AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Annual General Meeting

26 November 2014

Chairman's address

Welcome to the 2014 Annual General Meeting of Australian Vintage and thank you for joining us.

As has happened in the past, I will provide shareholders with a summary of our performance during the year, and outline what we see as the opportunities and challenges for the company.

I will then hand over to Neil McGuigan who will update you on the more detailed business activities. We will then move to the more formal proceedings.

About Australian Vintage Limited

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

We are one of Australia's largest wine producers, capable of crushing 140,000 tonnes a year … 8% of the Australia's total crush. We operate wineries in the Hunter Valley and Sunraysia region, have 2,900 hectares of grapes across 11 vineyards and sell 80 million litres of wine.

The McGuigan Black Label is one of the most popular red wines in Australia, and the McGuigan brand is now the 2nd most popular Australian brand in the UK.

McGuigan has been named International Winemaker of the Year three times in the last five years.

It is a truly remarkable result in such a crowded and competitive market and in an industry in Australia that has seen some fall foul of oversupply and unsustainable pricing pressure.

Over the last decade 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.

It is a great credit to Neil, our winemakers and the entire team.

Australian Vintage Grows Profit

The combination of our reputation as a low cost premium wine producer together with an increased focus on enhancing the reputation of our higher margin products has seen us increase net profit by 49% to $10.5 million.

Company revenue was up 3% to $214.8 million.

Our net debt decreased during the year to $111.8 million compared to $142.1 million at June 2013. Our gearing is now at a comfortable 39%.

Our grape crush from the 2014 vintage, at 124,000 tonnes, was down by 29,000 tonnes on the previous year. This has resulted in an increase in our 2014 average cost per litre and will impact our margin.

Shareholders will be aware that we have again paid a modest dividend of 2.2 cents per share, fully franked. It is an indication of the Board's confidence in the company's ability to manage the business and our assets to deliver returns.

Our total revenue for the year was up by 3% to $214.8 million. What is really pleasing is the fact that our McGuigan branded sales grew by 11% and Tempus Two by 12%.

Sales of our low margin UK private label sales were down 56%. Bulk wine and processing revenue also declined by $2.5 million due to lower bulk wine sales and lower processing tonnes. It is expected that the contribution from the Australasia/North America bulk and processing segment will continue to decline as the processing contract with a major customer has now expired.

Highlights and Key Points

We have seen a 25% increase in the sales of the McGuigan brand in Australia. This contributed to the 53% increase in the contribution from the Australasia/North America segment.

The UK/Europe segment contribution was also up by 17% to $3.9m. In fact, the contribution from packaged sales increased by 97%, but much of the benefit was eroded by bulk sales.

The company's bank facility has been extended by 3 years to October 2017. This reflects our improved balance sheet and the increased confidence the bank has in our business.

We recently signed a long term, strategic China-wide distribution agreement with COFCO Wine & Spirits - part of China's largest food processing manufacturer and trader, COFCO.

COFCO has one of the best distribution footprints in China, and the creation of its imported wine division will enable our full portfolio of award winning McGuigan wines to reach consumers across the Chinese market. Entering this agreement together with the benefits to flow from the recently negotiated Fair Trade Agreement between Australia and China, which will see a phase out of tariffs on wine export in China over the next four years, gives us confidence that we are best placed for long term success in this important emerging market.

Earlier today we settled the sale of the Yaldara Winery and brand for $15.5 million. The funds from this sale will initially be used to reduce debt. This sale will allow us to improve the efficiencies of our existing facilities. It is also important to note that the quality of our premium wines will be maintained through a processing agreement with the new owners of Yaldara. In addition we will retain our Barossa Farms vineyard.

Global and Australian Market Condition

The estimated 2014 global wine production is estimated to be 6% down on last year. This reduction equates to about 2.5 million tonnes or about one and a half times what Australia produces each year. This reduction is a positive for the global wine industry.

Australian production for 2014 has been estimated at 1.7 million tonnes, 7% down on the previous year. There were some significant frosts events late last year which impacted the 2014 vintage. Our vineyards in the Swan Hill region were 16,000 tonnes down on estimates as a result of those frosts.

The Australian dollar continues to weaken against the major currencies and based on the latest forecasts we expect that trend to continue. This weakening should help improve sales and margins from overseas sales.

The Australian domestic market consumption of wine has increased by 14%, but unfortunately all this growth has come from imported wine.

Outlook

Global industry conditions remain very challenging.

Further weakening of the AUD should improve margins and create other profitable opportunities. However, this weakening of the AUD is less than we expected and we are seeing some of the benefits from the lower AUD being eroded with ongoing margin pressure from our UK customers.

Competition remains fierce across the Australian and overseas markets.

The low 2014 vintage has resulted in a higher cost of wine which has, and will continue to impact margins in the short term.

Our company's reputation as a quality branded wine company continues to improve with growth of our branded sales in both Australian and overseas markets.

Our sales for the 4 months to the end of October 2014 are very encouraging with stronger than last year demand and growth. However, margins remain tight due mainly to the higher cost of the 2014 vintage and some loss making bulk wine sales.

The recently signed distribution agreement with COFCO will enhance our presence in China. It will require a lot of hard work and we expect progress to be slow at the start. For the medium to long term we are very optimistic about the potential of the China market.

The sale of the Yaldara winery and brand for $15.5 million, which was settled just hours ago, has resulted in a net profit after tax of $5.4 million.
Offsetting this profit will be the accelerated write-off of incentive payments made to overseas customers. We believe that these payments can now no longer be supported against future sales. Unplanned legal costs associated with a vineyard lease dispute will also be incurred.

Overall, the one off net profit (after tax) impact of the Yaldara sale, the write-off of the incentive payments and the additional legal costs is positive $1.8 million.

We remain confident that our brands will continue to grow and that we can achieve sustainable sales growth. Subject to normal 2015 vineyard yields and forecast FX, we expect our 2015 net profit (after tax and one off items) to be slightly above the 2014 result.

We are also confident that our cash flow will show a major positive turnaround compared to 2014.

Board Renewal

As a Board, we have been conscious of the need to provide stability and certainty to the Company during the period of uncertainty faced by the wine industry and in particular those companies that are listed on the ASX.

As the company's finances continue to strengthen and the strategy begins to deliver results, we believe the time is right to broaden our board.

This is the last time I will be standing as a director of the company. We intend to transition to new members over the course of the next 18 months or so and we will be conducting a search for high calibre directors.

It has been an honour to serve this company as a director for the past 23 years, as chairman for the past 5 years and as a consumer of your fine wines for many more past and future. I remain committed and focused on the company and in using my experience and financial management expertise to continue to drive success.

Brian McGuigan has also advised the Board that he intends to retire and will not seek re-election to the Board.

Brian is not leaving immediately as the Board renewal process will take place over the next six to twelve months but Brian wanted to inform shareholders of his intentions.

Brian and his wife Fay were the people who built your company. They formed McGuigan Wines based on their passion and knowledge of Australian wines and not much else, and worked very, very hard. The company listed on the ASX in 1992 giving the company additional funds to rapidly expand and take McGuigan to every state, and Australian wines to the world. He was the company's first Managing Director and CEO and has been on the Board since then.

Brian is a giant in the industry and has worked tirelessly to promote our wine and our company.

On behalf of all shareholders the Board acknowledges and thanks Brian and Fay for their enormous contribution.

Brian assures us that he will continue to provide advice and support to us into the future.

Ian Ferrier, Chairman

Australian Vintage Limited

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