine	2,254	1,903
Consumables and raw materials	234	-
	34,268	52,164

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$184 million (2018: \$173 million).

Note 9: Property, plant and equipment

Accounting policy – property, plant and equipment

Property, plant and equipment are shown at historical cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly related to the acquisition of the asset and bringing it to its condition of use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All repairs and maintenance charges are expensed in profit and loss in the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight line and diminishing value methods using the following useful lives for each asset class:

- 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

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. 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.

As at 30 June 2019 (\$'000)

	<i>Freehold land</i>	<i>Vineyard improvements</i>	<i>Vines</i>	<i>Plant and equipment</i>	<i>Leased plant and equipment</i>	<i>Buildings</i>	<i>Work in progress</i>	<i>Total</i>
At cost	12,876	16,279	29,704	124,296	6,340	21,782	7,888	219,165
Accumulated depreciation	-	(10,460)	(20,719)	(63,145)	(710)	(6,649)	-	(101,683)
Net book value	12,876	5,819	8,985	61,151	5,630	15,133	7,888	117,482
Reconciliations								
Carrying amount at								
1 July 2018	12,868	5,082	9,590	51,178	5,854	14,095	10,428	109,095
Additions	-	132	-	4,942	-	461	10,642	16,177
Disposals	-	-	-	(44)	-	-	-	(44)
Transfers	8	1,360	223	10,515	-	1,076	(13,183)	-
Depreciation	-	(755)	(828)	(5,439)	(224)	(499)	-	(7,745)
Carrying amount at 30 June 2019	12,876	5,819	8,985	61,152	5,630	15,133	7,888	117,482

As at 30 June 2018 (\$'000)

	<i>Freehold land</i>	<i>Vineyard improvements</i>	<i>Vines</i>	<i>Plant and equipment</i>	<i>Leased plant and equipment</i>	<i>Buildings</i>	<i>Work in progress</i>	<i>Total</i>
At cost	12,868	14,786	29,481	113,400	6,340	19,632	10,428	206,935
Accumulated depreciation	-	(9,704)	(19,891)	(62,222)	(486)	(5,537)	-	(97,840)
Net book value	12,868	5,082	9,590	51,178	5,854	14,095	10,428	109,095
Reconciliations								
Carrying amount at								
1 July 2017	12,868	5,508	10,644	47,870	6,078	13,813	527	97,308
Additions	-	225	-	8,922	-	189	10,046	19,382
Disposals	-	-	(141)	(266)	-	-	-	(407)
Transfers	-	69	-	(467)	-	543	(145)	-
Depreciation	-	(720)	(913)	(4,881)	(224)	(450)	-	(7,188)
Carrying amount at 30 June 2018	12,868	5,082	9,590	51,178	5,854	14,095	10,428	109,095

Note 10: Intangible assets

Accounting policy – goodwill and business combinations

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 fair value of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is tested for impairment annually or more frequently if impairment indicators are identified. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Accounting policy – water licenses

Water allocations with permanent rights are measured at cost on the date of acquisition. 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.

Accounting policy – brand names

Brand names are assessed 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 at least annually or more frequently if impairment indicators are identified.

Accounting policy – software

Costs incurred in acquiring software that will contribute to future period financial benefits through revenue generation and/or cost reduction is capitalised as intangible assets. Costs capitalised include external direct costs of materials and service and direct payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis for the estimated useful life of the software, which for current software assets held is 10 years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

As at 30 June 2019 (\$'000)

	<i>Goodwill</i>	<i>Water licenses</i>	<i>Brand names</i>	<i>Software</i>	<i>Total</i>
At cost	44,085	7,554	4,828	3,993	60,460
Accumulated impairment losses	(6,400)	-	-	-	(6,400)
Accumulated amortisation	-	-	-	(3,811)	(3,811)
Net book value	37,685	7,554	4,828	182	50,249
Reconciliations					
Carrying amount at 1 July 2018	37,685	7,554	4,828	351	50,418
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Amortisation	-	-	-	(169)	(169)
Carrying amount at 30 June 2019	37,685	7,554	4,828	182	50,249

As at 30 June 2018 (\$'000)

	<i>Goodwill</i>	<i>Water licenses</i>	<i>Brand names</i>	<i>Software</i>	<i>Total</i>
At cost	44,085	7,554	4,828	3,993	60,460
Accumulated impairment losses	(6,400)	-	-	-	(6,400)
Accumulated amortisation	-	-	-	(3,642)	(3,642)
Net book value	37,685	7,554	4,828	351	50,418
Reconciliations					
Carrying amount at 1 July 2017	37,685	7,554	4,828	468	50,535
Additions	-	-	-	191	191
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Amortisation	-	-	-	(308)	(308)
Carrying amount at 30 June 2018	37,685	7,554	4,828	351	50,418

Note 11: Impairment testing

Accounting policy - impairment testing

Goodwill and brand name assets are tested annually for impairment. Other assets are tested for impairment when there are triggers present that indicate the carrying value of the assets may not be recoverable. The Group's Goodwill is allocated in full to the bulk wine and processing CGU and the brand name asset is allocated in full to the Nepenthe brand name CGU.

The Group tests for impairment by determining the recoverable amount of each cash generating unit ('CGU') and compares this to its carrying value. The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use profit and loss forecasts from the Group's board approved 5-year plan for a period of 5 years and a terminal value applied to the cashflows. An impairment charge is recorded if the recoverable amount of a CGU is less than the carrying value of the assets of any CGU.

Significant accounting estimates and judgements – key assumptions used for value-in-use calculations

The following assumptions are significant to the value-in-use calculations. These assumptions are continually evaluated by management based on historical and other factors to ensure they remain up to date and appropriate.

	TERMINAL GROWTH RATE		DISCOUNT RATE ⁽¹⁾	
	2019 %	2018 %	2019 %	2018 %
Nepenthe brand name CGU	2.5	2.5	14.3	17.0
All other CGUs	2.5	2.5	11.6	12.0

(1) Pre-tax weighted average cost of capital

Sensitivity analysis on key assumptions

Management has performed sensitivity analysis over the key assumptions listed above and has not identified any reasonably possible changes in them, which would cause the Group's assets to be impaired.

Due to the Group being an integrated wine producer, there are internal revenues used in the value-in-use models where certain CGUs provide services to other business units of the Group. The most significant relates to the Simeon bulk wine processing CGU, which manufactures the wine for the AVL Group. The internal revenues of the Simeon CGU are recorded as costs in the impairment models of the other Group CGUs that use these services. Management has benchmarked the internal processing rates used to market rates, to ensure they are accurate and appropriate. Sensitivity has been performed and the processing rates can be reduced by 25% with there still being material headroom in the model.

Note 12: Trade and other payables

Accounting policy – trade and other payables

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are paid in the average credit period of 45 days (2018: 40 days) granted by suppliers. Other payables to the Group represent accruals, volume and marketing rebates payable to customers and consumption tax payable to the relevant tax authorities. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

	2019 \$'000	2018 \$'000
Trade payables	41,417	37,542
Other payables	17,936	17,981
	59,353	55,523

Note 13: Provisions

Accounting policy - provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Short term employee benefit obligations include liabilities for salaries, wages and annual leave and are expected to be settled within the next 12 months. Short term employee benefit provisions also include long service leave amounts for those employees who have reached their legal present entitlement. They are measured at the amount expected to be paid to settle the liability.

Long term employee benefit obligations consist of probability estimates of long service leave amounts, for employees who have not yet reached their legal present entitlement.

Onerous contracts provisions are recognised when the Group has a contract for which the expected benefits to the Group are less than the unavoidable cost of meeting the Group's obligations under the contract.

	2019 \$'000	2018 \$'000
Current		
Employee benefits	5,707	5,356
Onerous contracts	226	183
	5,933	5,539
Non-current		
Employee benefits	720	587
Onerous contracts	-	208
	720	795

Note 14: Borrowings and leases

Accounting policy - borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Accounting policy - leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current Borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

	2019 \$'000	2018 \$'000
Current		
Lease liability	470	503
	470	503
Non-current		
Lease liability	3,965	4,435
Bank loan - commercial bills	76,000	80,000
	79,965	84,435

Note 14: Borrowings and leases (continued)

Undrawn facilities available to the Group

Details of undrawn debt facilities with National Australia Bank are listed in Financial Risk Management, note 25.

Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during the 2019 and 2018 reporting periods.

Assets pledged as security

100% of the Group's inventory, trade receivables and property, plant and equipment (2018: 100%) have been pledged as security to National Australia Bank under the Facilities Agreement in relation to the bank loans noted above.

Interest rates

The commercial bills are subject to a variable interest rate. The current weighted average interest rate on the bills is 3.32% (2018: 4.21%).

Finance lease commitments

The following sets out the commitments to future lease payments relating to finance leases, which are recognised as liabilities:

	2019 \$'000	2018 \$'000
Within one year	705	763
Later than one year but not later than five years	2,820	2,820
Later than five years	1,802	2,507
<i>Minimum lease payments</i>	<i>5,327</i>	<i>6,090</i>
Future interest charge	(892)	(1,152)
	4,435	4,938

Operating lease commitments

The following sets out the commitments to future lease payments relating to operating leases, which are not recognised as liabilities:

Minimum lease payments		
– not longer than 1 year	9,489	6,512
– longer than 1 year and not longer than 5 years	29,261	13,168
– longer than 5 years	38,776	50
	77,526	19,730

Capital expenditure commitments

The Group is contractually committed to the following future capital expenditure at balance date, for which no liability is recognised.

Property, Plant and Equipment – no longer than 1 year	2,504	2,049
	2,504	2,049

Note 15: Other financial assets and liabilities

	2019 \$'000	2018 \$'000
Current assets		
Derivative financial instruments – foreign currency forward contracts	57	-
	57	-
Non-current assets		
Investments	178	178
Prepaid borrowing costs	35	184
Derivative financial instruments – foreign currency forward contracts	603	-
	816	362
Current liabilities		
Derivative financial instruments – interest rate swaps	331	7
Derivative financial instruments – foreign currency forward contracts	-	470
	331	477
Non-current liabilities		
Derivative financial instruments – interest rate swaps	321	-
Derivative financial instruments – foreign currency forward contracts	-	15
	321	15

The derivative financial instruments above relate to the Group's hedge accounting arrangements. Additional information on the Group's risk management and hedge accounting policies are detailed in Note 25.

Note 16: Share capital

Accounting policy – share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2019		2018	
	\$'000	Number	\$'000	Number
Fully paid ordinary share capital				
Beginning of financial year	463,961	277,838,771	463,009	275,568,321
Dividend reinvestment plan	1,543	2,869,300	984	2,270,450
Share issue costs	(21)	-	(46)	-
Tax consequences of share issue costs	7	-	14	-
End of financial year	465,490	280,708,071	463,961	277,838,771

All shares have equal rights to voting and dividends. The Group's shares have no par value.

Note 17: Dividends

	2019		2018	
	Cents per share	Total \$'000	Cents per share	Total \$'000
2018 final dividend (2018: 2017 final dividend) – 100% franked at a tax rate of 30%	1.5	4,168	1.0	2,756
		4,168	1.0	2,756
Adjusted franking account balance		4,458		6,244

In respect of the financial year ended 30 June 2019, a 100% franked dividend (at a tax rate of 30%) of 2.0 cents per share will be paid on 8th November 2019.

Note 18: Reserves

	2019 \$'000	2018 \$'000
Employee equity-settled benefits (i)	2,129	1,978
Hedging reserve (ii)	23	(208)
Foreign currency translation reserve (iii)	291	219
	2,443	1,989

Nature and purpose of reserves

- (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 20.
- (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.
- (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.

Note 19: Key management personnel compensation

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

	2019 \$	2018 \$
Short-term employee benefits	3,068,680	2,962,020
Post-employment benefits	129,676	261,077
Share based payments	109,482	208,044
Termination benefits	-	-
	<u>3,307,838</u>	<u>3,431,141</u>

Note 20: Executive performance rights and share option plan

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

From the 1st July 2018 – Deferred Equity Incentive

At the beginning of each financial year the board will determine the maximum number of Performance Rights that each executive will be entitled to as Deferred Equity. If the target ROCE is achieved for that financial year then those Performance Rights will be converted to AVG. These shares will be escrowed for a period of 3 years. There were 1,651,336 rights issued in the current year under this plan to employees (2018: n/a) and all of these options were cancelled during the year as the target ROCE was not reached.

Prior to 30th June 2018 - Performance Rights and Option Plan

Established in August 2012 and ceased in June 18, this long-term incentive provided 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 was available to senior management as approved by the board. There were no options issued in the current year under this plan to employees as the plan ceased (2018: 4,100,000). These rights and options were priced using a binominal option pricing model.

The table below summarises all rights and options on issue:

	2019 NUMBER	2018 NUMBER
Balance at the beginning of the financial year (i)	11,193,000	8,802,912
Granted during the financial year (ii)	1,651,336	4,100,000
Exercised during the financial year	-	-
Lapsed/cancelled during the financial year (iii)	(3,181,336)	(1,709,912)
Balance at the end of the financial year (iv)	<u>9,663,000</u>	<u>11,193,000</u>

(i) Balance at the Beginning of the Financial Year

2019	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
	<u>11,193,000</u>	-	<u>11,193,000</u>				

(ii) Granted during the Financial Year

2019	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Rights issued 7 January 19	1,651,336	-	1,651,336	07/01/19	30/06/19	31/10/19	Nil
	<u>1,651,336</u>	-	<u>1,651,336</u>				

The weighted average fair value of the rights granted during the financial year is \$0.465 (2018 issued options: \$0.099).

Rights issued during the year were priced using a binomial option pricing model.

Rights grant date	No.	Grant date Share Price	Exercise Price	Expected Volatility	Option Life (days)	Dividend Yield	Risk-free Interest Rate
Rights issued 7 January 19	1,651,336	0.47	Nil	31.3%	174	2.20%	1.50%

Note 20: Executive performance rights and share option plan (continued)

(iii) Lapsed/cancelled during the Financial Year

2019	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 17 November 15	800,000	-	800,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	730,000	-	730,000	04/12/15	31/08/18	01/11/20	0.376
Rights issued 7 January 19	1,651,336	-	1,651,336	07/01/19	30/06/19	31/10/19	Nil
	3,181,336	-	3,181,336				

(iv) Balance at End of Financial Year

2019	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 17 November 15	1,200,000	800,000	400,000	17/11/15	31/08/18	01/11/20	0.376
Options issued 4 December 15	1,095,000	730,000	365,000	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
	9,663,000	1,530,000	8,133,000				

Note 21: Remuneration of auditors

	2019 \$	2018 \$
Auditor of the parent company		
Audit or review of financial report	408,600	393,800
Other services – other audit services	61,901	36,015
Other services – taxation compliance	59,451	35,910
	529,952	465,725

The auditor of Australian Vintage Ltd is Deloitte Touche Tohmatsu.

Note 22: Contingent liabilities

	2019 \$'000	2018 \$'000
Bank guarantees	1,446	1,472

Note 23: Subsidiaries

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP OF INTEREST	
		2019 %	2018 %
Parent Entity			
Australian Vintage Ltd	Australia		
Controlled Entity			
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.

Set out below is a condensed consolidated statement of financial position for the Closed Group.

	2019 \$'000	2018 \$'000
Current Assets	213,768	195,072
Non-Current Assets	232,195	245,636
Total Assets	445,963	440,708
Current Liabilities	66,166	62,611
Non-Current Liabilities	81,006	85,245
Total Liabilities	147,172	147,856
Net Assets	298,791	292,852
Equity	298,791	292,852

The profit and loss of the Closed Group is the same as the Group, as presented in the primary Consolidated statement of profit or loss and other comprehensive income.

Note 24: 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 23 to the financial statements.

Key management personnel remuneration

Details of key management personnel compensation are disclosed in note 19 to the financial statements.

Other transactions with related parties

- (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 \$9,063 (2018: \$8,877) on normal commercial terms.
 - (b) In the prior year, the Group sold concentrate to the value of \$3,212 (2018: \$1,565) 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 \$670,942 (2018: \$926,969) on normal commercial terms.

Note 25: Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Group is exposed to certain financial risks including market risk (foreign exchange rates, interest rates), credit risk and liquidity risk. The Group's risk management policies seek to minimise exposure to these risks, where they are material to the Group's operations.

The Group finance team assesses the risk in these areas and evaluates the potential option to minimise the potential impact on the Group. Examples of these risks and management's responses to them are detailed within this note and include entering into derivative financial instrument contracts to offset exposure to foreign currency risk and to variable interest rate risk. The Group does not enter into derivative financial instrument contracts for the purpose of speculating and generally due to this, hedge accounting is able to be applied on such arrangements.

The Board is responsible for approving the Group's risk management policies and the responses to the identified financial risks. See the sections that follow for more detailed information on each area of financial risk.

(a) Financial instruments

As this is the first year the Group has adopted AASB 9, the policies below have been updated to reflect this. There have been no significant changes of the classification of any assets or liabilities on the transition to AASB 9.

Accounting policy – financial instruments

Financial assets at amortised cost

Financial assets at amortised cost are those items that are held with the objective of collecting contractual cash flows. These mainly comprise trade receivables, which consist of principal payments contracted to fall on specified dates per the relevant contract. Refer to the accounting policies for the specific asset classes within this category for further details.

Derivative financial instruments

The Group enters into foreign exchange forward contracts and interest rate swaps in line with the Group's risk management policies in relation to market risk, which are detailed within the sections that follow. Derivatives are initially recognised at fair value when they are entered into and revalued to 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. Supply contracts entered by the Group which contain embedded derivatives, which meet the requirements of the 'own-use' exemption under AASB 9 are accordingly not treated as derivatives and expensed to profit and loss as the relevant goods or services are supplied to the Group.

Liabilities at amortised cost

Liabilities at amortised cost consist of trade and other payables and the Group's borrowings. There have been no changes in the classification of financial liabilities from AASB 139 to AASB 9. Refer to the accounting policies for the specific asset classes within this category for further details.

Accounting policy – hedge accounting

Hedge accounting is applied to all the Group's derivative financial instruments provided the requirements of AASB 9 are met.

As the Group only enters into derivative contracts for hedging purposes, at any given time all derivatives should meet this requirement.

The Group has cashflow hedges in relation to the highly probable forecast variable interest payments on its bank loans and highly probable forecast sales and expenses that are denominated in a foreign currency. Hedging relationships are formally documented at their inception.

Note 25: Financial risk management (continued)

The table below summarises the financial assets and liabilities held by the Group at balance date.

	2019 \$'000	2018 \$'000
Financial assets		
<i>Classifications under AASB 9 (2018: AASB 139)</i>		
Financial assets at amortised cost		
Trade and other receivables	45,301	45,526
Cash and cash equivalents	8,057	7,712
Derivative financial instruments		
Used for hedging	660	-
Financial assets at fair value through profit and loss ('FVTPL')	178	-
<i>Classifications under AASB 139</i>		
Available for sale	-	178
Total	54,196	53,416
Financial liabilities		
<i>Classifications under AASB 9</i>		
Liabilities at amortised cost		
Trade and other payables	59,353	55,523
Borrowings	80,435	84,938
Derivative financial instruments		
Used for hedging	652	492
<i>Classifications under AASB 139</i>		
No changes in classifications on adoption of AASB 9		
Total	140,440	140,953

Fair value measurements

Most the Group's financial assets and liabilities are measured at amortised cost. Derivative financial instruments are the only significant financial assets and liabilities that are measured at fair value. Details on the methods used to value the Group's derivative financial instruments are noted below.

Forward Exchange Contracts ('FECs')

FECs are measured using models which utilise inputs such as quoted foreign currency exchange rates, the date of maturity of each contract and foreign currency futures curves. Credit risk on these contracts is considered in the valuation and is generally not material. In the fair value hierarchy referred to in AASB 13, these are Level 2 valuations.

Interest rate swaps

Interest rate swaps are measured using models which utilise inputs such as quoted interest rates, the date of maturity of each contract and interest rate futures curves. Credit risk on these contracts is considered in the valuation and is generally not material in the fair value hierarchy referred to in AASB 13, these are Level 2 valuations.

(b) Market risk

(i) Foreign exchange risk

Description of risk

The Group's activities, including sales of wine products overseas denominated in foreign currencies exposes it to foreign exchange risk. The key currencies relevant to the Group's foreign exchange risk are the British Pound ('GBP'), Canadian Dollar ('CAD'), United States Dollars ('USD'), New Zealand Dollar ('NZD') and Euro ('EUR'). This risk is due to forecast transactions denominated in these currencies, which is different to the Group's functional and presentational currency of Australian Dollars ('AUD'), as well as assets and liabilities recognised on the balance sheet which are denominated in these foreign currencies.

Management of risk

The Group manages this risk by entering into Forward Exchange Contracts ('FECs') to fix the conversion of foreign denominated cashflows into AUD. This activity is governed by the Board approved Foreign Exchange Management Policy. The key details of this policy are as follows (applied to forecast net revenues and expenses of highly probable foreign denominated transactions):

- 25-75% of net exposure for the next 12 months
- 0-50% of net exposure for between 1 year and 2 years
- 0-25% of net exposure for between 3 years and 4 years

Note 25: Financial risk management (continued)

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in AUD is as follows:

2019 (AUD \$'000)	USD	GBP	EUR	CAD	Total
Cash	62	5,550	29	188	5,829
Trade receivables	213	10,751	869	2,111	13,944
Trade payables	(760)	(8,250)	(20)	-	(9,030)
Foreign currency forwards (buy foreign currency – cash flow hedges)	-	816	104	(260)	660
2018 (AUD \$'000)	USD	GBP	EUR	CAD	Total
Cash	9	3,688	976	14	4,687
Trade receivables	430	10,412	695	1,667	13,204
Trade payables	(647)	(5,832)	(1,717)	-	(8,196)
Foreign currency forwards (buy foreign currency – cash flow hedges)	-	(278)	(189)	(18)	(485)

Effects of hedge accounting on the financial position and performance

The effects of FEC's on the Group's financial position and performance are as follows:

	2019 (AUD \$'000 – unless stated otherwise)	2018 (AUD \$'000 – unless stated otherwise)
Carrying amount of asset / (liability)	660	(485)
Notional amount (GBP)	28,250	17,000
Notional amount (EUR)	8,670	3,410
Notional amount (CAD)	11,850	3,700
Maturity date	Jul '19 – May '22	Jul '18 – Dec '19
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	1,145	(1,165)
Change in value of hedged item used to determine hedge effectiveness	(1,145)	1,165
Weighted average hedged rate for the year (GBP)	GBP 0.54: AUD 1	GBP 0.56: AUD 1
Weighted average hedged rate for the year (EUR)	EUR 0.60: AUD 1	EUR 0.65: AUD 1
Weighted average hedged rate for the year (CAD)	CAD 0.94: AUD 1	CAD 0.98: AUD 1

Sensitivity

Below is a sensitivity analysis on the Group's profit and cash flow hedge reserve in the case of a strengthening or weakening of the AUD against the significant foreign currencies the Group deals in.

2019 (AUD \$'000)	USD	GBP	EUR	CAD
<i>Impact on profit (pre-tax)</i>				
AUD strengthened by 10% against each referenced currency	44	(732)	(80)	(209)
AUD weakened by 10% against each referenced currency	(54)	895	98	255
<i>Impact on cash flow hedge reserve</i>				
AUD strengthened by 10% against each referenced currency	-	(5,136)	(1,412)	(1,292)
AUD weakened by 10% against each referenced currency	-	5,136	1,412	1,292
2018 (AUD \$'000)				
<i>Impact on profit (pre-tax)</i>				
AUD strengthened by 10% against each referenced currency	19	(752)	4	(153)
AUD weakened by 10% against each referenced currency	(23)	919	(5)	187
<i>Impact on cash flow hedge reserve</i>				
AUD strengthened by 10% against each referenced currency	-	(3,036)	(536)	(380)
AUD weakened by 10% against each referenced currency	-	3,036	536	380

Note 25: Financial risk management (continued)

(i) Interest rate risk

Description of risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. Group policy is to maintain at least 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps to achieve this when necessary. Generally, the Group enters into long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

Management of risk

Swaps currently in place cover approximately 66% (2018 – 75%) of the variable loan principal outstanding. The fixed interest rates of the swaps range between 2.04% and 2.08% (2018 – 1.89% and 2.29%). The swap contracts require settlement of net interest receivable or payable depending on the contractual terms of the agreement, which is generally between 30 and 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Effects of hedge accounting on the financial position and performance

The effects of FEC's on the Group's financial position and performance are as follows:

	2019 (AUD \$'000)	2018 (AUD \$'000)
Carrying amount of asset (liability)	(652)	(7)
Notional amount	50,000	60,000
Maturity date	Jul '19 – Feb '22	Jul '18 – Dec '18
Hedge ratio	1:1	1:1
Change in fair value of outstanding hedging instruments since 1 July	(652)	215
Change in value of hedged item used to determine hedge effectiveness	652	(215)

Note: the swaps in place at 30 June 2018 matured and were replaced with the swaps detailed in the 2019 column. The cumulative change in value refers to the change in fair value of the swaps held at 30 June 2019 from their day 1 value of zero.

Sensitivity

Profit or loss of the Group would be impacted by changes in interest rates as it relates to the unhedged portion of the Group's borrowings, which attracts variable interest. If interest rates were 50 basis points higher/lower, profit would have decreased/increased by \$0.1m (2018: \$0.2m).

(c) Credit risk

Description of risk

The Group's is exposed to credit risk from the following sources: credit extended to customers by way of sale of goods on normal trading terms and counterparty credit risk with respect to financial institutions where the Group holds bank loans, cash deposits and derivative financial instruments.

Management of risk

Financial institutions: The Group only deals with financial institutions with an investment grade credit rating and any banking arrangements require approval from the Board. The Group's banker is National Australia Bank, which has a strong long-term credit rating of AA-.

Trading: The Group has a significant number of customers from trading, which are spread across several country jurisdictions. Group management has a dedicated credit team who are responsible for performing credit worthiness reviews on every customer before credit is granted to them in line with the Group's credit policy. The Group only extends credit when such checks are performed, and the Group is satisfied any credit granted to the customer will be payable by that party. Where required by the policy, credit guarantee insurance may be taken out. Aging of debtor balances and assessments of recoverability of the Group's debtor book is reported to the Board on a monthly basis for their review.

Impairment of financial assets – trade receivables

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

The expected loss rates are based on grouping customers of a similar geography and business type and estimating a loss rate by analysing past write-offs from the previous 4 years including the current financial year. The impact of the aging of debtors is not considered to be key in the determination of expected credit loss rates.

Note 25: Financial risk management (continued)

The basis for the Group's calculation is summarised below:

	Expected loss rate %	2019 Gross carrying amount (\$'000)	Provision (\$'000)
Domestic (no history of write offs)	0.00%	17,792	-
Domestic (other)	0.25%	5,220	(14)
Export (no history of write offs)	0.00%	8,000	-
Export (other)	0.89%	6,572	(58)
Bulk	1.34%	5,413	(72)
Other	0.00%	1,641	-
Total		44,638	(144)

The Group has not restated the 30 June 2018 comparatives for the change in methodology in calculating the provision. The table below reconciles the closing loss allowance to the opening balance at the start of the year:

	2019 \$'000	2018 \$'000
Movement in the allowance of doubtful debts		
Balance at the beginning of the year (calculated under AASB 139)	(7)	(4)
Adjustment for recalculation of loss allowance on adopting AASB 9	(154)	-
Impairment recognised on receivables	-	(173)
Amounts written off as not collectable	17	170
Balance at the end of the year	(144)	(7)

(d) Liquidity risk

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 below is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

	2019 \$'000	2018 \$'000
Total facilities		
Bank overdrafts	5,000	5,000
Bank facilities	102,935	113,438
	107,935	118,438
Used at 30 June		
Bank overdrafts	-	-
Bank facilities	82,162	86,657
	82,162	86,657
Unused at 30 June		
Bank overdrafts	5,000	5,000
Bank facilities	20,773	26,781
	25,773	31,781

Note 25: Financial risk management (continued)

The following table details the Group's financial liabilities that will be settled on a gross basis and their maturities. The amounts disclosed below are undiscounted contractual cashflows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates or foreign exchange rates, as is relevant. Contractual obligations that are settled on a net-basis are presented as net cashflows. The bank facilities above are inclusive of the bank guarantee that is disclosed in note 22.

2019 (\$'000)	< 1 month	1-3 months	3-12 months	1-5 years	5 years +	Total	Carrying amount of (asset) / liability
Non-derivatives							
Trade and other payables	29,676	29,677	-	-	-	59,353	59,353
Bank facilities	165	329	1,482	78,860	-	80,836	76,000
Lease liabilities	59	118	529	4,621	-	5,327	4,435
Total non-derivatives	29,900	30,124	2,011	83,481	-	145,516	139,788
Derivatives							
Forward exchange contracts	24	25	(114)	(595)	-	(660)	(660)
Interest rate swaps	11	82	247	228	-	568	652
Total Derivatives	35	107	133	(367)	-	(92)	(8)

2018 (\$'000)	< 1 month	1-3 months	3-12 months	1-5 years	5 years +	Total	Carrying amount of (asset) / liability
Non-derivatives							
Trade and other payables	23,092	32,431	-	-	-	55,523	55,523
Bank facilities	234	245	599	80,231	-	81,309	80,000
Lease liabilities	59	118	528	2,877	2,507	6,089	4,938
Total non-derivatives	23,385	32,794	1,127	83,108	2,507	142,921	140,461
Derivatives							
Forward exchange contracts	82	59	329	15	-	485	485
Interest rate swaps	4	2	1	-	-	7	7
Total Derivatives	86	61	330	15	-	492	492

Note 26: Events after the reporting period

On 29 July 2019 it was announced Neil McGuigan will resign as CEO, effective 20th November 2019. Craig Garvin will commence as CEO on the 21st November 2019. Further information on this announcement can be accessed at: <https://www.asx.com.au/asxpdf/20190729/pdf/446yyhzw1sy426.pdf>

In addition, refer to note 17 for details of the final dividend recommend by the directors, which occurred after balance date.

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 27: Parent entity

The ultimate parent company of the Group is Australian Vintage Ltd. The below tables detail the financial position at balance date, the profit and loss for the 2019 financial year and other information regarding the parent entity.

	2019 \$'000	2018 \$'000
Financial Position		
Assets		
Current assets	210,445	195,797
Non-current assets	255,525	260,293
Total assets	465,970	456,090
Liabilities		
Current liabilities	61,879	58,089
Non-current liabilities	143,392	161,712
Total liabilities	205,271	219,801
Net Assets	260,699	236,289
Equity		
Issued Capital	465,490	463,961
Accumulated Losses	(229,365)	(229,365)
Profit reserve	22,498	-
Equity settled employee benefits	2,130	1,978
Hedging	23	(208)
Foreign currency translation	(77)	(77)
Total equity	260,699	236,289
	Year ended 30 June 2019 \$'000	Year ended 30 June 2018 \$'000
Profit and loss		
Profit / (Loss) for the year	22,498	(2,535)
Other comprehensive income/(Loss)	231	(254)
Total comprehensive income	22,729	(2,789)

The contingent liabilities and capital commitments of the parent entity are the same as those of the Group, which are detailed in note 22 and note 9, respectively. The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 23.

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