



AUSTRALIAN VINTAGE LTD

## 2015 ANNUAL REPORT

Producing outstanding wines for  
wine lovers the world over.







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**RICHARD H 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 A 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 27 years' experience in the wine industry. He previously worked at the then privately owned Briar Ridge before leaving in 2000 to run Rothbury Estate and its satellites in the Upper Hunter, Cowra and Mudgee for the Foster's Group.





**PERRY R GUNNER**  
Non-Executive Director

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



**JOHN D 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**  
Non-Executive Director

Currently Deputy Chairperson of Racing NSW and Director of Melbourne IT Limited, PMP Limited, Grays e-Commerce Group Ltd 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. Chairman of the Remuneration and Nomination Committee.



Dear Shareholder

I am pleased to report that Australian Vintage increased branded sales and reduced debt for the year ended 30 June 2015. However, as foreshadowed in our May 2015 Vintage and Trading Update release, net profit after tax was down 11% to \$9.4 million. The lower net profit was due to the lower than expected SGARA profit.

In the year ended 30 June 2015, the Company's net profit after tax declined to \$9.4 million, representing an 11% decrease in comparison to the 2014 result. Revenue was up 7.5% to \$230.9 million.

The business continues to focus on reducing its cost base while running its core assets hard, and at the same time improving the reputation and value of its brands and wines.

During the year the Company finalized the sale of the underutilized Yaldara winery for \$15.5 million. This sale represents another important step toward giving effect to the Company's strategy to be the lowest cost premium wine maker.

The performance of our brands continues to impress with ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of these three brands have increased by 43% over the last 3 years. Over the same period we have reduced our reliance on bulk wine sales and processing to the extent that our branded sales now represent 72% of total sales compared to 62% in 2012. By comparison, ten years ago our branded sales represented only 35% of total sales. This is a significant and positive shift in our business.

**The Company's business has evolved into a respected branded wine business with a very clear focus on quality and growing branded sales.**

The 2015 vintage crush was 113,771 tonnes compared to 124,215 tonnes in 2014. When compared to the previous year, the volume of third party contract processing tonnes was down by 24,916 tonnes, due to the expiry of a long term contract processing agreement. This was partially offset by the increased volumes (14,472 tonnes) processed from leased vineyards and third party growers. Overall the average cost of wine made from grapes sourced from the 2015 vintage is significantly less than the wine made from the 2014 vintage.

## Sales and Margins

During the year we increased our presence in the UK / Europe segment by expanding our customer base to include all major supermarkets and major banner groups in the independent channel. The benefits of this expanded base are shown in the 12% increase in UK / Europe sales. Partially offsetting the increased branded sales was reduced sales and contribution from the Australasia / North America Bulk and Processing Segment. This decline was due to the expiry of a long term processing agreement.

Our emphasis of growing branded business and growing export has resulted in increased sales and contribution in the Australian, UK, New Zealand and North American markets.

The high cost of the 2014 vintage has negatively impacted the Company's 2014/15 margin by \$6.2 million. The high 2014 vintage cost will also negatively impact our results for the first half of 2015/16.

The lower Australian dollar has provided a benefit of \$5.2 million compared to the previous year. However, this benefit did not flow through to improved margin due to the higher cost of the 2014 vintage and margin pressure from UK supermarkets.

During the year the Company had a number of one off items that impacted net profit. The profit on the sale of Yaldara was partially offset by the write off of customer incentives and legal costs associated with a vineyard dispute.

## Financial Position

Cash flow from operating activities improved by \$5.7 million due mainly to increased branded sales. The gearing ratio (net debt to total equity) is at a comfortable 36% with a secure banking facility in place until October 2017.

After the 2016 vintage the Company has a number of significant onerous and above market priced grape supply contracts that expire. The intention is to replace these contracts as they expire with grape supply contracts reflecting market price. Whilst the accounting benefit of this change will take some time, the cash benefit will flow through immediately. Based on contracts that expire from 2016 to 2018 and using average weighted 2015 grape prices, the expected cash flow benefit after the 2018 vintage is \$6.9 million per annum.

## Global Markets

The International Organisation of Vine and Wine (OIV) recently estimated that global production fell 7% in 2014 to 27.0 billion litres.

Whilst there will continue to be periods when global wine production will exceed consumption, the Company believes that the long term trend is likely to be a more balanced global production and consumption.

Australian wine exports for the year ended June 2015 increased by 4% to 724 million litres. As a result of an Australian dollar that has weakened significantly, the average value of exports increased by only 0.3%.

The recently signed trade agreements between Australia and Japan and South Korea should assist in future wine sales to these countries.

## Outlook

The Company continues to focus on the core strategies of improving quality, growing branded sales (in both existing and evolving export markets) and in maintaining a low cost position.

We continue to face short term challenges due to the high cost from the 2014 vintage and ongoing margin pressure from customers. The recent reduction in the Australian dollar has had a positive impact and will assist in margin improvement.

The business continues to increase its footprint in the UK market via sales to new channels and customers. Sales of branded products into the US and Asian markets is a focus for 2016.

The strategy of increasing branded sales and improving operational efficiencies is critical to our continued success therefore investment in these areas will be increased. As a result of this increased investment, the Board has decided to take a conservative approach toward 2016 cash requirements and no final dividend for 2015 will be paid. As in previous years, the board will continue to assess the payment of future dividends on a year by year basis.

Market conditions are continually monitored and further profit guidance will be provided at the Annual General Meeting in November 2015.

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

Finally I would like to thank all of our shareholders for your ongoing support.

## Board Changes

In June this year the then Chairman, Mr Ian Ferrier and Non-Executive Director, Mr Brian McGuigan retired from the Board. Two new and very capable Non-Executive Directors were appointed, namely Ms Naseema Sparks and Mr John Davies.

Both Brian McGuigan and Ian Ferrier have had a long association with the Company having been appointed Directors of Brian McGuigan Wines Ltd in 1991 and continuing their directorship through the successful merger between Simeon Wines Ltd and Brian McGuigan Wines Ltd in 2002 to form McGuigan Simeon Wines Ltd (which changed its name to Australian Vintage Ltd in 2008).

On behalf of the Company, my fellow directors and shareholders, I acknowledge the material contributions made by both Ian and Brian and thank them sincerely for their respective contributions to the Board and to the Company.

I wish to thank Ian Ferrier for his outstanding commitment and contribution and for his influential leadership. He has provided considerable leadership as Chairman and his focus and disciplined approach has been greatly appreciated.

Similarly Brian McGuigan's contribution to this Company has been significant. Brian requires special acknowledgement as the founding Managing Director of Brian McGuigan Wines (now Australian Vintage Limited) and then for his continuing contribution over the last 9 years as a Non-Executive Director. I wish to thank Brian for his passion, commitment and leadership.



**RICHARD DAVIS**  
Chairman  
28th August 2015



## Our brands have continued to out perform the market

Dear fellow shareholders,

The recently concluded financial year has been another tough time for the Australian Wine Industry. Over production, unsustainable bulk wine prices (arguably attributed to the continual roting of the WET rebate) robust competition and adverse climatic conditions have also created a difficult year for AVL (Australian Vintage Ltd). AVL's decrease in profit is disappointing but can be attributed to two factors:

1. Higher cost of goods due to the frost affected 2014 vintage.
2. A lower crop than expected from AVL's owned vineyards in 2015 that adversely affected SGARA.

AVL's strategy of driving branded business has not waived and we are totally committed to this endeavour as this is the only way to ensure an acceptable long term level of return on capital employed. This is the correct strategy but we must remain patient.

Increasing AVL's branded distribution footprint in Australia and in the UK has proven the correct strategy as well. Having our products available in more outlets and having the number of our products increased in those outlets has helped increase our branded performance.

In the UK the McGuigan brand is now the 4th largest global wine brand in the market (up from sixth place this time last year) and in Australia our brands have continued to out perform the market:

- McGuigan up 18%
- Tempus Two up 11%
- Nepenthe up 25%

As well as our sales performance our wines continue to perform well in the show ring and also with endorsements from independent third parties.

### McGuigan Awards

- **International Wine Challenge, London, 2015:** 6 Trophies, 9 Gold; 5 Silver; 18 Bronze.
- **Cowra Wine Show 2015:** Trophy Best Single Vineyard Riesling; Trophy Best Single Vineyard Dry White Table Wine of Show; Trophy Best Riesling of Show.
- **China Wine & Spirits Awards 2015:** 7 Double Gold Medals
- **James Halliday Wine Companion 2016:** The Philosophy 2010 – 97 points.
- **Cairns Wine Show 2015:** Trophy Best Chardonnay; Trophy Wine of Provenance Shortlist Riesling 2010 – 2014.
- **Winestate Magazine:** 5\* Shortlist Chardonnay 2013; 4 ½ \* Shortlist Semillon.
- **4 ½ \* Winery:** James Halliday Australian Wine Companion 2016. 11 wines scored 90+ points.

### Tempus Two

- **International Wine Challenge 2015:** 2 Trophies, 3 Gold, 6 Silver, 2 Bronze medals.
- **Cowra Wine Show 2015:** Best Single Vineyard Chardonnay; Ian Armstrong Trophy Best Chardonnay of Show.
- **James Halliday Wine Companion 2016:** Uno Shiraz 2013 - 95 points.

- **Cairns Wine Show 2015:** Champion Wine in Show; Champion White Wine in Show.
- **5\* Winery:** James Halliday Australian Wine Companion 2016. 5 wines scored 90+ points. 8 wines scored 90+ points.

### Nepenthe Awards

- **Royal Queensland Food & Wine Show 2014:** Trophy Best Sauvignon Blanc of Show.
- **5\* Winery:** James Halliday Australian Wine Companion 2014.
- **James Halliday Wine Companion 2015:** Ithaca Chardonnay 2013 – 95 points.
- **Cairns Wine Show 2015:** Best Pinot Noir in Show.
- **Winestate Magazine:** 5\* Altitude Tempranillo 2013; 4 ½ \* Ithaca Chardonnay 2013.

At the recent 2015 Cowra Wine Show, Australian Vintage Ltd received a number of outstanding awards for the McGuigan and Tempus Two brands which culminated in AVL being awarded the Trophy for the Most Successful Exhibitor of the Show – this is the second successive year AVL has won this award and the third time overall.

The pursuit of excellence continues within the viticultural, winemaking and production areas as we believe if we continue to “make the wine the hero” and “over deliver on quality at each price point” our brands will continue to grow which will ensure the financial success of AVL.

We still continue to engage with the consumers at all levels as we continue to drive visitation to our cellar doors and to grow our branded wine clubs.



Further consumer engagement is highlighted by our promotional programmes that are carried out throughout the world including:

### McGuigan

- The launch of the 'Bring a McGuigan' advertising campaign – across cinema, radio and digital.
- In New South Wales, following a print campaign in Australia and in London to support the outstanding results at the International Wine Challenge in London.
- 'Win a Fiat Freemont' Black Label consumer promotion in the independent channel.
- Sponsorship of the St George Illawarra Dragons NRL team, and Port Adelaide Power AFL team.
- Leveraging the brand ambassadorial partnership with UK Masterchef host John Torode through a series of consumer promotions in the UK, highlighted by 'win one of five trips to Australia to have lunch with John Torode and Neil McGuigan in the McGuigan vineyard.'
- Exclusive 'Win a Jeep' promotion conducted nationally in BWS, driving 154% uplift in sales.
- Joint Black Label | Bin Series consumer promotion 'two for one movie tickets for three months' in the independent channel.
- Neil McGuigan | John Torode 'long table Aussie BBQ' consumer promotion across all retailers in the UK.
- Consumer event schedule in the UK with Tesco Wine Club Fairs in Manchester, Bristol, Edinburgh and London.

Our strategies for the business have not changed from last year and your board has been very clear that our focus must remain on the following key strategies:

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

The wine industry has been tough for many years and during that time AVL has continued to evolve itself into a truly well respected global branded wine company. The recent decrease in the Australian dollar gives us great long term optimism that we will be able to capitalise on the markets where we are already distributed plus open up new opportunities for distribution relationships where we are not significantly represented.

We have a number of exciting new product initiatives still to be launched into the market and more than ever I remain optimistic about the long term future of our company.



**NEIL MCGUIGAN** Chief Executive Officer  
28th August 2015

### Tempus Two

- Sponsorship of Mercedes Benz Fashion Week Australia (MBFWA) as the Official Wine Partner, increasing nationwide brand awareness.
- Leveraging of MBFWA sponsorship to partner with Australian design duo, Aje, for both media and consumer events.
- Sponsorship of Portsea Polo and Victorian Polo Club to raise brand awareness in Victoria.
- Varietal Series consumer promotion, buy two bottles of Tempus Two and receive a twin pack of stemless wine glasses, in the independent channel.
- New export label - Tempus Two Silver Series - launched into key markets.
- Christmas consumer promotion, buy 2 bottles from the Tempus Two Varietal Sparkling range and receive a twin pack of flutes, in the independent channel.

### Nepenthe

- Sponsorship of the AAMI Kooyong Classic tennis in Melbourne.
- Participation at Noosa Food & Wine Festival, one of Australia's premier food & wine festivals.
- Launch of Altitude Sparkling Chardonnay Pinot Noir, Altitude Gruner Veltliner and Altitude Arneis to continue to drive varietal evolution.

**Australian  
Vintage  
prides itself  
on producing  
outstanding  
and innovative  
wines for wine  
lovers the  
world over.**

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.

As one of the largest vineyard owners and managers in Australia, Australian Vintage prides itself 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.** Crushing approximately 8% of total Australian annual production, our vineyards and grape supply capacity extends through some of Australia's most captivating and diverse wine regions including the Hunter and Barossa Valleys; the Murray-Darling, Langhorne Creek and Limestone Coast regions; as well as Griffith and the Adelaide Hills.

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, no more so than at the Cowra Wine Show where Australian Vintage was named 'Most Successful Exhibitor'.

**McGuigan Wines outstanding award-winning pedigree continued at the International Wine Challenge in London in 2015**, achieving an enviable nine Gold; five Silver and 18 Bronze medals. Further international success was experienced at the China Wine & Spirits Awards in 2015, with McGuigan being awarded not less than 7 Double Gold medals, and outstanding result in what is a key growth market for the brand. Closer to home, the Cowra Wine Show – in both 2014 and 2015 – proved yet again the strength of McGuigan in the domestic market, with the brand awarded a Trophy for Best Semillon of Show; Best Dry Red Other Varieties of Show; and Best Single Vineyard White Table Wine of Show in 2014, and then a Trophy for Best Single Vineyard Riesling; Best Single Vineyard Dry White Table Wine of Show; and Best Riesling of Show in 2015. Rounding out a stellar year, esteemed wine critic James Halliday rated our flagship icon wine – The Philosophy – a show-stopping 97 points in the James Halliday Wine Companion 2016.

**Tempus Two enjoyed stand out success on the domestic and international show circuits**, receiving fantastic ratings from the James Halliday Australian Wine Companion 2016 with a host of wines rated at 90+ points including Tempus Two Uno Shiraz 2013 which was awarded a stellar 95 points. A 5\* rated winery by the Companion, Tempus Two excelled at the Cowra Wine Show in 2015, being awarded a trophy for Best Single Vineyard Chardonnay and the Ian Armstrong Trophy for Best Chardonnay of Show. Not to be outdone, cool climate Adelaide Hills winery Nepenthe also received a 5\* rating from James Halliday Australian Wine Companion 2016, as well as shining on the domestic front by taking home the coveted Best Sauvignon Blanc of Show at the Royal Queensland Food & Wine Show.

Diversity in winemaking techniques and regionality allows our viticulture and winemaking teams to be leaders in innovation and in the creation of a wide range of wine styles and varieties. Our wines are designed to reflect the tastes of wine lovers everywhere thanks to the individuality, personality, passion and commitment of our brands and the people behind them.

**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.

## Our 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 McGuigan Wines international success, having been crowned International Winemaker of the Year at the prestigious International Wine & Spirits Competition (IWSC) in London a record three times, making McGuigan Wines one of only two wineries world-wide to have won the award three times.

Quality, consistency, value and innovation are the hallmark of the McGuigan brand. Our award-winning pedigree is second to none, and our premium winemaking credentials are without rival. Continued and sustained success on the international stage across all major global wine competitions has vindicated our philosophy of making 'the wine the hero.'

The McGuigan spirit and dedication to modern Australian winemaking drives our brand today – when it comes to making wine we have a different point of view, a different mindset. We are entirely focused on the continuing evolution of the Australian wine style, delivering wines that not only excite, but over deliver on quality at every price point.

### 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 reflects the Tempus Two spirit to blend the essence of tradition with the magic of innovation.

Tempus Two is fashion, and fashion is about balance and harmony. This is reflected in everything we do. Our labels and bottles – whilst different and non-conventional - are in balance and harmony. Our winemakers explore new varietals, borrow techniques from the old world and implement in a new world fashion, resulting in wines with style and substance. The company we keep reflects our mantra – we're aligned with like-minded fashionable brands including Aje, Mercedes Benz Fashion Week and the Portsea Polo season. Innovation, elegance and finesse are the hallmarks of the Tempus Two brand.

### Nepenthe

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

### Miranda

Miranda Wines has generations of history and heritage, but is very much at the forefront of innovation. Leading the industry in the development of the 'better for you' lifestyle category, Miranda is championing no and low alcohol wines across the globe, delivering full flavoured wines with lightness and texture, but with noticeably reduced levels of alcohol.

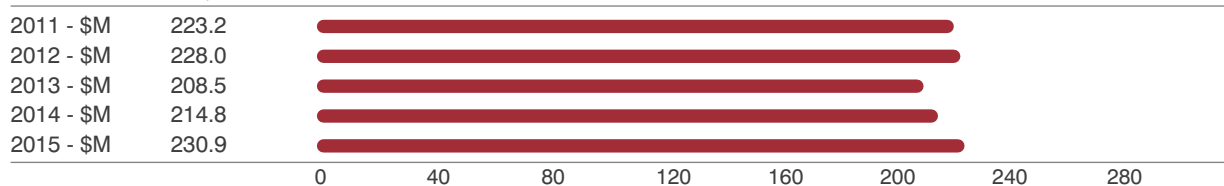
### Passion Pop

Passion Pop has led the flavoured sparkling category for over 30 years. A true market leader, this iconic brand is synonymous with Australia retro-culture and continues to be a market leader in not only volume sales, but in innovative flavours and wine style developments.

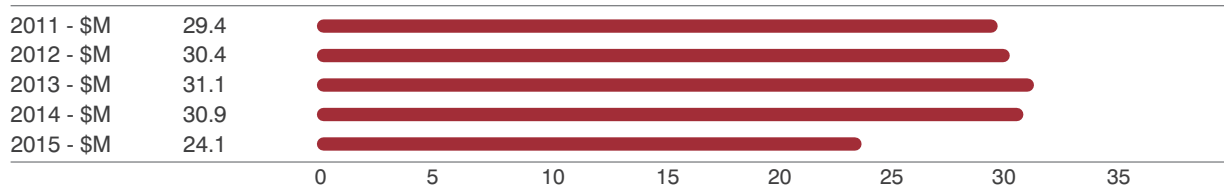


## 10 COMPANY PROFILE

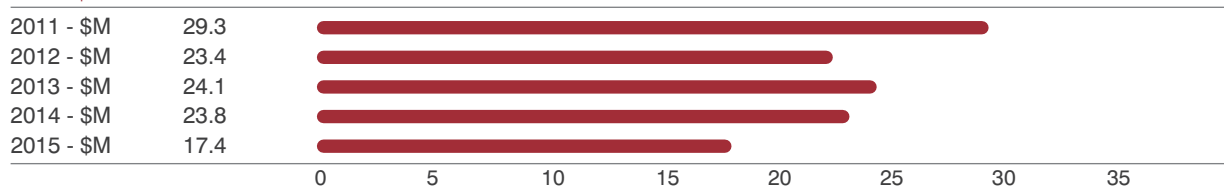
### TOTAL REVENUE - \$M



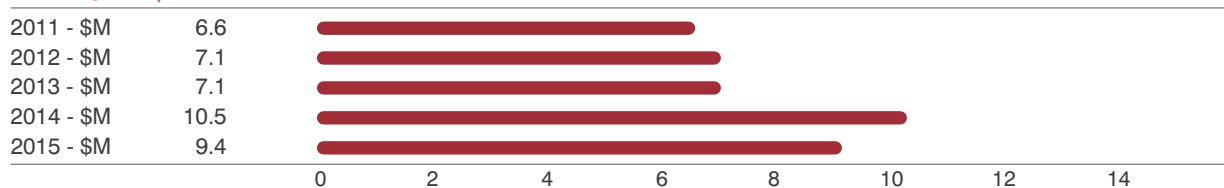
### EBITDA - \$M



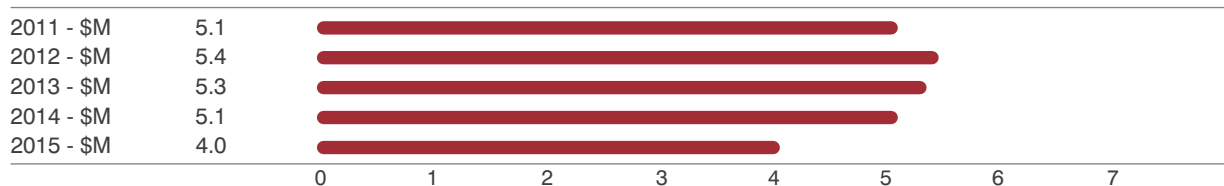
### EBIT - \$M



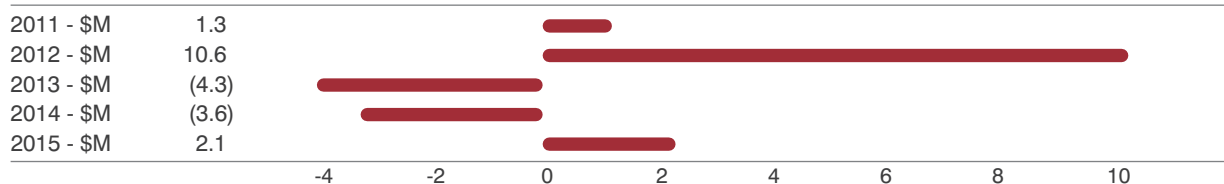
### NET PROFIT - \$M



### EARNINGS PER SHARE - CENTS



### CASH FLOW FROM OPERATING ACTIVITIES





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.

As at the date of this report, and 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.

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**

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

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

#### **The Primary Responsibilities of the Board include:**

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

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

## 12 CORPORATE GOVERNANCE STATEMENT

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 Executives 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 diversity in the workplace and has implemented a group-wide Diversity Policy which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) 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.

The following diversity objectives were adopted for FY15:

- Appoint at least one suitably qualified female as a non-executive Director on the Board.
- Maintain the employment of female employees at other levels (including Senior Management) in line with national benchmarks.

The following outcomes were achieved against those objectives for the reporting period:

- Naseema Sparks was appointed as a non-executive Director on the Board of the Company on 28 January 2015.
- Employment of females within the Company at other levels remained within reasonable proximity of national benchmarks.

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 progress Board diversity in the future.

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

The objectives for diversity for FY16 are as follows:

#### Strategy

- 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.

#### Stakeholder Management

- 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.

### Gender Composition

- Maintain female representation of 20% on the Board.
- Maintain female representation in management roles in line with national benchmarks.

### Talent Pipeline

- 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.

### Benefits

- Promote the Company's parental leave procedures and flexible work arrangements policy to retain talent.

The following tables show the proportional representation of men and women at various levels within the Company's workforce as at 30 June 2015.

### Workforce Gender Profile

ALL STAFF		TOTAL FEMALES	TOTAL MALES	% OF FEMALES	% OF MALES
Total Employees	437	150	287	34.32%	65.68%
Non-Executive Directors	4	1	3	25.00%	75.00%
Senior Executives	8	1	7	12.50%	87.50%
Other (Non Production)(inc UK / HK)	197	109	88	55.33%	44.67%
Other (Production)	228	39	189	17.11%	82.89%

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

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

The Board also conducts an annual review of Board performance in accordance with the Company's Board Performance Measurement policy, which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) 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 twice in each year on a formal basis with a face-to-face performance review.

All of these reviews have been conducted in relation to FY15 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 (following a search process undertaken by an independent service provider to identify suitably qualified candidates) through the delegated functions of the Remuneration and Nomination Committee. 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.

## 14 CORPORATE GOVERNANCE STATEMENT

The skills of each Director are detailed in the matrix below. The experience, expertise and period in office of each Director are detailed in this Annual Report.

### BOARD SKILLS MATRIX

	BUSINESS MANAGEMENT	INDUSTRY	ACCOUNTING / FINANCE	MARKETING / DIGITAL	INTERNATIONAL BUSINESS
Richard Davis	x		x		x
Perry Gunner	x	x		x	x
Naseema Spark	x	x		x	
John Davies	x	x	x		
Neil McGuigan	x	x			x

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

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

The Board currently consists of:

Richard Davis	Chairman	Independent, Non-Executive
Neil McGuigan	Chief Executive Officer	Non-Independent, Executive
Perry Gunner		Independent, Non-Executive
Naseema Sparks		Independent, Non-Executive
John Davies		Independent, Non-Executive

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

Each non-executive Director was 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 recently 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. Compliance with the Code is mandatory for each Director and key executives of the Company.

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.

The Company has also implemented a confidentiality policy relating to matters including amongst others the non-disclosure of business affairs, trade secrets and customer information. This policy is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Continuous Disclosure and Policies and Procedures".

### *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 their 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 suitable occasions) external auditors to attend Audit Committee meetings.

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

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

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

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

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

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

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

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

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

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

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

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

### *ASX Principle 6: Respect the Rights of Shareholders*

#### **Recommendation 6.1 - Information Available via Website**

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

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

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

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

### Recommendation 6.2 - Investor Relations

The Company has also implemented an Investor Relations Strategy to facilitate effective two-way communication with investors, which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) 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, about, 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:

- Perry Gunner (Chairman)
- Richard Davis
- John Davies

The Risk Committee Charter is available on the Company's website: [www.australianvintage.com.au](http://www.australianvintage.com.au).

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 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.

The Company will disclose in each Corporate Governance Statement, in relation to the relevant reporting period, whether the review has taken place.

### Recommendation 7.3 - Internal Audit

The Company 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:

- **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 web site. The Board of Directors and the Chief Financial Officer/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

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
- Perry Gunner

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

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

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

For further details on the roles and responsibilities of the Remuneration and Nomination Committee see the Committee's Charter and terms of reference available at [www.australianvintage.com.au](http://www.australianvintage.com.au) 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.

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. 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 Meeting on 28 November 2012.

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

The shareholders' information set out below was applicable at 7th September, 2015.

## Shareholders

### Distribution of Shareholders

Analysis of shareholders of fully paid ordinary shares by size of holding:-

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS
1 – 1,000	1,577
1,001 – 5,000	2,094
5,001 – 10,000	584
10,001 – 100,000	959
100,001 +	168
	5,382

The percentage of the total holding of the twenty largest holders of Ordinary Shares was 67.30%.

## Substantial shareholders

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

NAME	ORDINARY SHARES (AS PER LAST SUBSTANTIAL HOLDER NOTICE)
Allan Gray Investment Management	45,059,587
Maple Brown Abbott Limited	18,000,000
Renaissance Smaller Companies Pty Ltd	13,839,095

## Twenty largest shareholders

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

SHARES HELD	NUMBER OF ORDINARY SHARES HELD	% OF LISTED SHARES
1. CITICORP NOMINEES PTY LIMITED	33,854,349	14.58
2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	32,835,255	14.14
3. J P MORGAN NOMINEES AUSTRALIA LIMITED	25,343,889	10.91
4. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MBA A/C>	17,496,768	7.53
5. NATIONAL NOMINEES LIMITED	10,261,271	4.42
6. SECVEST CAPITAL PTY LIMITED	8,080,000	3.48
7. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	6,887,220	2.97
8. SANDHURST TRUSTEES LTD <WENTWORTH WILLIAMSON A/C>	4,787,837	2.06
9. MR ZHIWEI LIN	2,258,687	0.97
10. GARRETT SMYTHE LTD	1,801,394	0.78
11. ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,679,614	0.72
12. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PISELECT>	1,638,743	0.71
13. 127 VICTORIA PTY LTD	1,500,000	0.65
14. HENLEAZE INVESTMENTS PTY LTD	1,500,000	0.65
15. MR BRIAN FREDERICK DITCHFIELD	1,330,020	0.57
16. WAUCHOPE & KILGOUR PTY LTD	1,200,000	0.52
17. SUNRISE VINEYARDS PTY LTD <MOULARADELLIS S/F A/C>	1,010,000	0.43
18. MR GRAHAM JOHN HARVEY	1,000,000	0.43
19. MR TREVOR GREGORY BURKE	996,423	0.43
20. MS HONGYU ZHAO	852,733	0.37
Totals: Top 20 holders of Fully Paid Ordinary Shares	156,314,203	67.30
Total Number of Shares	232,262,382	

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2015. 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 59**

(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.

### **IAN D FERRIER AM, CA, Age 75 – Resigned 1st June 2015**

(Chairman - resigned 1st June 2015, Non-Executive) Director since 20 November 1991.

Fellow of The Institute of Chartered Accountants in Australia and Chairman of BRI Ferrier (NSW) Pty Limited. In this capacity, he has gained extensive experience in the management and administration of both private and public companies at all levels. He is presently Chairman of Goodman Management Limited, Director of Reckon Limited and Energy One Limited and formerly Chairman of InvoCare Limited.

### **NEIL A MCGUIGAN, Age 57**

(Chief Executive Officer) Director since 21 July 2010.

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 27 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.

### **BRIAN J MCGUIGAN AM, Age 73 – Resigned 1st June 2015**

(Non-Executive – resigned 1st June 2015) Executive Director from 20 November 1991 to 31 December 2007. Non-executive director from 1 January 2008.

Over 45 years' experience in the wine industry. Formerly Managing Director of Wyndham Estate Wines Limited then of Australian Vintage Limited. He is currently on the Membership Committee of the Winemakers Federation of Australia, a Director of Hunter Wine Country Private Irrigation District as well as the Chairman and Director of a number of private companies.

### **PERRY R GUNNER, B. Ag. Sc, Grad. Dip, Bus. Admin, Age 68**

(Non-Executive) Director since 28 June 2002

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

### **JOHN D DAVIES, FCA, Dip. Bus S, Age 62**

(Non-Executive) Director appointed 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, Age 62**

(Non-Executive) Director appointed 28 January 2015

Currently Deputy Chairperson of Racing NSW and Director of Melbourne IT Limited, PMP Limited, Grays e-Commerce Group Ltd 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. Chairman of the Remuneration and Nomination Committee.



## 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
Ian D Ferrier	InvoCare Limited	2001 to 2014
	Goodman Management Limited	Since 2003
	Reckon Limited	Since 2004
	Energy One Limited	Since 2007
Perry R Gunner	Freedom Foods Group Limited	Since 2003
	Viterra Inc (Canada)	2004 to 2013
	A2 Corporation Ltd (N.Z.)	Since 2010
Richard H Davis	InvoCare Limited	Since 2012
	Monash IVF Group Limited	Since 2014
Naseema Sparks	PMP Limited	Since 2010
	Melbourne IT Limited	Since 2012
	Grays e-Commerce Group Limited	Since 2014

## 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 2015, no dividend will be paid.

In respect of the financial year ended 30 June 2014, a final fully franked dividend of 2.2 cents per share out of current year profits was declared on 27th August 2014 and was paid on 19th November 2014.

## Review of operations and future developments

### Key Points

- Revenue up 7.5% to \$230.9 million versus \$214.8 million in prior year, reflecting higher branded sales partially offset by lower bulk and processing sales
- Net Profit after tax down 11% to \$9.4 million versus \$10.5 million in prior year
- Net Profit after tax (and before one off items) of \$7.1 million versus \$7.6 million in prior year
- Branded sales continues to grow with sales of our 3 keys brands growing 43% over the last 3 years
- Cash flow from operating activities positive \$2.1 million versus negative \$3.6 million in prior year
- Net Debt of \$104.3 million compared to \$111.8 million as at 30 June 2014. Gearing now at 36%
- Expensed \$3.9 million (after tax) in non-recoverable incentives to customers
- Finalised sale of Yaldara winery for \$15.5 million with an after tax profit of \$6.2 million
- No final dividend due to the allocation of additional funds to continue to drive more profitable branded sales and improve operational efficiency

The decline in the net profit figure was foreshadowed in the Vintage and Trading Update released to the market in May 2015. Yields from owned vineyards were below expectation and as a result, the 2015 SGARA profit is down by \$0.9 million against expected SGARA profit.

The branded business continues to improve with ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of these three brands has increased by 43% over the last three years and sales of all branded products now comprise 72% of our total sales compared to 62% in 2012. Over the same period we have reduced our reliance on bulk wine sales and processing to the extent that these sales have declined by \$29 million.

Our business has evolved into a respected branded wine business with a very clear focus on quality and growing branded sales. In the UK, McGuigan is the 4th largest wine brand by volume and value. In Australia, McGuigan Black Label Red is the number one selling bottled red wine.

Our credentials in domestic and international wine shows along with third party endorsements continue to shine across all brands and across a myriad of different varieties. A highlight so far this year has been our company's performance in the International Wine Challenge in London where the McGuigan brand was awarded 6 trophies and 9 gold medals with our Tempus Two brand being awarded a further 2 trophies.

Industry conditions remain tough due to ongoing margin pressure and the widespread use throughout the industry of the WET rebate to achieve bulk wine prices that are below cost. The sooner the WET Rebate is removed on bulk wine the better and more sustainable the Australian Wine Industry will be.

For the year ended 30th June 2015 the Company has paid \$1,005,000 in legal fees in relation to a dispute with a vineyard owner. It is expected that this dispute will be concluded prior to 31st December 2015. If successful the company will be able to terminate this long term contract.

### Sales/Margins

Overall revenue for the year increased by 7.5% due mainly to increased branded sales in Australia, UK, New Zealand and North America. Partially offsetting the increased branded sales was reduced sales in the Australasia/ North America Bulk and Processing segment. The decline in the processing segment was due largely to the expiry of a significant long term agreement.

Australasia/North America packaged sales were up 11% on last year with an increase in bottled sales of 9% and an increase of 14% in cask sales. McGuigan branded sales increased by 12% in this segment taking the increase to 70% in total over the last three years.

Packaged sales in the Asia segment fell by 7% largely as a result of the impact of transitioning to sales through our newly appointed distributor in China, COFCO Wine and Spirits Co Ltd. We remain confident that in the long term this relationship will deliver a significant distribution footprint and improved sales for our McGuigan brand in China.

## Review of operations and future developments (continued)

UK/Europe packaged and bulk sales were up 12% on last year with bottled sales up 16% and bulk sales down by 28%. This segment recorded a contribution of \$4.5 million compared to \$3.9 million the previous year assisted by a growth of 22% in the McGuigan brand. Sales of bulk wine resulted in a margin loss of \$1.8 million due to demand from major customers for below cost pricing for bulk wine and the need to manage our inventory.

Australasia/North America bulk and processing sales were down by 19% due to the expiry of a contract processing agreement and reduced bulk wine sales. The contribution of \$0.1 million from this segment was \$3.3 million down on last year.

### EBIT and Net Profit

EBIT before one off items is \$16.7m compared to \$19.7 million in the previous year. The contribution from the Australasia/North America bulk and processing segment was down by \$3.3m whilst the other segments were impacted by the higher 2014 vintage cost offset by the lower Australian dollar.

The higher 2014 vintage cost (as a result of frost in 2014) negatively impacted the company's EBIT by \$6.2 million when compared to wine costs in the previous year. The 2015 vintage costs have returned to normal resulting in a wine cost that is significantly less than 2014.

The higher wine cost was the main reason why the Australasia/North America segment contribution did not increase in line with increased sales.

Whilst the lower Australian dollar provided a benefit of \$5.2 million, compared to the previous year, this benefit did not fully flow through to improved margin in the UK/Europe segment due to higher 2014 wine costs and the increased margin pressure from some of the major UK supermarkets.

Net profit after tax (and one off items) is \$9.4 million, 11% below last year.

### One-off items

The profit on the sale of Yaldara was partially off-set by the write off of customer incentives and the legal costs associated with the vineyard dispute as advised in February 2015.

### Cash Flow and Balance Sheet

Cash flow from operating activities improved by \$5.7 million due mainly to increased sales. The gearing ratio is at a comfortable 36% (39% as at 30 June 2014) with a secure banking facility in place until October 2017.

From 2016 onwards AVL has a number of significant onerous and above market priced grower contracts that expire. The intention is to replace these contracts as they expire with grape purchase contracts reflecting market price. Whilst the accounting benefit of this change will take some time, the cash benefit will flow through immediately. Based on contracts that expire from 2016 to 2018 and using average weighted 2015 grape prices, the expected cash flow benefit is \$6.9 million per annum. The expiration of these contracts will also add some flexibility in our future grape intake.

### Outlook

The business continues to focus on the core strategies of quality, growing branded sales particularly in both existing and evolving export markets and in maintaining a low cost position.

We continue to face short term challenges due to our high cost from the 2014 vintage and the ongoing margin pressure. The recent reduction in the Australian dollar has had a positive impact and will assist in margin improvement.

The business continues to increase its footprint in the UK market via sales to through new channels and customers. Sales of branded products into the US and Asian markets is a focus for 2016.

The strategy of increasing branded sales and improving operational efficiencies is critical to our continued success therefore investment in these areas will be increased. As a result of this increased investment, the Board has decided to take a conservative approach toward 2016 cash requirements and no final dividend for 2015 will be paid. As in previous years, the board will continue to assess the payment of future dividends on a year by year basis.

## Directors' meetings

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

During the financial year the company held 12 Board Meetings, 2 Audit Committee Meetings, 1 Occupational Health and Safety Meeting and 1 Remuneration Committee meetings.

DIRECTORS'	BOARD MEETINGS ATTENDED	AUDIT COMMITTEE MEETINGS ATTENDED	OH&S COMMITTEE MEETINGS ATTENDED	REMUNERATION COMMITTEE MEETINGS ATTENDED
Richard Davis	12	2	-	1
Ian D Ferrier <sup>(1)</sup>	11	2	-	-
Neil McGuigan	12	2	1	1
Brian J McGuigan <sup>(1)</sup>	11	2	1	-
Perry R Gunner	12	1	1	1
John D Davies <sup>(2)</sup>	5	1	-	-
Naseema Sparks <sup>(2)</sup>	3	1	-	-
<b>Total Meetings Held</b>	<b>12</b>	<b>2</b>	<b>1</b>	<b>1</b>

(1) Resigned 1st June 2015.

(2) 5 Board meetings and 1 Audit Committee meeting held since appointed.

## 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
Richard Davis	110,000	-
Ian D Ferrier <sup>(1)</sup>	-	-
Neil McGuigan	570,000	652,260
Brian J McGuigan <sup>(1)</sup>	-	-
Perry R Gunner	555,124	-
John D Davies	-	-
Naseema Sparks	-	-

(1) Resigned 1st June 2015.

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	1,383,400	Ordinary	*	15 September 2016
Australian Vintage Ltd	1,156,514	Ordinary	*	22 August 2017
	<b>2,539,914</b>			

\* Performance Rights entitle the owner to an issue of shares at the vesting date subject to certain performance criteria.

## Remuneration Report

For the purpose of the disclosure 'Key Management Personnel' is 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 comprised of Directors and Senior Executives as detailed below:

- Richard H Davis (Chairman, Non-Executive Director) – Appointed Chairman 1st June 2015
- Ian D Ferrier (Chairman, Non-Executive Director) – Resigned 1st June 2015
- Neil A McGuigan (Chief Executive Officer)
- Brian J McGuigan (Non-Executive Director) – Resigned 1st June 2015
- Perry R Gunner (Non-Executive Director)
- John D Davies (Non-Executive Director) – Appointed 28th January 2015
- Naseema Sparks (Non-Executive Director) – Appointed 28th January 2015
- Michael Noack (Company Secretary & Chief Financial Officer)
- Flora Sarris (General Counsel)
- Cameron Ferguson (General Manager – Sales and Marketing, Australasia / North America)
- Julian Dyer (General Manager – UK / Europe)

The named persons held their current position for the whole of the financial year, except as noted.

### Remuneration Committee and Director Compensation

The Remuneration Committee reviews the compensation of Non-Executive Directors and makes recommendations to Shareholders which must be approved at an Annual General Meeting. Currently, Shareholders have approved Non-Executive Directors remuneration for their ordinary services as Directors up to \$600,000 per annum.

### Remuneration Committee and Key Management Personnel Compensation

The Remuneration Committee reviews the compensation packages of all key management personnel on an annual basis and makes recommendations to the board. Compensation packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

The Key Management Personnel compensation packages have three components:

#### 1. Base Compensation

This component is not performance linked and generally consists of salary, motor vehicle, wine and post-employment superannuation entitlement (where applicable). The base amount is reviewed annually by the Remuneration Committee. 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 in the event the role has broadened.

Non-executive Directors:

Non-executive Directors receive remuneration in cash.

The Board reviews the level of fees from time to time, and sets individual non-executive Directors fees based on the levels of fees for comparable listed companies in the appropriate parts of the world.

#### 2. Short Term Incentives

Short term incentive (STI) payments take into account the extent to which specific financial and operating targets set at the start of the financial year have been achieved. The targets consist of a number of key performance indicators (KPI's) covering both financial and non-financial measures of performance, the primary measure being the performance against profit targets. Short term incentive payments are made by way of a cash bonus.

Objectives and performance indicators are determined annually by the Chief Executive Officer (CEO) following consultation with each employee.



## Remuneration Report (continued)

### 2. Short Term Incentives (continued)

The maximum amount of bonus payable in respect of the financial year is determined by the CEO and the Remuneration Committee. For the purpose of determining any bonus entitlement, individual performance is assessed against the set objectives and performance indicators by the CEO. The objectives and performance indicators relate to specific duties and Company performance, as detailed in the table below.

The table below shows the maximum STI payments for 2015, the breakdown between financial and operational key performance indicator targets and the actual percentage of the maximum STI achieved:

	2015 MINIMUM BONUS \$	2015 MAXIMUM BONUS \$	KEY PERFORMANCE TARGETS		2015 % OF MAXIMUM GRANTED
			FINANCIAL	OPERATING	
Neil McGuigan	0	300,000	60%	40%	85.5%
Michael Noack	0	122,627	45%	55%	85.5%
Cameron Ferguson	0	106,929	50%	50%	85.5%
Julian Dyer	0	71,946	50%	50%	85.5%
Flora Sarris	0	85,690	0%	100%	76.5%

### 3. Long Term Incentives

#### Performance Rights and Option Plan:

Established in August 2012, this long term incentive is provided as a right to an issue of shares. This right is subject to the achievement of set growth rates in earnings per share over a 4 year period up until the vesting date. The plan is available to senior management as approved by the Board. Rights can be exercised if continuous service is maintained and the following performance measures are met:

Issued 15th August 2012:

- 50% of Performance Rights will vest if the cumulative Earnings Per Share (EPS) for the four years 2013 to 2016 inclusive is at least 28.08 cents.
- 100% of Performance Rights will vest if the cumulative EPS for the years 2013 to 2016 inclusive is at least 31.58 cents.
- Vesting between 50% to 100% will occur on a straight line basis where the Company achieves a cumulative EPS for the four years between 2013 to 2016 between 28.08 cents and 31.58 cents.

Issued 22nd July 2013:

- 25% of Performance Rights will vest if the EPS for the four years 2014 to 2017 inclusive achieves a continuous annual growth rate of at least 5% per annum using the 30th June 2013 financial year results as a base year.
- 100% of Performance Rights will vest if the EPS for the four years 2014 to 2017 inclusive achieves a continuous annual growth rate of at least 15% per annum using the 30th June 2013 financial year results as a base year.
- Vesting between 50% to 100% will occur on a straight line basis where the Company achieves a continuous annual growth rate of between 5% and 15% for the four years between 2014 to 2017 inclusive using the 30th June 2013 financial year results as a base year.

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

During and since the end of the financial year under the Performance Rights and Option Plan there were no (2014 : 909,091) share performance rights granted to key management personnel as part of their remuneration. No shares were issued during or since the end of the financial year as a result of the exercise of options under either of the above Plans.

## Remuneration Report (continued)

### Relative proportions of fixed vs variable remuneration expense

	FIXED REMUNERATION		AT RISK - STI		AT RISK - LTI	
	2015	2014	2015	2014	2015	2014
<b>Non-executive Directors</b>						
Richard Davis	100%	100%	0%	0%	0%	0%
Ian D Ferrier	100%	100%	0%	0%	0%	0%
Brian J McGuigan	100%	100%	0%	0%	0%	0%
Perry R Gunner	100%	100%	0%	0%	0%	0%
John Davies	100%	100%	0%	0%	0%	0%
Naseema Sparks	100%	100%	0%	0%	0%	0%
<b>Executive Directors</b>						
Neil McGuigan	73%	77%	27%	23%	0%	0%
<b>Executives</b>						
Michael Noack	82%	81%	18%	19%	0%	0%
Cameron Ferguson	80%	79%	20%	21%	0%	0%
Julian Dyer	85%	88%	15%	12%	0%	0%
Flora Sarris	80%	78%	20%	22%	0%	0%

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

KEY MANAGEMENT PERSONNEL	NUMBER OF RIGHTS GRANTED	EXERCISE PRICE	GRANT DATE	EXPIRY DATE
Neil McGuigan	395,257	N/A	15 August 2012	15 September 2016
	257,003	N/A	22 July 2013	22 August 2017
Michael Noack	158,103	N/A	15 August 2012	15 September 2016
	128,502	N/A	22 July 2013	22 August 2017
Cameron Ferguson	197,628	N/A	15 August 2012	15 September 2016
	128,502	N/A	22 July 2013	22 August 2017
Julian Dyer	128,502	N/A	22 July 2013	22 August 2017
Flora Saris	158,103	N/A	15 August 2012	15 September 2016
	102,801	N/A	22 July 2013	22 August 2017
<b>TOTAL</b>	<b>1,654,401</b>			

There were no rights granted or exercised during the year. There were no rights that lapsed or vested during the year.

## 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 2015:

	30 JUNE 2011 \$ M	30 JUNE 2012 \$ M	30 JUNE 2013 \$ M	30 JUNE 2014 \$ M	30 JUNE 2015 \$ M
Total Revenue (excluding sale of assets)	223.2	228.0	208.5	214.8	230.9
EBIT	29.4	23.4	24.1	23.8	17.5
Net Profit / (Loss)	6.6	7.1	7.1	10.5	9.4

	30 JUNE 2011	30 JUNE 2012	30 JUNE 2013	30 JUNE 2014	30 JUNE 2015
Earnings per share - cents	5.1	5.4	5.3	5.1	4.0
Dividends declared - cents *	2.5	2.6	2.6	2.2	Nil
Share price at start of year - \$ per share	0.20	0.27	0.34	0.475	0.32
Share price at end of year - \$ per share	0.27	0.34	0.475	0.32	0.365

There were no shares repurchased in the current year. No shares or interests were issued during or since the end of the financial year as a result of the exercise of an option.

### Key Management Personnel Remuneration

The following table discloses the remuneration of the Directors and Executives of the Company:

2015	SHORT-TERM BENEFITS				POST EMPLOYMENT		SHARE BASED PAYMENTS			TOTAL
	Salary & Fees \$	Bonus \$	Other \$	Non - Monetary (a) \$	Super - annuation \$	Other \$	Cash Settled \$	Equity Settled Options \$	Equity Settled Shares \$	\$
Non-Executive directors										
Richard Davis	60,000	-	-	2,000	5,550	-	-	-	-	67,550
Ian D Ferrier	91,667	-	-	2,000	8,479	-	-	-	-	102,146
Brian J McGuigan	55,000	-	-	2,000	5,088	-	-	-	-	62,088
Perry R Gunner	60,000	-	-	2,000	5,550	-	-	-	-	67,550
John Davies	29,680	-	-	833	2,745	-	-	-	-	33,258
Naseema Sparks	30,441	-	-	-	2,816	-	-	-	-	33,257
Executive directors										
Neil McGuigan	609,731	256,500	-	32,649	35,000	-	-	-	-	933,880
Executives										
Michael Noack	352,509	104,846	-	88,342	35,000	-	-	-	-	580,697
Cameron Ferguson	304,891	91,424	-	26,200	28,965	-	-	-	-	451,480
Julian Dyer	286,401	61,514	-	-	63,526	-	-	-	-	411,441
Flora Sarris	244,332	65,553	-	1,200	23,212	-	-	-	-	334,297
TOTAL	2,124,652	579,837	-	157,224	215,931	-	-	-	-	3,077,644

## Remuneration Report (continued)

The following table discloses the remuneration of the Directors and Executives of the Company:

2014	SHORT-TERM BENEFITS				POST EMPLOYMENT		SHARE BASED PAYMENTS			TOTAL
	Salary & Fees \$	Bonus \$	Other \$	Non - Monetary (a) \$	Super - annuation \$	Other \$	Cash Settled \$	Equity Settled Options \$	Equity Settled Shares \$	\$
Non-Executive directors										
Ian D Ferrier	100,000	-	-	2,000	9,000	-	-	-	-	111,000
Brian J McGuigan	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Perry R Gunner	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Richard Davis	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Executive directors										
Neil McGuigan	602,445	201,000	-	32,649	25,000	-	-	-	-	861,094
Executives										
Michael Noack	352,010	110,664	-	87,142	25,000	-	-	-	-	574,816
Cameron Ferguson	297,396	93,889	-	26,200	27,509	-	-	-	-	444,994
Flora Sarris	264,777	81,974	-	1,200	24,492	-	-	-	-	372,443
Julian Dyer	262,303	41,865	-	-	57,885	-	-	-	-	362,053
TOTAL	2,058,931	529,392	-	155,191	185,086	-	-	-	-	2,928,600

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

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

### 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, motor vehicle allowance and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Mr McGuigan's employment is terminated by the Company, the Company must pay the equivalent of one year's total remuneration (excluding short term incentive). Mr McGuigan may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

## Remuneration Report (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. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including company profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (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. Mr Noack may resign by providing 3 months written notice to the Company or a lesser period as agreed by the company.

### CAMERON FERGUSON

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation, motor vehicle allowance and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including divisional profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Mr Ferguson's employment is terminated by the company, the company must pay Mr Ferguson the equivalent of one year's base remuneration (including motor vehicle allowance). Mr Ferguson may resign by providing 3 months written notice to the Company or a lesser period as agreed by the company.

### FLORA SARRIS

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Ms Sarris's employment is terminated by the company, the company must pay Ms Sarris the equivalent of one year's total remuneration. Ms Sarris may resign by providing 3 months written notice to the Company or a lesser period as agreed by the company.

### JULIAN DYER

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary and United Kingdom pension payment.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including divisional profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) Upon termination by the Company, the Company may restrain Mr Dyer from working for a Business in Competition/ Company customer for a period of up to 6 months. Company will pay Base Salary for period in which 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 9 to the financial statements.

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

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

## Auditors' independence declaration

The Auditors independence declaration is included on page 34.

## 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 Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order 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 2015, no dividend will be paid.

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

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

*On behalf of the Directors*



**RICHARD DAVIS**  
Chairman  
28th August 2015



**NEIL MCGUIGAN**  
Chief Executive Officer  
28th August 2015



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

28 August 2015

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 ended 30 June 2015, 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 sincerely

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

DELOITTE TOUCHE TOHMATSU

A handwritten signature in cursive script that reads "Jody Burton".

Jody Burton  
Partner  
Chartered Accountants



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

### Report on the Financial Report

We have audited the accompanying financial report of Australian Vintage Ltd, which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 36 to 84.

### Directors' Responsibility 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 Note 3, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Australian Vintage Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- (a) the financial report of Australian Vintage Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 32 of the directors' report for the year ended 30 June 2015. 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.

### Opinion

In our opinion the Remuneration Report of Australian Vintage Ltd for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.

DELOITTE TOUCHE TOHMATSU

Jody Burton  
Partner  
Chartered Accountants  
Adelaide, 28 August 2015

## Directors' declaration

The Directors declare that:

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

At the date of this declaration, the Company is within the class of companies affected by ASIC class order 98/1418. 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 class order applies, as detailed in Note 39 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 2015



**NEIL MCGUIGAN**  
Chief Executive Officer  
28th August 2015



AUSTRALIAN VINTAGE LTD

## 2015 FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2015





### 38 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000
Revenue	5	230,896	214,753
Cost of sales	5	(171,206)	(155,745)
<b>Gross Profit</b>		<b>59,690</b>	<b>59,008</b>
Fair value of grapes picked during the financial year less estimated costs to sell	16	2,816	2,713
Investment Income	5	138	532
Other gains and losses	5	1,795	1,824
Distribution expenses		(13,631)	(11,977)
Gain on provision for onerous contracts		924	4,106
Sales and marketing expenses		(26,139)	(24,984)
Administration expenses		(7,929)	(7,154)
Finance costs	5	(6,397)	(9,139)
Gain on sale of other property, plant and equipment		14	178
Gain on sale of Yaldara winery and brand name		6,351	-
Legal fees on vineyard lease dispute	5	(1,005)	-
Non-recoverable incentives to customers	5	(5,559)	-
<b>Profit before tax</b>		<b>11,068</b>	<b>15,107</b>
Income tax expense	6	(1,702)	(4,563)
<b>Profit for the year</b>		<b>9,366</b>	<b>10,544</b>
<b>Other comprehensive income /(loss), net of income tax:</b>			
<i>Items that may be subsequently classified to the profit or loss:</i>			
Profit / (Loss) on interest rate swaps		86	491
Valuation of foreign exchange hedges		(434)	(257)
<i>Items that will not be subsequently classified to the profit or loss:</i>			
Exchange differences arising on translation of foreign operations		157	73
Income tax relating to components of other comprehensive income		58	(92)
<b>Other comprehensive income / (loss) for the year, net of income tax</b>		<b>(133)</b>	<b>215</b>
<b>Total comprehensive income for the year</b>		<b>9,233</b>	<b>10,759</b>
<b>Earnings Per Share:</b>			
Basic (cents per share)	36	4.0	5.1
Diluted (cents per share)	36	4.0	5.1

Notes to the financial statements are included on pages 42 to 84.

AS AT 30 JUNE 2015

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	43	2,309	4,202
Trade and other receivables	10	39,193	41,698
Inventories	11	165,459	168,142
Current tax assets	6	119	49
Other	12	4,867	3,851
<b>Total Current Assets</b>		<b>211,947</b>	<b>217,942</b>
<b>Non-Current Assets</b>			
Trade and other receivables	13	446	-
Inventories	14	33,543	23,736
Other financial assets	15	59	59
Biological assets	16	32,828	33,184
Property, plant and equipment	17	83,200	90,058
Goodwill	18	37,685	37,685
Other intangible assets	19	6,102	7,744
Water Licenses	20	7,554	7,554
Deferred tax assets	6	50,739	52,100
Other	21	-	435
<b>Total Non-Current Assets</b>		<b>252,156</b>	<b>252,555</b>
<b>Total Assets</b>		<b>464,103</b>	<b>470,497</b>
<b>Current Liabilities</b>			
Trade and other payables	23	40,305	40,996
Borrowings	24	1,514	3,606
Other financial liabilities	25	1,534	1,101
Provisions	26	5,956	5,579
Other	27	495	535
<b>Total Current Liabilities</b>		<b>49,804</b>	<b>51,817</b>
<b>Non-Current Liabilities</b>			
Borrowings	28	105,047	112,349
Deferred tax liabilities	6	14,728	14,491
Other financial liabilities	29	20	112
Provisions	30	2,144	3,491
<b>Total Non-Current Liabilities</b>		<b>121,939</b>	<b>130,443</b>
<b>Total Liabilities</b>		<b>171,743</b>	<b>182,260</b>
<b>Net Assets</b>		<b>292,360</b>	<b>288,237</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Issued capital	33	443,266	443,266
Reserves	34	671	804
Accumulated losses	35	(151,577)	(155,833)
<b>Total Equity</b>		<b>292,360</b>	<b>288,237</b>

Notes to the financial statements are included on pages 42 to 84.

## 40 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	SHARE CAPITAL \$'000	EQUITY - SETTLED EMPLOYEE BENEFITS RESERVE \$'000	HEDGING RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	ACCUMULATED LOSSES \$'000	TOTAL \$'000
Balance at 1 July 2014	443,266	1,497	(784)	91	(155,833)	288,237
Profit for the period	-	-	-	-	9,366	9,366
Profit on interest rate swaps	-	-	86	-	-	86
Valuation of foreign exchange hedges	-	-	(434)	-	-	(434)
Exchange differences arising on translation of foreign operations	-	-	-	157	-	157
Income tax relating to components of other comprehensive income	-	-	105	(47)	-	58
<b>Total comprehensive income for the period</b>	-	-	(243)	110	9,366	9,233
<b>Transactions with owners in their capacity as owners:</b>						
Dividend paid	-	-	-	-	(5,110)	(5,110)
Recognition of share based payments	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-
<b>Balance at 30 June 2015</b>	<b>443,266</b>	<b>1,497</b>	<b>(1,027)</b>	<b>201</b>	<b>(151,577)</b>	<b>292,360</b>
Balance at 1 July 2013	403,155	1,578	(948)	40	(162,926)	240,899
Profit for the period	-	-	-	-	10,544	10,544
Loss on interest rate swaps	-	-	491	-	-	491
Valuation of foreign exchange hedges	-	-	(257)	-	-	(257)
Exchange differences arising on translation of foreign operations	-	-	-	73	-	73
Income tax relating to components of other comprehensive income	-	-	(70)	(22)	-	(92)
<b>Total comprehensive income for the period</b>	-	-	164	51	10,544	10,759
<b>Transactions with owners in their capacity as owners:</b>						
Dividend paid	-	-	-	-	(3,451)	(3,451)
Recognition of share based payments	-	(81)	-	-	-	(81)
Issue of shares	40,111	-	-	-	-	40,111
<b>Balance at 30 June 2014</b>	<b>443,266</b>	<b>1,497</b>	<b>(784)</b>	<b>91</b>	<b>(155,833)</b>	<b>288,237</b>

Notes to the financial statements are included on pages 42 to 84.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	NOTE	CONSOLIDATED	
		2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		247,221	220,898
Payments to suppliers and employees		(239,085)	(216,593)
<b>Cash generated from operations</b>		<b>8,136</b>	<b>4,305</b>
Interest and other costs of finance paid		(6,090)	(8,388)
Interest and bill discounts received		45	447
<b>Net cash provided by / (used in) operating activities</b>	<b>43 (d)</b>	<b>2,091</b>	<b>(3,636)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(4,272)	(3,069)
Payments for intangibles	19	(199)	(374)
Payment for water licences	20	-	(87)
Proceeds from sale of property, plant & equipment		15,516	184
<b>Net cash provided by / (used in) investing activities</b>		<b>11,045</b>	<b>(3,346)</b>
<b>Cash flows from financing activities</b>			
Loan payment received		-	1,843
Dividends paid		(5,110)	(3,451)
Net proceeds from share issues		-	39,383
Repayment of borrowings		(9,919)	(27,586)
<b>Net cash provided by / (used in) financing activities</b>		<b>(15,029)</b>	<b>10,189</b>
Net increase / (decrease) in cash and cash equivalents		(1,893)	3,207
Cash and cash equivalents at the beginning of the financial year		4,202	995
<b>Cash and cash equivalents at the end of the financial year</b>	<b>43</b>	<b>2,309</b>	<b>4,202</b>

Notes to the financial statements are included on pages 42 to 84.

## Note 1: General Information

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

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

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

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

### Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 28th August 2015.

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

### 2.1 Adoption of new and revised Accounting Standards

In the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2014.

STANDARD / INTERPRETATION	REQUIREMENTS
<i>AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'</i>	The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.
<i>AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'</i>	The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by AASB 13 'Fair Value Measurements'.
<i>AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'</i>	The amendments to AASB 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.
<i>AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i>	Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and minor editorial amendments to various standards.
<i>AASB 2014-1 Amendments to Australian Accounting Standards [Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles]</i>	Part A makes various amendments to Australian Accounting Standards arising from the issuance by IASB of IFRSs Annual Improvements to IFRS 2010- 2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle
<i>AASB 2014-1 Amendments to Australian Accounting Standards [Part E – Financial Instruments]</i>	Makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018. For further details on these amendments to AASB 9, refer to sections noted above.

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

### 2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

STANDARD / INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	30 June 2018
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-6 'Amendments to Australian Accounting Standards – Agriculture: Bearer Plants'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 January 2015	30 June 2017

The potential effects of the above Standards and Interpretations on the Group's financial statements have not yet been determined.

#### Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

## Note 3: Summary of accounting policies

### 3.1 Statement of compliance

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

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

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

### 3.2 Basis of preparation

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

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

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



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

### 3.2 Basis of preparation (continued)

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

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

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### 3.3 Basis of consolidation

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

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

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

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

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

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

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

### 3.4 Borrowing costs

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

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

### 3.5 Cash and cash equivalents

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

### 3.6 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward exchange contracts, foreign currency options and interest rate swaps. Further details of derivative financial instruments are disclosed in note 44 to the financial statements.

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

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

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

#### Embedded derivatives

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

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

### 3.6 Derivative financial instruments (continued)

#### Hedge accounting

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

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

Note 44 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve are shown in the Statement of Changes in Equity.

#### Fair value hedge

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

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

#### Cash flow hedge

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

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

### 3.7 Employee benefits

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

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

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

#### Defined contribution plans

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

### 3.8 Financial instruments

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

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

#### Financial assets

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

#### Investments in controlled entities

Investments in controlled entities are recorded at cost in the Company financial statements. Investments in associates have been accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements. Other investments are recorded at fair value with gains or losses arising on re-measurement recognised in profit or loss.

Dividends are recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

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

### 3.8 Financial instruments (continued)

#### Effective interest method

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

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

#### Financial assets at FVTPL

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

#### Loans and receivables

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

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

#### Impairment of financial assets

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

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

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

#### Derecognition of financial assets

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

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

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

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

### 3.9 Financial instruments issued by the company

#### Debt and equity instruments

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

#### Financial guarantee contract liabilities

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

#### Financial liabilities

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

#### Other financial liabilities

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

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

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

#### De-recognition of financial liabilities

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

### 3.10 Foreign currency

#### Foreign currency transactions

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

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

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

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

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

#### Foreign operations

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

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

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

### 3.11 Goodwill

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

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

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

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

### 3.12 Goods and services tax

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

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

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

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

### 3.13 Grape vines and produce extracted from vines

Grape vines are classified as a separate biological asset class in accordance with Australian Accounting Standard AASB 141 "Agriculture". The biological assets are measured on initial recognition and at each reporting date at their fair value less costs to sell unless the market determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In the current financial year and the comparative financial year, the fair values have been estimated by the directors based on discounted cash flow analysis of each vineyard and reference to the current market value of similar assets recently exchanged in the open market. Produce harvested from vines owned by the Company are measured as revenue at fair value less estimated costs to sell at the point of harvest (including production costs). A gain or loss arising from a change in fair values less estimated costs to sell is included in the profit and loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventory.

### 3.14 Impairment of long-lived assets

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

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

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

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

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

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

### 3.15 Income tax

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

#### Current tax

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

#### Deferred tax

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

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

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

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

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

#### Current and deferred tax for the period

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

#### Tax consolidation

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

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

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

### 3.16 Intangible assets

#### Brand names and Registered Trademarks

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

#### Software

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

#### 3.16.1 Intangible assets acquired in a business combination

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

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



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

### 3.17 Inventories

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

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

### 3.18 Leased assets

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

#### Group as lessor

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

#### Group as lessee

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

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

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

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

### 3.19 Non-current assets held for sale

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

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

### 3.20 Payables

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

### 3.21 Property, plant and equipment

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

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

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

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

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

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



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

### 3.22 Provisions

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

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

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

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

### 3.23 Revenue

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

#### Sale of goods

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

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

#### Vineyard development/management contracts

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

#### Contract Processing

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

#### Interest Revenue

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

#### Rental Income

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

### 3.24 Share-based payments

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

### 3.25 Trade credits

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

### 3.26 Water licences

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

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

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

### 4.1 Critical judgements in applying accounting policies

The following are the critical judgements that management has made in applying the Group's accounting policies:

#### Inventories

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less cost to sell. The key assumptions require the use of management judgement. These key assumptions are the variables affecting the estimated costs to sell and the expected selling price.

The write down is based on assuming a selling price of the wine either through packaged goods or as bulk wine. Should the key assumptions applied in the estimation of revenue from the sale of the inventory when sold vary the ultimate realisable value may differ from that recorded at balance date.

#### Income tax losses

The company 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 company 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.

#### Onerous Contracts

The Company is party to a variety of grape supply agreements including vineyard lease agreements; grower grape supply agreements; and management of vineyard agreements. The agreements provide for the Company to acquire grapes at various prices some of which exceed market values.

The agreements in the current market have become onerous. The Company is attempting to mitigate the losses associated with the agreements.

Each contract has been reviewed and it has been determined that there is an unavoidable cost of meeting the obligations under the grape supply agreements that exceeds the forecast economic benefits (the onerous amount).

The provision for the onerous contracts has been brought to account using the best estimate of the onerous amount.

There are a number of future events the Company expects will affect the amount required to settle the contracts and these events are reflected in the amount of the provisions where there is sufficient objective evidence that they will occur.

The onerous contracts provision has been adjusted to the present value (at 8.5% discount rate – 2014 : 8.5%) of the expenditures expected to be required to settle the onerous obligations.

### 4.2 Key sources of estimation uncertainty

#### Impairment of goodwill and other intangibles

The goodwill arising from the acquisition of businesses has been reassessed through the estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculations require the Group to estimate the future cash flows expected to arise from the cash generating unit and select a risk adjusted discount rate in order to calculate present value.

A discounted cash flow analysis was performed on the cash generating units associated with the goodwill balances, using a pre-tax discount rate of 12.18% (2014: 13.42%), which indicated that the recoverable amount (including goodwill), based upon discounted cash flows, was higher than the carrying value.

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

Impairment tests were performed on brand names using a discounted cash flow model and a pre-tax discount rate of 17.9% (2014 : 19.0%) (branded wine business).

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

#### Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment on acquisition.

#### Revaluation of biological assets

The Company reviewed the long term value of vineyards and adopted the net present values of the cash flows as a Directors' Valuation for the period ended 30 June 2015.

In determining the fair value of the biological assets, the forecast cash flows from the vineyards have been discounted using a 13.44% (2014 : 15.14%) pre-tax discount rate.

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

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

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
<b>(a) Revenue – continuing operations</b>		
Revenue from the sale of goods	223,955	200,904
Revenue from contract processing	2,735	10,067
Revenue from rendering contract vineyard services	4,206	3,782
<b>Total</b>	<b>230,896</b>	<b>214,753</b>
<b>Investment income</b>		
Rental income	93	85
Interest income	45	447
<b>Total</b>	<b>138</b>	<b>532</b>
<b>Other gains / (losses)</b>		
Wine equalisation tax rebate	500	500
Gain on foreign exchange	181	229
Other rebates	481	538
Other	633	557
<b>Total</b>	<b>1,795</b>	<b>1,824</b>
<b>(b) Profit before income tax</b>		
Profit before income tax has been arrived at after charging the following expenses:		
Cost of sales	171,206	155,745
Operating lease rental expenses (minimum lease payments)	10,944	10,708
Employee benefit expense:		
Share-based payments:		
Equity settled share-based payments	-	196
	-	196
Termination benefits	150	103
Superannuation benefits	2,626	2,855
Other employee benefits (incl. salaries and wages)	33,828	34,651
<b>Total employee benefits expense</b>	<b>36,604</b>	<b>37,805</b>
Non Recoverable Incentives to Customers <sup>(1)</sup>	5,559	-
(1) The decision to write of incentives (both cash and stock) made to various customers was based on market developments during the year and a significant portion relates to overseas customers		
Legal fees on vineyard lease dispute <sup>(1)</sup>	1,005	-
(1) For the year ended 30th June 2015 the Company has paid \$1,005,000 in legal fees in relation to a dispute with a vineyard owner. It is expected that this dispute will be concluded prior to 31st December 2015. If successful the company will be able to terminate this long term contract.		
<b>(c) Depreciation and amortisation expense:</b>		
Depreciation of non-current assets - charged to cost of sales / inventory	4,931	5,323
Depreciation of non-current assets - other	1,114	1,184
Amortisation of non-current assets	589	567
<b>Total depreciation and amortisation expense</b>	<b>6,634</b>	<b>7,074</b>
<b>(c) Finance costs:</b>		
Interest on bank overdrafts and loans	5,856	8,021
Interest on obligations under finance lease	314	528
	6,170	8,549
Unwinding of discounts on provisions	227	590
<b>Total finance costs</b>	<b>6,397</b>	<b>9,139</b>

The weighted average rate on funds borrowed is 4.97% per annum (2014: 5.47% per annum).

## Note 6: Income taxes

		CONSOLIDATED	
		2015	2014
		\$'000	\$'000
<b>(a) Income tax recognised in profit or loss</b>			
Current tax			
Tax expense comprises:			
Current tax expense in respect of the current year		38	593
		38	593
Deferred tax			
Deferred tax expense relating to the origination and reversal of temporary differences		1,598	3,906
Adjustments recognised in the current year in relation to the current tax of prior years		66	64
Total tax expense attributable to continuing operations		1,664	3,970
Total income tax expense recognised in the current year relating to continuing operations		1,702	4,563
The prima facie income tax expense/(benefit) on pre-tax accounting income/(loss) from operations reconciles to the income tax expense in the financial statements as follows:			
Profit from operations		11,068	15,107
Income tax expense calculated at 30%		3,320	4,532
Non-deductible expenses		51	(33)
Current year capital losses not recognised		-	-
Capital losses utilised (not previously recorded)		(1,735)	-
		(1,684)	(33)
Adjustments recognised in the current year in relation to tax of prior years		66	64
Total tax expense		1,702	4,563
The tax rate used for the 2015 and 2014 reconciliations above is the corporation tax rate of 30% payable by Australian Corporate entities on taxable profits under Australian tax law.			
<b>(b) Income tax recognised in other comprehensive income</b>		58	(92)
<b>(c) Current tax assets and liabilities</b>			
Current tax assets		119	49
<b>(d) Deferred tax balances</b>			
Deferred tax assets comprise:			
Tax losses – revenue		34,822	34,700
Temporary differences		15,917	17,400
		50,739	52,100
Deferred tax liabilities comprise:			
Temporary differences		14,728	14,491
Total income tax recognised directly in equity		58	(92)

## Note 6: Income taxes (continued)

### (e) Taxable and deductible temporary differences arise from the following:

#### CONSOLIDATED

Temporary differences 2015	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Gross deferred tax liabilities:</b>					
Work in progress	(4,373)	130	-	-	(4,243)
Property, plant and equipment	(8,246)	(821)	-	-	(9,067)
Intangible assets	(468)	412	-	-	(56)
Inventories	(1,374)	52	-	-	(1,322)
Other	(30)	(68)	58	-	(40)
	<b>(14,491)</b>	<b>(295)</b>	<b>58</b>	<b>-</b>	<b>(14,728)</b>
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	9	(4)	-	-	5
Provisions and accruals	5,359	(1,112)	-	-	4,247
Financial liabilities	128	(26)	-	-	102
Inventories	11,322	(195)	-	-	11,127
Tax losses	34,700	122	-	-	34,822
Other	582	(146)	-	-	436
	<b>52,100</b>	<b>(1,361)</b>	<b>-</b>	<b>-</b>	<b>50,739</b>
<b>Temporary differences 2014</b>					
<b>Gross deferred tax liabilities:</b>					
Work in progress	(1,665)	(2,708)	-	-	(4,373)
Property, plant and equipment	(7,448)	(798)	-	-	(8,246)
Intangible assets	(344)	(124)	-	-	(468)
Inventories	(1,288)	(86)	-	-	(1,374)
Other	(28)	90	(92)	-	(30)
	<b>(10,773)</b>	<b>(3,626)</b>	<b>(92)</b>	<b>-</b>	<b>(14,491)</b>
<b>Gross deferred tax assets:</b>					
Gross deferred tax assets:					
Property, plant and equipment	10	(1)	-	-	9
Provisions and accruals	8,694	(3,335)	-	-	5,359
Financial liabilities	275	(147)	-	-	128
Inventories	9,059	2,263	-	-	11,322
Tax losses	34,250	450	-	-	34,700
Other	-	(145)	727	-	582
	<b>52,288</b>	<b>(915)</b>	<b>727</b>	<b>-</b>	<b>52,100</b>

There are no unrecognised revenue tax losses relating to the Group or the Company. The company has not recognised \$1,062,000 (2014: \$6,710,000) of capital losses. The Directors expect the future financial performance of the company will facilitate the full recovery of the revenue tax losses.

#### Tax Consolidation

##### Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Vintage Ltd. The members of the tax-consolidated group are identified in note 40.

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

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

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

## Note 7: Key management personnel compensation

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

	CONSOLIDATED	
	2015	2014
	\$	\$
Short-term employee benefits	2,861,713	2,743,514
Post-employment benefits	215,931	185,086
Share based payments	-	-
Termination benefits	-	-
	<b>3,077,644</b>	<b>2,928,600</b>

## Note 8: Executive share option plan

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

### Australian Vintage Ltd Performance Rights and Option Plan

Established in August 2012, this long term incentive is provided as a right to an issue of shares. This right is subject to the achievement of set growth rates in earnings per share over a 4 year period up until the vesting date and the likelihood of these hurdles being met is assessed annually. The plan is available to senior management as approved by the board. There were no performance rights issued in the current year under this plan to employees (2014 : 1,156,514 issued, fair value at grant date of \$444,448). These rights were priced using a binominal option pricing model.

The table below summarises all performance rights on issue:

	2015 NUMBER	2014 NUMBER
Balance at the beginning of the financial year (i)	2,539,914	1,383,400
Granted during the financial year (ii)	-	1,156,514
Exercised during the financial year (ii)	-	-
Lapsed / cancelled during the financial year (iii)	-	-
<b>Balance at the end of the financial year (iv)</b>	<b>2,539,914</b>	<b>2,539,914</b>

### (i) Balance at the beginning of the financial year

2015 PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(1) Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
(2) Issued 22 July 2013	1,156,514	-	1,156,514	22/07/13	22/07/17	21/08/17	N/A
	<b>2,539,914</b>	<b>-</b>	<b>2,539,914</b>				

### 2014

(1) Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
	<b>1,383,400</b>	<b>-</b>	<b>1,383,400</b>				

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

Nil

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

Nil

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

2015 PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(1) Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
(2) Issued 22 July 2013	1,156,514	-	1,156,514	22/07/13	22/07/17	21/08/17	N/A
	<b>2,539,914</b>	<b>-</b>	<b>2,539,914</b>				

### 2014

(1) Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
(2) Issued 22 July 2013	1,156,514	-	1,156,514	22/07/13	22/07/17	21/08/17	N/A
	<b>2,539,914</b>	<b>-</b>	<b>2,539,914</b>				

## Note 9: Remuneration of auditors

	CONSOLIDATED	
	2015 \$	2014 \$
<b>Auditor of the parent company</b>		
Audit or review of financial report	369,700	377,793
Other services – other audit services	23,500	8,200
Other services – taxation advice	8,125	3,650
Other services – systems review	-	10,000
Other services – taxation compliance	34,000	43,750
	<b>435,325</b>	<b>443,393</b>

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

## Note 10: Current trade and other receivables

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Trade receivables (i)	38,818	41,076
Allowance for doubtful debts	(392)	(219)
	<b>38,426</b>	<b>40,857</b>
Loans to other entities (ii)	500	-
Other receivables	267	841
	<b>39,193</b>	<b>41,698</b>

(i) The average credit period on sales of goods and rendering of services is 63 days (2014: 64 days). No interest is charged on outstanding trade receivables. An allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

(ii) Loan relates to vendor finance for stock sold as part of the Yaldara Winery sale. No interest is charged on this loan.

Before accepting any new customers, the Group uses a third party to assess the potential customer's credit quality and defines credit limits by customer. Limits provided on customer accounts are reviewed throughout the year. Of the trade receivables balance at the end of the year, \$22.2 million (2014: \$16.8 million) is due from international and domestic supermarket groups. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$4.5 million (2014: \$3.0 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

### Ageing of past due but not impaired

30 – 60 days	4,108	2,952
60 – 90 days	139	60
90 – 120 days	128	9
<b>Total</b>	<b>4,375</b>	<b>3,021</b>
<b>Average age (days)</b>	<b>37</b>	<b>38</b>

### Movement in the allowance of doubtful debts

Balance at the beginning of the year	(219)	(122)
Impairment (losses) / reversals recognised on receivables	(345)	(228)
Amounts written off as not collectable	172	131
Balance at the end of the year	(392)	(219)



## Note 10: Current trade and other receivables (continued)

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

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to \$378,000 (2014 : \$77,000) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The impaired receivable is aged over 120 days (2014 : over 120 days).

## Note 11: Current inventories

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Bulk wine	122,968	121,634
Other stores and raw materials	3,970	4,093
Work in progress	5,339	5,640
Bottled wine	33,182	36,775
	<b>165,459</b>	<b>168,142</b>

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$171.2 million (2014 : \$155.7 million).

## Note 12: Other current assets

Prepayments	4,867	3,851
	<b>4,867</b>	<b>3,851</b>

## Note 13: Non-current trade and other receivables

Loan to other entities	446	-
	<b>446</b>	<b>-</b>

## Note 14: Non-current inventories

Bulk wine	31,797	21,800
Bottled wine	1,746	1,936
	<b>33,543</b>	<b>23,736</b>

## Note 15: Other non-current financial assets

Investments in companies (i)	59	59
	<b>59</b>	<b>59</b>

(i) Relates to investments in wine related businesses.

## Note 16: Biological assets

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Fair value less costs to sell of vines at beginning of year	33,184	33,184
Disposals	(356)	-
Fair value less costs to sell of vines at end of year	32,828	33,184

(a) **Impact on Consolidated Statement of Comprehensive Income**

The profit / (loss) before income tax included in the Consolidated statement of comprehensive income resulting from the fair value less costs to sell of produce extracted from the biological assets is a profit of \$2,816,000 (2014: \$2,713,000).

(b) **Physical quantity of vines**

	CONSOLIDATED	
	2015 No.	2014 No.
Number of vines owned	1,414,624	1,429,364
Acres owned	1,897	1,923
Number of grapes crushed - owned vineyards (tonnes)	18,599	18,498

(c) **Nature of asset**

Australian Vintage Ltd owns vineyards in several regions across Australia (primarily the Sunraysia, Riverland and Adelaide Hills regions).

There are two resulting assets:

- (i) grapes (agricultural produce) – recorded within inventory
- (ii) vines (biological asset)

(d) **Significant assumptions**

Significant assumptions made in determining the net market value of the vines are:

- (i) 100% of the vines are currently mature and will be productive for periods of between 25 to 40 years per vine;
- (ii) the expected price of the vines is constant in real terms, based on average prices throughout the current year;
- (iii) the costs expected to arise throughout the life of the vines are constant in real terms, based on average costs throughout the year;
- (iv) inflation will continue at the current rate; and
- (v) discount rate of 13.44% (2014 : 15.14%).

Significant assumptions made in determining the net market value of grapes picked are:

- (i) grapes crushed valued at management estimate of market price; and
- (ii) costs are those costs incurred in the 12 months preceding harvest.

## Note 17: Property, plant and equipment

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
(a) <b>Vineyard Improvements</b>		
at cost	14,165	14,270
accumulated depreciation	(7,592)	(6,978)
	6,573	7,292
<b>Freehold Land</b>		
at cost	13,076	13,726
<b>Buildings</b>		
At cost	15,720	17,884
accumulated depreciation	(4,384)	(5,275)
	11,336	12,609

## Note 17: Property, plant and equipment (continued)

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Plant and equipment under lease</b>		
at cost	13,561	13,232
accumulated amortisation	(1,701)	(1,247)
	<b>11,860</b>	<b>12,314</b>
<b>Plant and equipment</b>		
at cost	104,633	114,585
accumulated depreciation	(64,278)	(70,468)
	<b>40,355</b>	<b>44,117</b>
<b>Total Property, Plant and Equipment</b>		
at cost	161,155	174,026
accumulated depreciation and amortisation	(77,955)	(83,968)
	<b>83,200</b>	<b>90,058</b>
<b>(b) Reconciliations</b>		
<b>Vineyard Improvements</b>		
carrying amount at beginning of the financial year	7,292	7,994
additions	45	-
disposals	(63)	-
depreciation	(701)	(702)
<b>at end of year</b>	<b>6,573</b>	<b>7,292</b>
<b>Freehold land</b>		
carrying amount at beginning of the financial year	13,726	13,726
disposals	(650)	-
<b>at end of year</b>	<b>13,076</b>	<b>13,726</b>
<b>Buildings</b>		
carrying amount at beginning of the financial year	12,609	12,894
additions	230	119
disposals	(1,129)	-
depreciation	(374)	(404)
<b>at end of year</b>	<b>11,336</b>	<b>12,609</b>
<b>Plant and equipment under lease</b>		
carrying amount at beginning of the financial year	12,314	12,401
additions	-	329
depreciation	(454)	(416)
<b>at end of year</b>	<b>11,860</b>	<b>12,314</b>
<b>Plant and equipment</b>		
carrying amount at beginning of the financial year	44,117	46,156
additions	3,996	2,951
disposals	(3,242)	(5)
depreciation	(4,516)	(4,985)
<b>at end of year</b>	<b>40,355</b>	<b>44,117</b>
<b>Aggregate depreciation and amortisation allocated, and impairment recognised as an expense during the year:</b>		
Buildings	374	404
Vineyard improvements	701	702
Plant and equipment	4,516	4,985
Plant and equipment under lease	454	416
	<b>6,045</b>	<b>6,507</b>

## Note 18: Goodwill

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Gross carrying amount:		
Balance at beginning of the financial year	44,085	44,085
<b>Balance at end of the financial year</b>	<b>44,085</b>	<b>44,085</b>
Accumulated impairment losses		
Balance at beginning of financial year	6,400	6,400
<b>Balance at end of financial year (i)</b>	<b>6,400</b>	<b>6,400</b>
Net book value		
At the beginning of the financial year	37,685	37,685
<b>At the end of the financial year</b>	<b>37,685</b>	<b>37,685</b>

### Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash generating unit:

Bulk wine and contract processing business	37,685	37,685
--	--------	--------

- (i) The impairment of goodwill is tested each reporting date and is based on determining the recoverable amount the businesses' cash generating units (CGU). Given the unique nature of the assets, it is not possible to obtain comparable fair values to the assets owned by this company and therefore the value in use method is the method used by the company for assessing whether the assets in the CGU are impaired. The recoverable amount of each cash generating unit has been determined based on a value in use method which calculates the net present value of the forecast cash flows expected from the CGU. The cash flows are based on the current management budgets and forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5th year. In preparing the impairment models for each CGU the company started with the cash flows from the year ended 30 June 2015 and adjusted that base year for the budgets and 5 year plans approved by the Board of Directors.

The cash flows in the impairment model have been discounted to present value using a discount rate applicable to each cash flow. The company has used the weighted average cost of capital as a guide to determine the discount rate applied to the cash flows as it is considered the most appropriate discount rate for the risk specific to the assets in the CGU's. The net present value of the cash flows has been compared to the assets within the CGU which include the goodwill balances above. In the current year, the company applied a pre-tax discount rate of 12.18% p.a. (2014: 13.42% p.a.) to account for the risk associated with the assets in the current financial markets.

### Discount Rate

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the company; and the debt /equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the company and the Australian wine industry and have been considered in relation to the company.

### Key Assumptions

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

- Working capital levels used in future years adjust in line with future sales growth; Pre-tax Weighted Average Cost of Capital/ Discount rate of 12.18% (2014 : 13.42%);
- Risk Free rate of 3.11% (2014 : 3.75%);
- Cost of debt 5.5% (2014 : 7.5%);
- Levered Beta of 0.85 (2014 : 0.85); and
- Terminal Growth Rate of 2.5% (2014 : 3%).

### Sensitivity Analysis

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

Cash flow forecasts are based upon our most recent budget and 5 year financial plans approved by the Board. Key assumptions in the cash flow forecasts include volume growth, margin and expenses. Our assumptions regarding volume growth and expenses are based upon market demand and past experience. This approach is consistent with the prior period.

## Note 18: Goodwill (continued)

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

- The discount rate can be increased by 2.0 percentage points (to 14.10%) before an impairment is recognised;
- Reducing the terminal growth rate to 0% does not cause the associated goodwill to be impaired;
- The net cash flow can be reduced by \$2.6M (representing a 23% decline) before an impairment is recognised.
- The model is sensitive to the amount of the internal charge for wine processing. This charge can be reduced by 20% before an impairment is recognised; and
- The calculations are not very sensitive to exchange rates as the majority of cash flows from this business unit are denominated in Australian dollars.

## Note 19: Other intangible assets

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Brand Names and Registered Trademarks:</b>		
Balance at 1 July	6,080	5,488
Costs incurred during the year	-	60
Disposed during the year	(1,252)	-
Other	-	532
Balance at 30 June	4,828	6,080
<b>Software:</b>		
Balance at 1 July	1,664	1,917
Costs incurred during the year	199	314
Amortisation expense	(589)	(567)
Balance at 30 June	1,274	1,664
<b>Total other intangible assets</b>	<b>6,102</b>	<b>7,744</b>

Brand names have been assessed as having an indefinite useful life as the assets are integral to the business. Brand names can be managed by another management team and similar assets in the wine industry are commonly defined as having an indefinite useful life.

The impairment of brand names is tested each reporting date and is based on determining the recoverable amount of the cash flows generated by each brand. The cash flows are based on the current management budgets and forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5th year.

### Discount Rate

The cash flows have been discounted to present value. In the current year, the company applied a pre-tax discount rate of 17.9% p.a. (2014: 19.0% p.a.) to account for the risk associated with the assets in the current financial markets.

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the company; and the debt /equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the company and the Australian wine industry and have been considered in relation to the company.

### Key Assumptions

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

- Terminal Growth Rate of 2.5% (2014 : 3%)
- Pre-tax Weighted Average Cost of Capital / Discount rate of 17.9% (2014 : 19.0%)
- Cost of debt 5.5% (2014 : 7.5%)
- Levered Beta of 1.19 (2014 : 1.19)
- Revenue growth rate of 3% (2014 : 3%)

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

### Sensitivity Analysis

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

- The discount rate can be increased to 21.30% before an impairment is recognised.
- A decline of \$0.2M (representing a 10% decline) in the net cash flow can occur before an impairment arises.
- Reducing revenue growth rates to 0% does not cause the brand names to be impaired.
- Reducing the terminal growth rate to 0% does not cause the brand names to be impaired.

## Note 20: Water licences

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Permanent water licences – at cost	7,554	7,554
Balance at 1 July	7,554	7,467
Acquired during the year	-	87
<b>Balance at 30 June</b>	<b>7,554</b>	<b>7,554</b>

## Note 21: Other non-current assets

Prepayments	-	435
	-	<b>435</b>

## Note 22: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 24 and 28 to the financial statements, the majority of tangible assets of the Group have been covered by a first registered fixed and floating charge to the lending institutions, with the exception of assets under hire purchase arrangements. The following assets have been pledged as security:

Inventory	199,002	191,878
Receivables	39,193	41,698
Property, plant and equipment (including Biological Assets)	116,028	123,242
	<b>354,223</b>	<b>356,818</b>

The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default. Assets under finance lease are pledged as security.

## Note 23: Current trade and other payables

Trade payables (i)	27,147	28,821
Goods and services tax payable	2,445	2,146
Value added tax payable	776	611
Other accounts payable and accruals	9,937	9,418
	<b>40,305</b>	<b>40,996</b>

(i) The average credit period on purchase of goods is 35 days (2014: 35 days); no interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## Note 24: Current borrowings

Secured, at amortised cost:

Commercial Bills (i) (note 43(b))	-	1,000
Finance lease liabilities (ii)	1,514	2,606
	<b>1,514</b>	<b>3,606</b>

(i) Commercial bills with a variable interest rate were issued in 2015. The current weighted average interest rate on bills is 4.90% (2014 : 5.33%).

(ii) Secured by assets subject to the finance lease.

The bank overdraft and commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 22).

## Note 25: Other current financial liabilities

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Hedge liabilities – forward exchange contracts	733	458
Hedge liabilities – foreign currency options	481	329
Interest rate swap	320	314
	<b>1,534</b>	<b>1,101</b>

## Note 26: Current provisions

Directors retirement benefit (note 31)	149	149
Onerous contracts (note 31)	1,544	1,292
Employee entitlements (i)	4,263	4,138
	<b>5,956</b>	<b>5,579</b>

(i) The current provision for employee entitlements includes \$3,411,270 (2014 : \$3,308,074) of annual leave and vested long service leave entitlements.

## Note 27: Other current liabilities

Income in advance	495	535
	<b>495</b>	<b>535</b>

## Note 28: Non-current borrowings

Secured - at amortised cost:		
Commercial Bills (i) (note 43(b))	104,000	110,000
Accrued interest	657	445
	<b>104,657</b>	<b>110,445</b>
Finance lease liabilities (ii)	390	1,904
	<b>105,047</b>	<b>112,349</b>

(i) Commercial bills with a variable interest rate were issued in 2014. The current weighted average interest rate on the bills is 4.90% (2014: 5.33%). The bank overdraft and commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 21).

(ii) Secured by assets subject to the finance lease.

## Note 29: Non-current other financial liabilities

Interest rate swap	20	112
	<b>20</b>	<b>112</b>

## Note 30: Non-current provisions

Employee entitlements	961	1,081
Onerous contracts (note 31)	1,183	2,410
	<b>2,144</b>	<b>3,491</b>



## Note 31: Provisions

	CONSOLIDATED			
	2015		2014	
	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)
Balance at beginning of year	3,702	149	8,990	149
Increase resulting from new provisions	1,238	-	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(1,569)	-	(1,530)	-
Unwinding of discount and effect of changes in the discount rate	280	-	590	-
Reductions resulting from re-measurement, contract re-negotiation or settlement without cost	(924)	-	(4,348)	-
<b>Balance at end of year</b>	<b>2,727</b>	<b>149</b>	<b>3,702</b>	<b>149</b>

- (i) The provision for onerous contracts represents two components:
- the present value of the future grape payments that the Group is presently obligated to make in respect of onerous grape purchase contracts under non-cancellable grape agreements, less the estimate of the market value of the grapes. The estimate may vary in future as a result of changes in the market.
  - the present value of future contract processing payments that the Group is presently obligated to make in respect of onerous contract processing contracts under non-cancellable agreements, above the estimate of the market value for these services. The estimate may vary in future as a result of changes in the market.
- (ii) The provision for Directors' Retirement represents the present value of the directors' best estimate of the costs likely to be incurred as a result of either termination or retirement of directors.

### 31.1 Defined Contribution plans

The total expense recognised in the statement of comprehensive income of \$2,626,000 (2014: \$2,855,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 30 June 2015, contributions of \$156,349 (2014: \$118,744) due in respect of the reporting period had not been paid over to the plans. The amounts were paid in July 2015.

## Note 32: Foreign currency balances

The following table details the forward foreign currency contracts outstanding as at 30 June 2015:

CURRENCY	EXCHANGE RATE	FOREIGN CURRENCY FC '000	CONTRACT VALUE AUD \$'000	FAIR VALUE AUD \$'000
<b>Forward Contracts:</b>				
Buy Euros	0.6462	(200)	310	(19)
Sell Euros	0.7324	200	273	(17)
Sell Euros	0.6790	250	368	1
Sell Euros	0.6778	250	369	-
Sell Euros	0.6765	250	370	-
Sell Euros	0.6756	250	370	-
<b>Option Contracts:</b>				
Sell Euros	0.6535-0.7000	1,000	1,530	(20)
<b>Forward Contracts:</b>				
Sell GB Pounds	0.5244	500	953	(67)
Sell GB Pounds	0.5598	500	893	(129)
Sell GB Pounds	0.5230	500	956	(67)
Sell GB Pounds	0.5223	500	957	(67)
Sell GB Pounds	0.5290	1,000	1,890	(160)
Sell GB Pounds	0.5218	500	958	(67)
Sell GB Pounds	0.5227	500	957	(70)
Sell GB Pounds	0.5000	1,000	2,000	(72)
<b>Option Contracts:</b>				
Sell GB Pounds	0.5080-0.5800	3,333	6,562	(319)
Sell GB Pounds	0.4985-0.5200	1,000	2,006	(69)
Sell GB Pounds	0.4930-0.5100	1,000	2,028	(73)

## Note 32: Foreign currency balances (continued)

The following table details the forward foreign currency contracts and foreign exchange option contracts as at 30 June 2014:

CURRENCY	EXCHANGE RATE	FOREIGN CURRENCY FC '000	CONTRACT VALUE AUD \$'000	FAIR VALUE AUD \$'000
<b>Forward Contracts:</b>				
Sell GB Pounds	0.6427	1,000	1,587	(73)
Sell GB Pounds	0.5770	1,000	1,733	(86)
Sell GB Pounds	0.5757	1,000	1,737	(96)
Sell GB Pounds	0.5649	500	885	(36)
Sell GB Pounds	0.5628	1,000	1,776	(71)
Sell GB Pounds	0.5598	500	893	(33)
Sell Euro	0.6789	200	295	3
Sell Euro	0.6785	40	59	-
Sell Euro	0.6730	400	594	6
Buy Euro	0.6520	(200)	(307)	(10)
Sell Euro	0.7422	200	269	(26)
Buy Euro	0.6462	(200)	(310)	(9)
Sell Euro	0.7324	200	273	(26)
<b>Option Contracts:</b>				
Sell GB Pounds	0.5780 – 0.7000	3,000	5,190	(298)
Sell Euro	0.7055 – 0.8600	400	567	(31)

## Note 33: Issued capital

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
232,262,382 Fully paid ordinary shares (2014: 232,262,382)	443,266	443,266

	CONSOLIDATED			
	2015 Number	2015 \$'000	2014 Number	2014 \$'000
<b>Fully paid ordinary share capital</b>				
Beginning of financial year	232,262,382	443,266	132,720,637	403,155
<b>Issued during the year</b>				
Share Issue	-	-	79,633,650	33,446
Placement	-	-	19,908,095	8,361
Share issue costs	-	-	-	(1,696)
<b>End of financial year</b>	<b>232,262,382</b>	<b>443,266</b>	<b>232,262,382</b>	<b>443,266</b>

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

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

### Share options

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

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

## Note 34: Reserves

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Employee equity-settled benefits (i)	1,497	1,497
Hedging reserve (ii)	(1,027)	(784)
Foreign currency translation reserve (iii)	201	91
	<b>671</b>	<b>804</b>

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

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

## Note 35: Accumulated losses

Balance at beginning of financial year	(155,833)	(162,926)
Net profit	9,366	10,544
Dividends paid	(5,110)	(3,451)
<b>End of financial year</b>	<b>(151,577)</b>	<b>(155,833)</b>

## Note 36: Earnings per share

	CONSOLIDATED	
	2015 Cents Per Share	2014 Cents Per Share
Basic earnings per share	4.0	5.1
Diluted earnings per share	4.0	5.1

Basic earnings per share:

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

	\$'000	\$'000
Profit for the year	9,366	10,544

	2015 '000 Number of Shares	2014 '000 Number of Shares
<b>Basic earnings per share</b>		
Weighted average number of ordinary shares used in calculating basic earnings per share (i)	232,262	207,738
<b>Dilutive earnings per share</b>		
Weighted average number of ordinary shares used in calculating diluted earnings per share (i)	232,262	207,738

- (i) The basic and diluted EPS are the same.

## Note 37: Dividends

	2015		2014	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
Fully paid ordinary shares:				
Interim dividend – franked to 30%	-	-	-	-
Final dividend – franked to 30%	2.2	5,110	2.6	3,451
		5,110		3,451
Adjusted franking account balance		8,919		11,109

In respect of the financial year ended 30 June 2015, no dividend will be paid. In respect of the financial year ended 30 June 2014, a final dividend of 2.2 cents per share was declared on 27th August 2014 and was paid on 18th November 2014. There are no income tax consequences of unrecognised dividends.

## Note 38: Leases and other commitments

### (a) Non-cancellable operating leases

The Group leases the following assets under normal economic terms. All operating lease contracts contain market review clauses in the event the Group exercises its option to renew.

- Vineyards
- Winery equipment

Operating leases relate to leases of plant and equipment with lease terms of between 3 and 7 years.

The following sets out payments recognised as an expense

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Minimum lease payments	72,729	78,168
The following sets out the commitments to future lease payments relating to operating leases:		
– not longer than 1 year	10,809	10,607
– longer than 1 year and not longer than 5 years	39,807	38,805
– longer than 5 years	22,113	28,756
	72,729	78,168
In respect of non-cancellable operating leases the following liabilities have been recognised:		
Current	-	7
Non Current	-	350
	-	357

### (b) Finance leases

Finance leases relate to plant and equipment with a lease term of up to 5 years, expiring between 30 June 2015 and March 2018.

	MINIMUM FUTURE LEASE PAYMENTS CONSOLIDATED		PRESENT VALUE OF MINIMUM FUTURE LEASE PAYMENTS CONSOLIDATED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
No Later than 1 year	1,600	2,919	1,514	2,606
Later than 1 year and not later than 5 years	417	2,017	390	1,904
Minimum lease payments*	2,017	4,936	1,904	4,510
Less future finance changes	(113)	(426)	-	-
Present value of minimum lease payments	1,904	4,510	1,904	4,510
Current borrowings (note 24)			1,514	2,606
Non-Current borrowings (note 28)			390	1,904
			1,904	4,510

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

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

## Note 38: Leases and other commitments (continued)

### (c) Capital expenditure commitments

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Property, Plant and Equipment		
– not longer than 1 year	52	-
	<u>52</u>	<u>-</u>

## Note 39: Contingent liabilities

There are no material contingent liabilities the company is aware of as at the date of this report.

## Note 40: Subsidiaries

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP OF INTEREST	
		2015 %	2014 %
<b>Parent Entity</b>			
Australian Vintage Ltd	Australia		
<b>Controlled Entity</b>			
Simeon Wines Pty Ltd (1)	Australia	100	100
Vintners Australia Pty Limited (1)	Australia	100	100
Barossa Valley Wine Company Pty Limited (1)	Australia	100	100
Coldridge Development Pty Limited (1)	Australia	100	100
McGuigan Simeon Wines Pty Ltd (1)	Australia	100	100
Mourquong Pty Limited (1)	Australia	100	100
Buronga Hill Pty Limited (1)	Australia	100	100
Austvin Pty Ltd (1)	Australia	100	100
Australian Flavours Pty Limited (1)	Australia	100	100
Austvin Holdings Pty Limited (1)	Australia	100	100
Australian Vintage (Domestic) Pty Ltd (1)	Australia	100	100
Miranda Wines Pty Limited (1)	Australia	100	100
Miranda Wines (Leasing) Pty Limited (1)	Australia	100	100
Miranda Family Investments Pty Limited (1)	Australia	100	100
Miranda Wines Holdings Pty Ltd (1)	Australia	100	100
Australian Vintage (Europe) Limited	United Kingdom	100	100
MGW Executive Options Pty Limited (1)	Australia	100	100

- (1) These wholly-owned controlled entities have entered into a deed of cross guarantee with Australian Vintage Ltd pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report.

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

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

## Note 40: Subsidiaries (continued)

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

### Consolidated Statement of Comprehensive Income – Closed Group For the financial year ended 30 June 2015

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Revenue	230,896	214,753
Cost of sales	(171,206)	(155,745)
<b>Gross Profit</b>	<b>59,690</b>	<b>59,008</b>
Fair value of grapes picked during the financial year less estimated costs to sell	2,816	2,713
Investment income	138	532
Other gains and losses	1,795	1,824
Distribution expenses	(13,631)	(11,977)
Gain on provision for onerous contracts	924	4,106
Sales and marketing expenses	(26,139)	(24,984)
Administration expenses	(7,929)	(7,154)
Finance costs	(6,397)	(9,139)
Gain on sale of other property, plant and equipment	14	178
Gain on sale of Yaldara winery and brand name	6,351	-
Legal fees on vineyard lease dispute	(1,005)	-
Non-recoverable incentives to customers	(5,559)	-
<b>Profit before income tax</b>	<b>11,068</b>	<b>15,107</b>
Income tax expense	(1,702)	(4,563)
<b>Net profit for the year</b>	<b>9,366</b>	<b>10,544</b>
<b>Other comprehensive income / (loss) net of income tax:</b>		
Loss on interest rate swaps	86	491
Valuation of foreign exchange hedges	(434)	(257)
Exchange differences arising on translation of foreign operations	157	73
Income tax relating to components of other comprehensive income	58	(92)
<b>Other comprehensive income/(loss) for the year, net of income tax</b>	<b>(133)</b>	<b>215</b>
<b>Total comprehensive income for the year</b>	<b>9,233</b>	<b>10,759</b>

## Note 40: Subsidiaries (continued)

Consolidated Statement of Financial Position – Closed Group  
As at 30 June 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
<b>Current Assets</b>		
Cash and cash equivalents	2,280	4,057
Trade and other receivables	39,193	41,698
Inventories	165,459	168,142
Current tax assets	119	49
Other	4,829	3,938
<b>Total Current Assets</b>	<b>211,880</b>	<b>217,884</b>
<b>Non-Current Assets</b>		
Trade and other receivables	446	-
Inventories	33,543	23,736
Other financial assets	59	59
Biological assets	32,828	33,184
Property, plant and equipment	83,200	90,058
Goodwill	37,685	37,685
Other intangible assets	6,102	7,744
Water Licences	7,554	7,554
Deferred tax assets	50,739	52,100
Other	-	435
<b>Total Non-Current Assets</b>	<b>252,156</b>	<b>252,555</b>
<b>Total Assets</b>	<b>464,036</b>	<b>470,439</b>
<b>Current Liabilities</b>		
Trade and other payables	40,285	40,979
Borrowings	1,514	3,606
Other financial liabilities	1,534	1,101
Provisions	5,956	5,579
Other	495	535
<b>Total Current Liabilities</b>	<b>49,784</b>	<b>51,800</b>
<b>Non-Current Liabilities</b>		
Borrowings	105,047	112,349
Deferred tax liabilities	14,728	14,491
Other financial liabilities	20	112
Provisions	2,144	3,491
<b>Total Non-Current Liabilities</b>	<b>121,939</b>	<b>130,443</b>
<b>Total Liabilities</b>	<b>171,723</b>	<b>182,243</b>
<b>Net Assets</b>	<b>292,313</b>	<b>288,196</b>
<b>Equity</b>		
Issued capital	443,177	443,177
Reserves	684	824
Accumulated losses	(151,548)	(155,805)
<b>Total Equity</b>	<b>292,313</b>	<b>288,196</b>



## Note 41: Segment information

The Company's reportable segments are as follows:

### Australia / 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, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.

### Vineyards

- provides vineyard management and maintenance services within Australia and includes biological assets income.

The revenue reported represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment revenue represents revenue generated from external customers. There were no inter-segment sales in the current year (2014 : Nil).

Segment profit represents the profit earned by each segment without allocation of share of profits of associates, investment and interest revenue, gain on onerous contracts, impairment of water licences, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

### Segments

#### Segment Revenue, Results and other segmental information

	REVENUE	REVENUE	RESULTS	RESULTS
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Australasia / North America packaged	99,026	88,855	7,194	7,956
UK / Europe	98,000	87,560	4,457	3,903
Cellar door	7,860	7,538	1,430	1,213
Australasia / North America bulk wine and processing	21,804	27,018	116	3,384
Vineyards	4,206	3,782	3,512	3,237
<b>Total</b>	<b>230,896</b>	<b>214,753</b>	<b>16,709</b>	<b>19,693</b>
Finance costs – interest paid			(6,397)	(9,139)
Gain on provision for onerous contracts			924	4,106
Interest received			45	447
Gain on sale of Yaldara winery and brand name			6,351	-
Legal fees on vineyard lease dispute			(1,005)	-
Non-recoverable incentives to customers			(5,559)	-
<b>Profit before tax</b>			<b>11,068</b>	<b>15,107</b>

## Note 41: Segment information (continued)

### Geographical Segments

	REVENUE FROM CUSTOMERS	
	2015 \$'000	2014 \$'000
Australia	110,559	107,345
UK / Europe	98,000	87,560
North America	8,486	6,272
Other	13,851	13,576
	<b>230,896</b>	<b>214,753</b>

The group has sales to three major customers who individually account for greater than 10% of annual sales. The total sales for these customers were \$87.9M (2014: \$88.6M). Of these sales, \$53.7M (2014: \$52.1M) is included within the UK / Europe division and \$34.2M (2014: \$36.5M) is included within the Australasia / North America Packaged division.

## Note 42: Related party transactions

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

### (a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 40 to the financial statements.

### (b) Key management personnel remuneration

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

### (c) Key management personnel equity holdings

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

	BALANCE @ 1/7/14 No.	GRANTED AS REMUNERATION No.	RECEIVED ON EXERCISE OF OPTIONS No.	NET OTHER CHANGE No.	BALANCE @ 30/6/15 No.	BALANCE HELD NOMINALLY No.
<b>2015</b>						
Richard H Davis	110,000	-	-	-	110,000	-
Ian D Ferrier <sup>(1)</sup>	1,040,256	-	-	(1,040,256)	-	-
Brian J McGuigan <sup>(1)</sup>	487,272	-	-	(487,272)	-	-
Perry R Gunner	517,712	-	-	37,412	555,124	-
John Davies <sup>(2)</sup>	-	-	-	-	-	-
Naseema Sparks <sup>(2)</sup>	-	-	-	-	-	-
Neil McGuigan	370,000	-	-	200,000	570,000	-
Michael Noack	74,441	-	-	-	74,441	-
Flora Saris	30,000	-	-	-	30,000	-
	<b>2,629,681</b>	<b>-</b>	<b>-</b>	<b>(1,290,116)</b>	<b>1,339,565</b>	

(1) Resigned 1st June 2015

(2) Appointed 28th January 2015

## Note 42: Related party transactions (continued)

	BALANCE @ 1/7/13 No.	GRANTED AS REMUNERATION No.	RECEIVED ON EXERCISE OF OPTIONS No.	NET OTHER CHANGE No.	BALANCE @ 30/6/14 No.	BALANCE HELD NOMINALLY No.
<b>2014</b>						
Ian D Ferrier	650,159	-	-	390,097	1,040,256	-
Brian J McGuigan	308,670	-	-	178,602	487,272	-
Perry R Gunner	265,670	-	-	252,042	517,712	-
Richard H Davis	-	-	-	110,000	110,000	-
Neil McGuigan	150,000	-	-	220,000	370,000	-
Michael Noack	2,043	-	-	72,398	74,441	-
Flora Saris	30,000	-	-	-	30,000	-
	<b>1,406,542</b>	<b>-</b>	<b>-</b>	<b>1,223,139</b>	<b>2,629,681</b>	

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

	BAL. @ 1/7/14 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	OTHER CHANGE No.	BAL. @ 30/6/15 No.	BAL. VESTED @ 30/6/15 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
<b>2015</b>									
Neil McGuigan	652,260	-	-	-	652,260	-	-	-	-
Michael Noack	286,605	-	-	-	286,605	-	-	-	-
Cameron Ferguson	326,130	-	-	-	326,130	-	-	-	-
Flora Sarris	260,904	-	-	-	260,904	-	-	-	-
Julian Dyer	128,502	-	-	-	128,502	-	-	-	-
	<b>1,654,401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,654,401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	BAL. @ 1/7/13 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	OTHER CHANGE No.	BAL. @ 30/6/14 No.	BAL. VESTED @ 30/6/14 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
<b>2014</b>									
Neil McGuigan	395,257	257,003	-	-	652,260	-	-	-	-
Michael Noack	158,103	128,502	-	-	286,605	-	-	-	-
Cameron Ferguson	197,628	128,502	-	-	326,130	-	-	-	-
Flora Sarris	158,103	102,801	-	-	260,904	-	-	-	-
Julian Dyer	-	128,502	-	-	128,502	-	-	-	-
	<b>909,091</b>	<b>745,310</b>	<b>-</b>	<b>-</b>	<b>1,654,401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Each executive performance right converts into 1 ordinary share of Australian Vintage Ltd on vesting date if performance objectives have been met. During the financial year, no performance rights were exercised by key management personnel.

There were no share options issued by Australian Vintage Ltd and held by key management personnel at 30th June 2015 (Nil at 30th June 2014).

## Note 42: Related party transactions (continued)

### (d) Other transactions with key management personnel

	CONSOLIDATED	
	2015 \$	2014 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Revenue	32,445	35,660
Consolidated profit includes the following expenses arising with key management personnel of the Group or their related parties:		
Cost of goods sold	512,714	502,962
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel:		
Current	-	-
Allowance for doubtful receivables	-	-
Non-current	-	-

- (i) During the year the company entered into the following transactions with entities associated with Brian McGuigan:
- (a) The company purchased grapes from Australian Horticultural Management Pty Limited ("AHM") to the value of \$149,101 (2014: \$140,710) on normal commercial terms. A balance of \$99,055 (2014: \$93,564) is owed by the company at 30 June 2015.
  - (b) The company sold bottled wine to AHM to the value of \$39,303 (2014 : Nil) on normal commercial terms. A balance of \$24,771 (2014 : Nil) is owed to the company at 30 June 2015.
  - (c) McGuigan Nominees Pty Ltd holds a minority interest in an entity which received \$289,898 (2014: \$300,710) from the company for fruit, paid \$16,532 (2014: \$22,046) to the company for the contract processing of fruit to wine and received \$73,715 (2014 : \$59,442) from the company for the sale of bulk wine. All transactions were on the same terms and conditions as other investors in that project.
  - (d) On the 29th January 2015 Brian McGuigan became a Director of Monarch Trading Pty Limited (First Creek Wines). The company had an existing agreement to contract package with First Creek Wines at this time, which was on normal commercial terms. The total value of services provided to the company for the year ending 30th June 2015 was \$318,721.
- (ii) During the year the company entered into the following transactions with Woodnibs Pty Ltd and HWV Management Pty Ltd (entities associated with Neil McGuigan):
- (a) The company sold concentrate to the value of \$7,415 (2014 : \$2,800) on normal commercial terms.
  - (b) In the prior year, the company sold grape skins to the value of \$2,564 (2015 : Nil) on normal commercial terms.
  - (c) The company charged rent to the value of \$8,498 (2014 : \$8,250) on normal commercial terms.
  - (d) In the prior year, the company paid for vineyard services to the value of \$2,100 (2015 : Nil) on normal commercial terms.

### (e) Parent Entity

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

## Note 43: Notes to the cash flow statement

### (a) Reconciliation of cash

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

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Cash	2,309	4,202
<b>(b) Financing Facilities</b>		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount Used	-	-
Amount Unused	5,000	5,000
	5,000	5,000
Reducing lease facility:		
Amount Used	1,276	3,661
Amount Unused	-	-
	1,276	3,661
Unsecured revolving lease facility:		
Amount Used	188	273
Amount Unused	162	77
	350	350
Bank Guarantee / Surrender facility:		
Amount Used	820	1,543
Amount Unused	1,830	1,107
	2,650	2,650
Corporate purchasing card facility:		
Amount Used	234	8
Amount Unused	266	492
	500	500
Cash advance facility:		
Amount Used	104,000	111,000
Amount Unused	6,000	4,000
	110,000	115,000
<b>Total facility</b>	<b>119,776</b>	<b>127,161</b>

### (c) Non-cash financing and investing activities / businesses acquired

During the reporting period Australian Vintage Ltd did not issue any ordinary shares (2014 : 99,541,745 for \$40,111 thousand net of issue costs).

There were no shares issued to Directors as remuneration for the year ending 30th June 2015 (2014 : Nil).

Australian Vintage Ltd operates a "Performance Rights and Options Plan". This long term incentive plan provides the right to an issue of shares subject to the achievement of set growth rates in earnings per share over a 4 year period. During the reporting period there were no options issued (2014 : 1,156,514; fair value at grant date of \$0.38 per option). There were no other share options issued or exercised during the reporting period (2014: Nil).

During the financial year the company did not issue any shares (2014 : Nil) under its Dividend Reinvestment Plan.

There were no other movements in ordinary share capital or issued capital in the current or prior period.

## Note 43: Notes to the cash flow statement (continued)

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

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
Profit from ordinary activities after income tax	9,366	10,544
Depreciation and amortisation of non-current assets	6,634	7,074
(Profit) / Loss on sale of non-current assets	(8,823)	(178)
Bad and doubtful debts	173	97
Interest on finance leases	314	528
<b>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses</b>		
<b>(Increase) / decrease in assets</b>		
Trade and other receivables	2,332	(8,025)
Inventories	(7,124)	(19,644)
Other current assets	(1,086)	(184)
Prepaid interest	212	(368)
Deferred tax assets	1,361	188
<b>Increase / (decrease) in liabilities</b>		
Current trade and other payables	(691)	7,977
Provisions	(774)	(5,850)
Deferred tax liabilities	237	3,718
Other	(40)	487
<b>Net cash provided by / (used in) operating activities</b>	<b>2,091</b>	<b>(3,636)</b>

## Note 44: Financial instruments

### (a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's general strategy remains unchanged from 2014.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 24 and 28, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 33, 34 and 35 respectively. The Group operates primarily through distributor relationships established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

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

#### Gearing ratio

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

The gearing ratio at year end was as follows:

#### Financial assets

Debt (i)	106,561	115,955
Cash and cash equivalents (net of bank overdraft)	(2,309)	(4,202)
Net Debt	104,252	111,753
Equity (ii)	292,360	288,237
Net debt to equity ratio	36%	39%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 24 and 28.

(ii) Equity includes all capital and reserves.

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

- Leverage (Net Debt / EBITDA) must be below pre-defined levels.
- Interest coverage (EBITDA / Interest) must be above pre-defined levels.
- Gearing (Gross debt / Gross debt plus Equity) must be below pre-defined levels.

## Note 44: Financial instruments (continued)

### (a) Capital risk management (continued)

#### Significant accounting policies

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

### (b) Categories of financial instruments

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Financial assets</b>		
Available for sale	59	59
Loans and receivables	39,193	41,698
Cash and cash equivalents	2,309	4,202
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	1,554	1,213
Carried at amortised cost	146,886	156,951

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

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

### (c) Financial risk management objectives

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

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

### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 32) and interest rates (refer note 44 (f)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

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

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

### (e) Foreign currency risk management

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

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

	LIABILITIES		ASSETS	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
US dollars	-	-	918	559
GB pounds	5,594	7,664	11,429	10,394
Euro	-	-	873	816
Canadian Dollars	-	-	1,471	1,174



## Note 44: Financial instruments (continued)

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

#### Foreign currency sensitivity analysis

The Group is exposed to US dollars (USD), GB pounds, EURO's and Canadian Dollars.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies.

10% is the sensitivity rate used when reporting foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar weakens 10% against the relevant currency. For a 10% strengthening of the Australian dollar against the currency, there would be a comparable impact on the profit or equity and the balances below would be negative.

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

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
<b>Increase (Deterioration) in foreign exchange rate by 10%</b>		
Profit or loss – GBP Impact	(371)	(145)
Profit or loss – USD Impact	(16)	(1)
Profit or loss – EURO Impact	(56)	(52)
Profit or loss – CAD Impact	(94)	(75)
<b>Decrease (Improvement) in foreign exchange rate by 10%</b>		
Profit or loss – GBP Impact	454	178
Profit or loss – USD Impact	19	1
Profit or loss – EURO Impact	68	63
Profit or loss – CAD Impact	114	91

#### Forward foreign exchange contracts – note 31

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out 12 months which is based on 50-75% (50% covered at 30th June 2015) coverage of highly probable sales and 25-50% (25% covered at 30th June 2015) of coverage on foreign currency sales out 13-24 months. Foreign currency expenses are estimated and the net exposure is hedged. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

The Group has entered into contracts to supply wine to customers in the UK, Europe and United States. The Group has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

As at reporting date the aggregate amount of unrealised profits under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on anticipated future transactions is \$1,214 thousand loss before tax (2014: a loss of \$787 thousand before tax). It is anticipated that the sales will take place in the next financial year at which stage the amount deferred in equity will be released in profit or loss.

OUTSTANDING CONTRACTS	YEAR END EXCHANGE RATE		FOREIGN CURRENCY FC '000		NOTIONAL VALUE \$'000		FAIR VALUE \$'000	
	30/06/15	30/06/14	30/06/15	30/06/14	30/06/15	30/06/14	30/06/15	30/06/14
<b>Cash flow hedges</b>								
<i><b>Sell Euro</b></i>								
Less than 3 months	0.6847	0.6879	200	200	273	295	(17)	3
3 to 6 months			-	440	-	653	-	6
6 to 9 months			250	200	368	306	1	(36)
9 to 12 months			750	200	1,108	310	-	(66)
<i><b>Sell GB Pounds</b></i>								
Less than 3 months	0.4874	0.5505	1,500	2,000	2,803	3,463	(262)	(180)
3 to 6 months			2,500	3,000	4,762	5,197	(365)	(300)
6 to 9 months			-	1,000	-	1,587	-	(72)
9 to 12 months			-	1,500	-	2,662	-	(141)
<i><b>Buy Euro</b></i>								
Less than 3 months	0.6847	0.6879	200	-	310	-	(19)	-

## Note 44: Financial instruments (continued)

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

OUTSTANDING CONTRACTS	YEAR END EXCHANGE RATE		FOREIGN CURRENCY FC '000		NOTIONAL VALUE \$'000		FAIR VALUE \$'000	
	30/06/15	30/06/14	30/06/15	30/06/14	30/06/15	30/06/14	30/06/15	30/06/14
<b>Option Contracts</b>								
<i>Sell GB Pounds</i>								
Less than 3 months	0.4874	0.5505	1,250	-	2,460	-	(100)	-
3 to 6 months			1,250	-	2,460	-	(125)	-
6 to 9 months			833	-	1,640	-	(95)	-

## (f) Interest rate risk management

The company and the Group are exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

It is the policy of the group to designate the Interest Rate Swap as a hedge against the variability in the cash flow arising from future changes in the interest rate.

The company policy requires fixed interest cover on up to 70% of all outstanding average net debt usage.

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net profit after tax would increase and decrease by \$195,000 (2014: increase/decrease by \$244,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowing which are not covered by the interest rate swap agreements.

**Interest rate swap contracts**

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows at reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

At balance date, the Group and the Company had four (2014 : four) interest rate swap agreements with a notional amount of \$95 million (2014: \$95 million), as follows:

EXPIRY DATE	CURRENCY	AMOUNT	RATE	PAY	RECEIVE
				ROLLOVER FREQUENCY	RATE
26-Nov-15	AUD	\$ 25,000,000	3.00%	Monthly	AUD-BBR-BBSY
03-Sep-15	AUD	\$ 25,000,000	3.40%	Quarterly	AUD-BBR-BBSY
18-Jan-16	AUD	\$ 20,000,000	2.98%	Monthly	AUD-BBR-BBSY
		\$ 70,000,000			
04-Sep-17 (i)	AUD	\$ 25,000,000	2.25%	Monthly	AUD-BBR-BBSY

(i) Commences 4th September 2015.

The swaps in place cover 66% (2014: 60%) of the total borrowings as at 30 June 2015. It is anticipated that the coverage will be above 70% over the next financial year based on expected average debt levels.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

**Cash flow hedges**

	AVERAGE CONTRACTED FIXED INTEREST RATE		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2015 %	2014 %	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Outstanding floating for fixed contracts						
Less than 1 year	3.09	2.87	70,000	25,000	(285)	(21)
1 – 2 years	2.25	3.13	25,000	70,000	(55)	(405)
2 – 5 years	-	-	-	-	-	-

The interest rate swaps settle on a monthly or quarterly basis. The Group will settle the difference between the fixed and floating interest rate on a net basis.

## Note 44: Financial instruments (continued)

### (f) Interest rate risk management (continued)

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

### g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group undertake credit worthiness reviews on all customers and look to obtain debtor insurance for all significant customers. Credit exposure is controlled by counterparty limits that are reviewed and approved.

Trade receivables consist of a large number of customers, spread across several geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The Group does not hold any collateral or other credit enhancements to cover this credit risk.

The table below shows the balance of 5 major counterparties at the end of the reporting period:

COUNTERPARTY	LOCATION	30/06/15	30/06/14
		CARRYING AMOUNT \$000	CARRYING AMOUNT \$000
International supermarkets	United Kingdom	4,536	2,995
Australian supermarkets	Australia	12,504	11,079

Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

- granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
- entering into derivative contracts for example, foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the reporting date will equal the carrying amount;

### (h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 43 (b) is a listing of additional undrawn facilities that the Company/Group has at its disposal to further reduce liquidity risk.

The following table details the Group's and Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The contractual maturity is based on the earliest date on which the Group may be required to pay. The amounts below are based on undiscounted cash flows and include principal and interest:

CONSOLIDATED	WEIGHTED AVERAGE INTEREST RATE	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000
<b>2015</b>						
Non-interest bearing assets	-	9,705	20,176	9,705	-	-
Non-interest bearing liabilities	-	16,960	24,474	828	254	-
Finance Lease liability	8.72	29	669	826	380	-
Floating interest rate liabilities	4.30	122	244	1,097	34,000	-
Fixed interest rate liabilities	5.19	294	687	1,308	71,310	-
Fixed interest rate assets	-	-	-	-	-	-
Financial Guarantees	-	-	1,680	-	-	-
<b>2014</b>						
Non-interest bearing assets	-	10,368	21,181	10,368	-	-
Non-interest bearing liabilities	-	17,454	24,201	966	33	-
Finance Lease liability	8.84	-	630	1,975	1,905	-
Floating interest rate liabilities	5.05	173	345	1,553	41,000	-
Fixed interest rate liabilities	5.49	316	632	2,864	71,558	-
Fixed interest rate assets	-	-	-	-	-	-
Financial Guarantees	-	-	-	1,543	-	-

## Note 44: Financial instruments (continued)

### (h) Liquidity risk management (continued)

The amounts included above for financial guarantee contract are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, the estimate is subject to change depending on the probability if the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The Group has access to financing facilities of which \$13.3 million were unused at the end of the reporting period (2014 : \$10.7 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows / (outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows / (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000
<b>2015</b>					
Net settled:					
Interest rate swaps	-	75	245	20	-
Net settled:					
Forward exchange contracts	67	232	365	72	-
Foreign currency options	30	69	218	162	-
	<b>97</b>	<b>376</b>	<b>828</b>	<b>254</b>	<b>-</b>
<b>2014</b>					
Net settled:					
Interest rate swaps	-	-	21	405	-
Net settled:					
Foreign currency forward	-	83	635	69	-
	<b>-</b>	<b>83</b>	<b>656</b>	<b>474</b>	<b>-</b>

### (i) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts and discounted at a rate that reflects the credit risk of various counterparties and the entity's own credit risk.

Foreign currency option contracts are measured using quoted exchange rates, market implied volatilities and yield curves derived from quoted interest rates matching maturities of the contracts and discounted at a rate that reflects the credit risk of various counterparties and the entity's own credit risk.

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and discounted at a rate that reflects the credit risk of various counterparties and the entity's own credit risk.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

## Note 44: Financial instruments (continued)

### (i) Fair value of financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets designated in cash flow hedges</b>				
Derivative financial assets – 30 June 2015	-	-	-	-
Derivative financial assets – 30 June 2014	-	-	-	-
<b>Financial liabilities designated in cash flow hedges</b>				
Derivative financial liabilities – 30 June 2015	-	1,554	-	1,554
Derivative financial liabilities – 30 June 2014	-	1,213	-	1,213

The above table includes both forward exchange contracts and foreign exchange options.

There were no items relating to Levels 1 and 3 in the year or the prior year. Therefore there were no transfers between levels.

### Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE AS AT 30/6/15 \$ 000	FAIR VALUE AS AT 30/6/14 \$ 000	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
A) Forward exchange contracts	Liabilities \$733	Liabilities \$458	Level 2	(1)	N/A	N/A
B) Foreign currency options	Liabilities \$481	Liabilities \$329	Level 2	(1)	N/A	N/A
C) Interest rate Swaps	Liabilities \$340	Liabilities \$426	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

- (1) Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no items relating to Levels 1 and 3 in the period or the prior period.

### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

## Note 45: Events after the reporting period

In respect of the financial year ended 30 June 2015, no dividend will be paid.

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 46: Parent Entity Disclosures

	CONSOLIDATED	
46.1 Financial Position	2015 \$'000	2014 \$'000
<b>Assets</b>		
Current assets	222,198	231,554
Non-current assets	252,583	244,821
Total assets	474,781	476,375
<b>Liabilities</b>		
Current liabilities	46,246	47,981
Non-current liabilities	192,086	186,866
Total liabilities	238,332	234,847
<b>Net Assets</b>	<b>236,449</b>	<b>241,528</b>
<b>Equity</b>		
Issued Capital	443,266	443,266
Accumulated Losses	(207,272)	(202,374)
<b>Reserves</b>		
Equity settled employee benefits	1,497	1,497
Hedging	(1,028)	(784)
Foreign currency translation	(14)	(77)
Total reserves	455	636
<b>Total equity</b>	<b>236,449</b>	<b>241,528</b>

	CONSOLIDATED	
46.2 Financial Performance	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Profit / (Loss) for the year	212	(650)
Other comprehensive income / (Loss)	(243)	164
Total comprehensive income	(31)	(486)

	CONSOLIDATED	
46.3 Guarantees entered into by parent entity	2015 \$'000	2014 \$'000
Guarantee provided under the deed of cross guarantee (i)	11,307	11,459

(i) The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 40.

46.4 Contingent Liabilities of the parent entity	Nil	Nil
46.5 Capital Commitments of the parent entity		
Plant and Equipment		
Not longer than 1 year	52	-

### Head Office

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### Sydney Office

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### Registered Office

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### Company Secretary

Michael Noack

### Chief Financial Officer

Michael Noack

### Auditor

Deloitte Touche Tohmatsu  
11 Waymouth Street  
Adelaide SA 5000

### Bankers

National Australia Bank  
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### Share Register

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# MCGUIGAN WINES

## ANOTHER OUTSTANDING WINE SHOW PERFORMANCE



### 2015 INTERNATIONAL WINE CHALLENGE – LONDON

6 TROPHIES • 9 GOLD MEDALS • 5 SILVER MEDALS • 18 BRONZE MEDALS

LANGHORNE CREEK SHIRAZ TROPHY

COONAWARRA CABERNET SAUVIGNON TROPHY

EDEN VALLEY RIESLING TROPHY

SOUTH AUSTRALIAN RIESLING TROPHY

AUSTRALIAN RIESLING TROPHY

CHAMPIONS TROPHY

