AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Chairman's Address
Annual General Meeting
23 November 2016

Welcome to the 2016 Annual General Meeting of Australian Vintage Limited and thank you for joining us. My name is Richard Davis and I will chair today's meeting.

About Australian Vintage

It is worth reflecting on where we are given the significant challenges experienced by the industry in recent years.

We are one of Australia's largest wine producers, capable of crushing up to 110,000 tonnes a year. We operate wineries in the Hunter Valley and Sunraysia region and own 6 vineyards that cover 840 hectares of planted grapes. We also lease a further 5 vineyards that cover 1,420 hectares of planted grapes and sell about 80 million litres of wine.

I should point out that the recent storm that passed through South Australia missed 9 of our vineyards. The remaining 2 vineyards had some hail damage but at this stage crop loss is not estimated to be significant. We do know that some of our third party growers have had some damage from the storm and it will take some time to assess the impact on next year's grape crop.

The McGuigan Black Label is the most popular branded red wine in Australia, and the McGuigan brand is the 4th most popular global brand in the UK.

Just last week McGuigan Wines was named Australian Producer of the Year and International Winemaker of the Year at the prestigious International Wine and Spirits Competition held in London. As a result of this win, McGuigan Wines is the only winery globally to have taken the title 4 times having previously lifted the title in 2009, 2011 and 2012. In short, we are the most successful winery in the Competition 47 history. Truly something of which to be proud. Entries into the Competition are received from nearly 90 countries worldwide and the International Wine and Spirits Competition is widely regarded as setting the international benchmark for quality. This is a fantastic result for the Australian wine industry and for this company and our brands.

We have made tough decisions, cut costs, right sized our assets and improved productivity without compromising the quality of our wines and at the same time enhancing our reputation.

In line with our strategy, our business is changing with the ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of all our branded products now comprise 57% of our total sales dollar. We have reduced our reliance on low margin and loss making bulk wine sales. However, if the opportunity presents itself, we will participate in the bulk wine market.

Highlights and Key Points

Net Profit after tax and before one off items of $7.2 million was slightly up on last year's result. Prior to the dramatic fall of the pound, as a result of the Brexit vote in late June, we were on track to achieve a net profit after tax and before one off items of $8.3 million.

We had a one off after tax cost of $9.2 million as a result of our decision to exit an onerous vineyard lease. Even taking into account this one off cost, the expected cash flow benefit is $35 million over the lease term.

Cash flow from operating activities, prior to the vineyard lease termination was $11.4 million compared to $2.1 million. We expect our cash flow to continue to improve due to the removal of some of our onerous grower contracts and the recent termination of a vineyard lease.

Revenue increased by 5% to $242.7 million despite a $6.8 million reduction in bulk wine sales to UK and Europe.

In August this year we announced a fully franked dividend of 1.5 cents which was paid in early November. To help fund additional storage capital at our Buronga winery (which is EPS positive), the Dividend Reinvestment Plan was reintroduced and the Dividend Reinvestment Plan was underwritten
The combination of our reputation as a premium wine producer together with an increased focus on enhancing the reputation of our higher margin products has seen the sales of our 3 key brands increase by 20%. These 3 key brands now make up 57% of our total sales.

Our net debt decreased during the year to $101.4 million and our gearing is at a comfortable 35% with a secure banking facility in place until October 2019
Five years ago our net debt was $161.0 million.

Our company continues to focus on 3 key strategies – Grow the Export Business; Increase Branded Sales and continue to focus on cost control.

<u>Business Results & Summary</u>

During the 12 month period to June 2016, total sales of the McGuigan Brand grew 21%, Nepenthe brand grew 18% and Tempus Two grew by 5%.

The McGuigan brand continues to be very well received in the UK market and is currently the fourth largest global brand in that market. Unfortunately as a result on the unfavourable movement in the pound, margins from this brand have declined this year.

Impressively, the sales of our three key brands have increased by 97% over the last 5 years.

The increased branded sales over the last 5 years has provided additional contribution to this Company, but at the same time we have seen contribution from our cask business decline by $6.0 million and contribution from our bulk sales and processing decline by $14.0 million. We remain in the transition phase.

Sales in our Australasia/North America segment increased by $7.6 million due mainly to increased McGuigan brand sales offset by reduced cask sales.

Contribution from the Australasia/North America segment declined by $1.0 million due to reduced margin from our cask business. The cask business has long been supported by the Wine Equalisation Tax (WET) Rebate resulting in unsupportable pricing in this category. The sooner the Government removes the WET Rebate on bulk wine the better it will be for the wine industry.

Sales to Asia have grown by 22% and has resulted in a 43% contribution improvement from this division. Our long term agreement with our Chinese distributor (COFCO) is slowly starting to show benefits.

Sales in our UK/Europe segment improved by 5% to $102.5 million despite a $6.8 million reduction in low margin bulk wine sales.

The McGuigan brand continues its growth with a 20% increase in sales over the year to June 2016.

We were heading for a good result in the UK/Europe segment but because the pound weakened dramatically after the Brexit vote in late June we had to account for a $1.5 million unrealised foreign currency loss adjustment.

Our Cellar Door segment continues to grow with increased club and digital sales.

The cash flow from operating activities was positive $6.5 million even allowing for a one off payment of $4.9 million for the lease termination. This is quite a significant improvement on the previous year's cash flow from operating activities.

Our banker, which is the NAB, continues to have confidence in our business and in June 2016, agreed to extend the current facility by a further 2 years to September 2019.

Future Net Benefit – One off Costs

As previously reported we terminated a long term lease we had on a vineyard which had a lease term ending in 2023. The lease was on one of the largest single site vineyards in the Southern hemisphere and was capable of producing approximately 30,000 tonnes of grapes.

Whilst the upfront and one off cost was significant, the net benefits to this company based on existing grape prices was around $35 million.

This was a significant positive event for this company, and based on current market conditions, will provide for immediate cash flow benefits and future profit improvements.

Australian Wine Industry

For the year ended September 2016, Australian export sales increased by 10% and volume was basically flat. The increase in sales dollars has been helped by the lower Australian dollar that was evident in the 12 months to June 2016.

Wine exports to China continue to grow with China now the largest market for Australian Wine and third largest in terms of volume sold. We believe that the current trend will continue.

Exports to the UK have decreased by 3% to $361 million and due to the uncertainty in that country we believe that in the short term sales growth will be difficult to achieve.

The total crush for 2016 was 1.8 million tonnes, about 100,000 tonnes above the 5 year average. The increased tonnes were due to an exceptional crop from cool and temperate regions.

With vineyard area decreasing over the last 10 years the 2016 crush was surprisingly large and is unlikely to happen again

We are also of the view that the supply of grapes is now moving into balance and with the potential removal of the Wet Rebate on bulk wine, there will be structural changes in the Australian Wine Industry.

Global production for 2016 is estimated to be amongst the lowest in 20 years as a result of climatic events. This will further put pressure on supply of wine.

Outlook

This company continues to transition from a bulk wine producer to a quality branded business. Over the last 5 years our three key brands have almost doubled. At the same time the contribution from our cask business and from bulk and processing declined by $20.0 million due partially to the change in dynamics of the Australian wine industry driven by the extensive use of the WET Rebate on bulk wine.

One of the biggest challenges we have faced has been the onerous nature of our vineyard leases and some of our grape contracts. With the recent termination of a vineyard lease and expiry of some of our onerous grape contracts we expect to achieve annual grape savings of approximately $9.0 million.

We are at the final stages of negotiating a distribution agreement with a major US distributor which will mean that we will be selling our branded wine into the US. Our relationship with our Chinese distributor is very good and we remain confident that sales into China will continue to grow.

Global conditions remain tough and with the recent significant unfavourable movement in the pound, margins from our UK business are under significant pressure. We continue to pursue various strategies in the UK but they will take time to implement.

Even allowing for the lower pound we believe that our cash flow from operating activities will significantly improve in 2017 due to grape cost savings.

Sales to the end of October 2016 are 12% down on last year due mainly to the impact of the lower pound and a general decline in wine consumed in the UK. The latest UK figures indicate that all wine sales are down by 1.5%. Sales into Asia are slightly up on last year and we continue to be confident that our long term agreement with COFCO will result in ongoing improved sales.

In October this year we updated the market on our likely full year result. This outlook has not changed. If the pound stays at around 62.8 against the Australian dollar and assuming a normal vintage, we expect our net profit after tax to be down by approximately $3.0 million against last year's result of $7.1 million before one off items.

Richard Davis, Chairman

Australian Vintage Limited

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