



AUSTRALIAN VINTAGE LTD

## 2016 ANNUAL REPORT





## TEMPUS TWO



### Tempus Two Pewter Chardonnay

Trophy: Australian Wine of the Year  
China Wine & Spirits Awards 2016

### Tempus Two Pewter Chardonnay

Trophy: Best Chardonnay  
Trophy: Champion White Wine of Show  
Trophy: Champion Wine of Show  
Cairns Wine Show 2016

### Tempus Two Copper Rosé

Trophy: Rosé Wine of Show  
Hunter Valley Wine Show 2016

### Tempus Two Uno Shiraz

Gold Medal  
Drinks Business Syrah Masters 2016

*Style. Substance. Sophistication.*

#tempustwo



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



**PERRY 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 AM**  
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. Chairperson of the Remuneration and Nomination Committee.



Dear Shareholder

I am pleased to report that Australian Vintage continues to grow its branded business with sales of our three key brands, McGuigan, Tempus Two and Nepenthe growing by 20%. In fact, the sales of these quality brands have grown by 97% over the last five years. This is a significant achievement. At the same time the Company's evolution into a sustainable branded wine business has meant a significant decline in our sales of bulk wine and processing for third parties. The current strategy of increasing sales of our three key brands, growing our export business and controlling costs is the right strategy.

In the year ended 30 June 2016, the Company recorded a net loss after tax of \$2.0 million including costs of \$9.2 million associated with the termination of an onerous vineyard lease. Excluding the costs of the vineyard lease termination, the Company recorded a net profit after tax of \$7.2 million compared to \$7.1 million in the prior year.

The year was shaping up to deliver a 16% net profit after tax growth (before the vineyard lease termination costs), but the unexpected outcome of the Brexit vote in the UK impacted our result by \$1.1 million after tax due to the unfavorable movement in the GBP.

During the year the Company made a strategic decision to terminate an onerous long-term lease on a substantial vineyard. Despite the termination costs of \$9.2 million after tax, the future benefits of exiting this lease, including an expected saving of \$5 million per annum in grape costs, far outweigh the termination costs. In addition, we expect further savings to flow from the expiration of a number of onerous third party grape contracts following vintage 2016 which will add approximately \$4.0 to \$5.0 million in grape cost savings.

As part of our growing confidence in the medium to long-term outlook of the Company, the Board has reintroduced a dividend. A fully franked dividend of 1.5 cents per share will be paid to all eligible shareholders on 9 November 2016 and the Company's Dividend Reinvestment Plan will also be in operation.

## Sales and EBIT

Revenue increased by 5% to \$242.7 million due to increased branded sales partially offset by reduced bulk wine sales.

Australasia / North America packaged sales were up 8% on last year with an increase in bottled sales of 17% and a decrease in cask sales of 20%. We expect that the reduction in cask sales is due to severe competition driven by the use of the WET rebate to support unsustainable cask pricing.

UK / Europe packaged sales were up by 13% to \$100.4 million due to increased branded sales. UK / Europe bulk sales were down by \$6.8 million to \$2.1 million due to the Company's focus on building sustainable branded sales.

Whilst the UK continues to be our largest export market, we have a strong focus on growing and strengthening our distribution channels in other overseas markets. Over the last five years sales into Asia have grown by 89% and branded sales into Canada have grown by 128%. We expect this trend to continue.

Earnings before interest and tax (EBIT) and before one off items is \$16.2 million compared to \$16.7 million in the previous period. EBIT contribution from the:

- Australasia / North America packaged segment was down by \$1.0 million due to a \$1.9 million reduction in contribution from Australian cask sales. The cask market is currently being supported by unsustainable low pricing;
- UK / Europe segment decreased by \$1.0 million due to the \$1.5 million negative impact on our result from the dramatic decline in the GBP in the last week of June 2016;
- Vineyard segment was \$1.0 million above last year due to average yields from our owned vineyards. In the previous year the yield from our owned vineyards was below average; and
- Cellar Door and Australasia / North America Bulk and Processing segments were up by \$0.5 million due to the ongoing improved performance of our cellar doors and the increased contribution from our wine concentrating business.



## Financial Position

Cash flow from operating activities improved by \$4.4 million and excluding the one-off lease termination payment of \$4.9 million, operating cash flow increased by \$9.3 million. With the expiry of a number of onerous grape contracts and the termination of the long-term vineyard lease, we expect the Company's operating cash flow to improve in 2017. The gearing ratio (net debt to total equity) is at a comfortable 35% and we have recently extended our existing bank facility for another two years to September 2019.

## Outlook

The Company's strategy to focus on growing our export business, increasing sales of our three key brands and controlling costs, is on track to building a sustainable growing business. The Company will continue to face short-term challenges as it transitions from a bulk wine producer to a quality branded business.

One of the biggest challenges the Company has faced over the last ten years has been the onerous nature of most of its grape contracts. However, with the recent termination of the long-term vineyard lease and the expiry of some onerous third party grower contracts following vintage 2016, there will be significant reductions in future grape costs. The Company is well on the way to replacing a significant portion of the 35,000 tonnes of grapes that were previously contracted through the long-term vineyard lease and onerous grower contracts. We expect to make grape savings of approximately \$9.0 to \$10.0 million per annum. Due to the nature of our business, the improved cash flow will not impact our profit until 2018.

The Company's funding remains secure with the recent extension of our banking facility to September 2019. This, together with the expected improved cash flow from reduced grape payments, is expected to improve the Company's financial position.

Global conditions remain tough and with the recent impact of Brexit on the GBP the Company will continue to face challenges. Since Brexit the GBP has moved unfavourably by 13% which will put pressure on our UK margins. Assuming no price adjustment, for the next 12 months a 1 pence movement in the GBP impacts the Company's Net Profit after tax by approximately \$0.3 million.

The UK market will remain fragile and market conditions are not expected to change in the next 12 months. In 2017 the Company will face ongoing margin pressure in the UK and as a result we are looking at various strategies to minimise the impact of Brexit, but they will take some time to implement.

We remain confident that the Company is well placed to continue to be a major force in the UK. Whilst the UK will be a challenge we continue to grow our business in China and we are close to forming a long-term relationship with a major distributor in the US.

The strategy of increasing branded sales and improving operational efficiencies is critical to our continued success and investment in these areas will be increased.

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 overcome the challenges with innovation, commitment and enthusiasm.

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



**RICHARD DAVIS**  
Chairman



Our three core brands have had continued success again this year

Dear fellow shareholders,

This year was shaping up to deliver some very encouraging financial results for Australian Vintage Ltd (AVL) but the unexpected outcome of the Brexit vote in the UK unfortunately softened our performance. Until late June management was very bullish about the Company's performance but our large exposure to the UK market adversely affected what was going to be a better than forecast result for FY16.

The Brexit issue has reinforced and justified our strategy of increasing our global sales footprint in established and emerging markets. With the increase in human resources and greater sales and marketing commitments we have been able to increase branded sales in Asia / China, Canada and Australia.

Asian growth has been very encouraging with an increase in sales of 89% since 2011. Two years ago we opened an office in South East Asia and now we have five Hong Kong-based employees who service Asia, China and the Pacific. This commitment to Asia has significantly helped our McGuigan branded sales in China and has created an excellent springboard for COFCO. It will take time to materially increase sales in China but we believe we have the right strategic partner in COFCO as they are working very hard to grow the distribution footprint of our McGuigan brand.

Canada has been an excellent market for Australian wine but AVL was one of the last Australian wine companies to enter the country. However, with a dedicated account manager and new distributor, sales of AVL branded products have increased by 128% over the past five years. We continue to be confident that this jurisdiction has continued upside for our brands as well as for our concentrate and bulk wine business.

Australia has also provided great branded sales growth over the past five years but our sales spread still provides opportunities in some supermarket channels and in on-premise. We have added a number of new staff members to bolster our resources to service new sales channels with major supermarkets that have not been serviced before, plus, our on-premise division has widened its scope to include the duty free area. Cellar doors and wine clubs are providing great engagement with our consumers which creates a platform for us to "tell our story" and introduce new and exciting products so that we continue to take the consumers on the wine journey.

Our commitment to the UK market remains very strong and increasing our emphasis on the independent and on-premise areas remain a real focus for the future. At the same time we are working with our retailer and distributor partners to maintain our sales growth whilst trying to recover lost margins caused by the weakening of the GBP.

The UK still remains AVL's major export market with our McGuigan brand now the 20th largest alcohol brand in the UK according to a report commissioned by trade publication "The Grocer" (in conjunction with AC Nielsen). This puts McGuigan ahead of some very well-known brands such as Peroni, Kopparberg, Bailey's and Guinness. Also, McGuigan is the 4th largest global wine brand in the UK and is still growing.

The Company's strategies articulated previously remain, those being:

- 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.

Following last year's excellent growth in our branded business our three core brands have had continued success again this year. Our branded sales have grown by:

**McGuigan ↑ 21%    Nepenthe ↑ 18%    Tempus Two ↑ 5%**

The next few years show robust sales, marketing and advertising campaigns to continue to drive the branded business. This is the correct strategy and we will never waiver from this direction.



Once again we have achieved marvellous accolades this year for our brands. Some highlights are:

### McGuigan Awards

- Decanter World Wine Awards London:**  
 Trophy for the Best Single variety £15 and over for the 2007 Shortlist Semillon (in other words – the number 1 wine across all single varietal wines of the show).  
  
 Trophy for the Best Australian Riesling £15 and over for the 2008 Shortlist Riesling.
- International Wine Challenge, London:**  
 5 Trophies, 5 Gold, 8 Silver, 12 Bronze medals.  
  
 Trophies included "Best Australian White Wine of Show" and "Best Riesling of Show".
- International Wine and Spirit Competition, London:**  
 1 Trophy, 4 Outstanding Gold, 22 Silver, 18 Bronze.  
  
 Including the Trophy for the "Best Semillon of Show". This is the fifth consecutive year McGuigan Wines has won this award.
- International Wine and Spirit Competition, Hong Kong:**  
 Trophies for the "Best New World Riesling" and "Best Riesling Trophy" for the 2008 Shortlist Riesling.

### Tempus Two Awards

- Cairns Wine Show 2016:**  
 Trophy for the "Best Chardonnay of Show" and "Champion White Wine of Show" and "Champion Wine of Show" for the 2015 Poppy's Block Pewter Chardonnay.
- International Wine and Spirit Competition Hong Kong:**  
 Trophy for "Best Australian Wine" and "Best Australian Semillon" for the 2003 Copper Zenith Semillon.

### Nepenthe Awards

- Royal Queensland Wine Show:**  
 Gold and "Best of Class" for the 2015 Altitude Cabernet Sauvignon.
- James Halliday Australian Wine Companion 2017:**  
 10 wines awarded 90+ points.
- Cairns Wine Show 2015:**  
 Best Pinot Noir in Show.

We still continue to engage with our consumers at all levels and we remain committed to encourage visits 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 Wines

This year has seen a significant focus on building the brand awareness of McGuigan Wines with the consumer. To that end, an above-the-line campaign 'Bring a McGuigan' was developed and rolled out as a trial in Australia, the United Kingdom, Ireland and New Zealand. The campaign was extremely well received, and certainly resonated with our core McGuigan consumer, in addition to engaging new and younger wine drinkers who did not necessarily have McGuigan Wines in their consumption repertoire. As a result of the trial campaign, McGuigan brand awareness increased from 36% to 43% in Australia, and 24% to 28% in the United Kingdom.

Based on the success of the campaign, in terms of moving key brand health metrics, and in engaging with consumers in a meaningful manner, the 'Bring a McGuigan' campaign was launched nationally in Australia in May 2016 and will run on free-to-air and pay television through to September 2016. Similarly, the campaign will be on-air in the United Kingdom – again on free-to-air and pay television – throughout September and October 2016.

### Tempus Two

Tempus Two has continued to build its positioning of elegance, sophistication and style through high profile brand partnerships and sponsorships, namely Mercedes Benz Fashion Week and Mercedes Benz Fashion Festival; Portsea Polo and the Victorian Polo Season; and a new brand partnership with internationally renowned design label Beck & Bridge. It's an exciting time for Tempus Two as we look to build on our success in Australia and take the brand to the global stage with new distribution agreements in the United States and China recently initiated.

### Nepenthe Wines

Nepenthe Wines continued its association with gourmet produce and the 'foodie' movement through a headline sponsorship of two of Australia's largest and most prestigious food and wine events, Taste Melbourne and Taste Sydney; whilst tie ups with Gourmet Traveller magazine and the Good Food Restaurant Card further reinforced the credentials of the brand.

Finally, your management team remains very confident that our strategies will deliver the business to an appropriate level of return in the future. However, we must remain patient and continue to drive the branded sales and at the same time control costs, innovate and develop new opportunities.

Rest assured we are committed to delivering on our plans and we remain optimistic about the long-term future of our company.



**NEIL MCGUIGAN**  
Chief Executive Officer

Quality,  
consistency and  
value – along  
with ongoing  
and sustained  
international  
awards – have  
resulted in our  
brands enjoying  
excellent growth  
globally

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.

McGuigan Wines reinforced its award-winning pedigree, excelling at four prestigious international wine competitions in the past year. At the Decanter World Wine Awards in London, the 2007 McGuigan Shortlist Semillon was awarded the Best Single Variety £15+ Trophy. In other words, the No. 1 wine – across all single varietal white, red and sparkling wines £15+ – of the show. In addition, the 2008 McGuigan Shortlist Riesling was awarded the Best Australian Riesling £15+ Trophy.

At the International Wine Challenge, again in London, the 2010 McGuigan Shortlist Riesling was awarded no less than five trophies including the Australian Riesling Trophy for the best Australian Riesling, the International Dry Riesling Trophy for the best Riesling world-wide, and the big one, the Australian White Wine Trophy for the best Australian white wine of show. Further Gold medals were awarded to the 2008 and 2009 vintages of Shortlist Riesling, in addition to the Shortlist Semillon 2007 and Vineyard Select Semillon 2006.

McGuigan Wines was further recognised as a world-class wine producer with the 2006 Bin 9000 Semillon taking out the Semillon Trophy at the 2015 International Wine & Spirit Competition. This was the fifth year in a row McGuigan Wines was awarded the Semillon Trophy at the IWSC – strengthening our position as one of the world's best Semillon producers. In addition to the Semillon Trophy, McGuigan Wines also received four Gold Outstanding awards, including the 2004 McGuigan Shortlist Riesling, and the 2003, 2004 and 2006 Bin 9000 Semillon.

Completing a fantastic year for the brand, McGuigan Wines received strong recognition for its Eden Valley Riesling, taking out the Best New World Riesling and the Best Riesling Trophy for the 2008 The Shortlist Riesling at the 2015 Cathay Pacific Hong Kong International Wine & Spirit Competition.

Tempus Two continued to enjoy stand out success on the domestic and international show circuits, with the 2015 Tempus Two Pewter 'Poppy's Block' Chardonnay taking out Champion White Wine of Show and Champion Wine of Show at the Cairns Wine Show. In addition, Tempus Two was awarded two top honours at the 2015 Cathay Pacific Hong Kong International Wine & Spirit Competition, winning the trophy for Best Australian Wine and Best Semillon Trophy for the 2003 Tempus Two Copper Zenith Semillon. The win marked the third year in a row Tempus Two has won the Best Semillon Trophy at the HKIWSC – demonstrating the regional and winemaking strength of the brand. Tempus Two Copper Zenith Semillon 2009 and Tempus Two Pewter Botrytis Semillon 2013 were also awarded Gold at the show. Not to be outdone Nepenthe continued to shine, with standout reviews in the 2017 James Halliday Wine Companion where no less than 10 wines were awarded 90+ points.

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

## Wine brands

### McGuigan Wines

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

More recently, at the 2016 International Wine Challenge in London, McGuigan Wines again led the way receiving five trophies and five gold medals, including the Best Australian White Wine trophy for the McGuigan The Shortlist Riesling 2010.

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

### Tempus Two

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

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

### Nepenthe

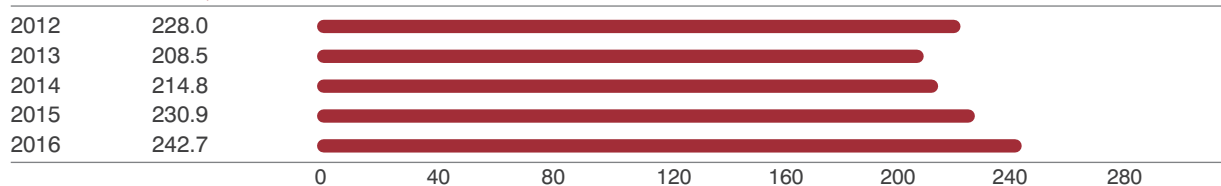
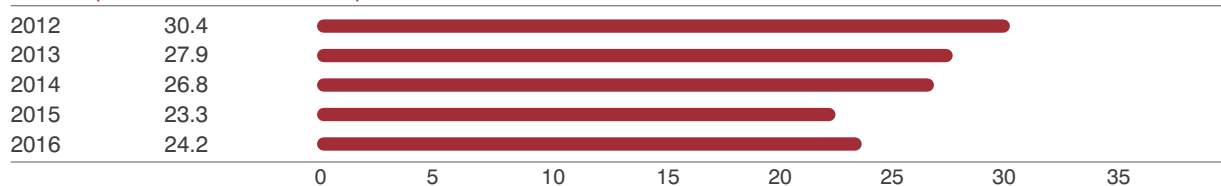
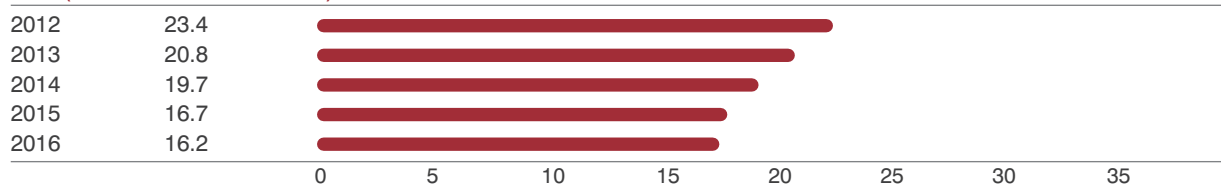
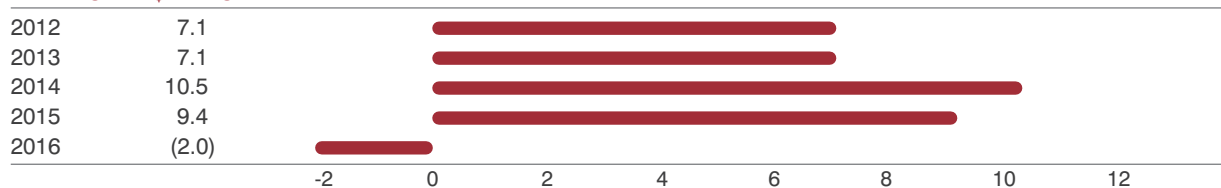
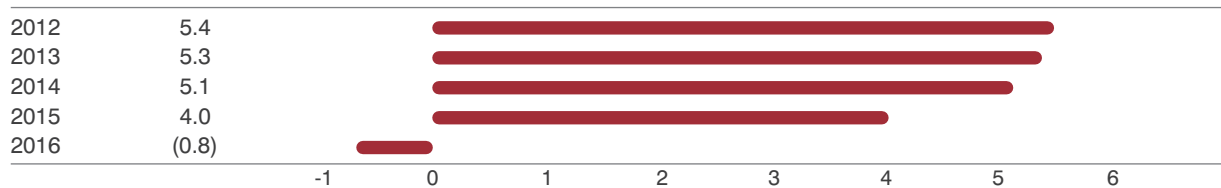
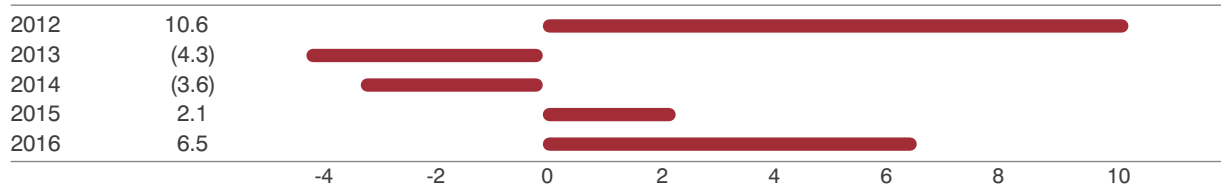
Nepenthe is situated in the cool climate, high altitude and picturesque Adelaide Hills region in South Australia. Our hand-crafted, premium and award-winning cult wines are built on the strength of varietal faithfulness and subtle regional nuances. Passionate winemaking, innovative grape varieties and 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.

### 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.



PASSION POP

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

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

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 and Management**

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

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) in the "Investors" section under "Corporate Governance".

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

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

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

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

The Company has written agreements in place with each Director and all 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. The details of the Policy are available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

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

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

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

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

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

The objectives for diversity for FY16, along with outcomes achieved are as follows:

| Workplace Diversity Objectives FY16   | Workplace Diversity Outcomes FY16   |
|---|---|
| <b>Strategy</b> <ul style="list-style-type: none"> <li>• Continue to drive and bring to life the gender objectives and strategies outlined in the Company's Diversity Policy.</li> <li>• Communicate the Company's diversity agenda to the business and actively promote its benefits.</li> </ul> | <ul style="list-style-type: none"> <li>• The Company has published its Diversity policy; and along with other key employee communications supports and advocates for diversity and other workplace initiatives throughout the year.</li> </ul>  |
| <b>Stakeholder Management</b> <ul style="list-style-type: none"> <li>• Actively promote the Company's diversity agenda in day-to-day activities with management to achieve buy in and to integrate into the Company's culture.</li> </ul>   | <ul style="list-style-type: none"> <li>• Improved workplace flexibility with increased job share and part-time arrangements.</li> </ul>   |
| <b>Gender Composition</b> <ul style="list-style-type: none"> <li>• Maintain female representation of 20% on the Board.</li> <li>• Maintain female representation in management roles in line with national benchmarks.</li> </ul>   | <ul style="list-style-type: none"> <li>• Naseema Sparks continues in her role as a non-Executive Director on the Board, with female representation maintained at 20%.</li> <li>• The senior management team size increased overall by one member during the period; with a simultaneous change in the mix increasing female representation from one to two members. Despite the increased female member representation, representation did decline from 12.5% to 11.11%.</li> </ul> |



|   |   |
|---|---|
| <b>Talent Pipeline</b> <ul style="list-style-type: none"> <li>• Ensure that the Company's recruitment and selection procedure reflects candidate and interview panel diversity along with equal gender candidate split where possible.</li> <li>• Analyse talent matrix to identify female talent for mentoring/succession planning.</li> </ul> | <ul style="list-style-type: none"> <li>• The Company's recruitment and selection processes resulted in 48% of all permanent appointments within FY16 being female.</li> <li>• The Company's succession planning was undertaken at senior management level in FY16, with 20% of potential successors identified being female. The Company is targeting an equitable ratio for succession by FY20.</li> </ul> |
| <b>Benefits</b> <ul style="list-style-type: none"> <li>• Promote the Company's parental leave procedures and flexible work arrangements policy to retain talent.</li> </ul>   | <ul style="list-style-type: none"> <li>• 10 Employees enjoyed the benefits of either Parental Leave or Paternity Leave during FY16, with: <ul style="list-style-type: none"> <li>– 8 females accessing a period of Parental Leave (with an 87.5% return to work rate in either full or part-time capacity);</li> <li>– 2 males accessing their Paternity Leave provisions.</li> </ul> </li> </ul>           |

The above objectives remain in place for FY17 and the Company commits to continuing progress with respect to workplace diversity.

The following tables show the proportional representation of men and women at various levels within the Company's workforce as at 30 June 2016.

#### Workforce Gender Profile

| ALL STAFF                           |     | TOTAL FEMALES | TOTAL MALES | % OF FEMALES | % OF MALES |
|-------------------------------------|-----|---------------|-------------|--------------|------------|
| Total Employees                     | 425 | 147           | 278         | 34.59%       | 65.41%     |
| 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) | 165 | 79            | 86          | 47.88%       | 52.12%     |
| Other (Production)                  | 260 | 68            | 192         | 26.15%       | 73.85%     |

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

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

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

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

All of these reviews have been conducted in relation to FY16 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. 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<br>MANAGEMENT | INDUSTRY | ACCOUNTING /<br>FINANCE | MARKETING /<br>DIGITAL | INTERNATIONAL<br>BUSINESS |
|----------------|------------------------|----------|-------------------------|------------------------|---------------------------|
| Richard Davis  | x                      |          | x                       |                        | x                         |
| Perry Gunner   | x                      | x        |                         | x                      | x                         |
| Naseema Sparks | 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 |

\* Whilst Perry Gunner has been a Director of Australian Vintage Limited for more than 10 years, the other Directors have determined on balance that his independence remains uncompromised.

The terms of office held by each Director are detailed in the Directors' 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 judgment 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 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. This code is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

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

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) in the "Investors" section under "Corporate Governance".

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

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

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

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

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

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

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

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

The Audit Committee generally invites the Chief Financial Officer and (on 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) in the "Investors" section under "Corporate Governance".

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

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

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

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

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

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

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

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

This policy establishes procedures to ensure that the Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. When the Company makes an announcement the announcement is released to the ASX and the Company Secretary is responsible for communications with the ASX. All material information released to the ASX is published on the Company's website at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Investors Dashboard". 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. These include:

- the division of responsibilities between the Board and management as 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) in the "Investors" section under "Corporate Governance".

**Recommendation 6.2 - Investor Relations**

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

**Recommendation 6.3 - Shareholder Meetings**

The Company allows Shareholders who are unable to attend the Annual General Meeting the opportunity to ask questions of, or make comments on, the management of the Company ahead of that meeting. Where appropriate such questions are answered at the Annual General Meeting.

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

**Recommendation 6.4 - Electronic Communications**

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

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

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

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 at [www.australianvintage.com.au](http://www.australianvintage.com.au) in the "Investors" section under "Corporate Governance".

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

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

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

The Board, committees and management ensure that appropriate insurance programs 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 judgments on these issues. In addition, the committees receive risk management updates which address the material business risks facing the Company and the systems and policies in place to manage those risks.

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

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

These reviews have commenced in relation to FY16 in accordance with the relevant processes.

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

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

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

The Board has instigated the following internal control framework:

- **Financial reporting** – Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.
- **Continuous disclosure** – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the ASX and post them on the Company's website. The Board 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 programs.

Separate records and registers are maintained for other more common or recurring risks; for example, arising from customer complaints or 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 is detailed in the Directors' Report enclosed in this Annual Report.

The procedure for establishing and reviewing remuneration for senior executives and Non-Executive members of the Board is undertaken by the Remuneration and Nomination Committee. The shareholders at a general meeting approve the aggregate remuneration for Non-Executive Directors.

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

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

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

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

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

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

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

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

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

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

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 9th September 2016.

## 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        | 1,649                  |
| 1,001 – 5,000    | 2,380                  |
| 5,001 – 10,000   | 695                    |
| 10,001 – 100,000 | 1,002                  |
| 100,001 +        | 159                    |
|                  | <b>5,885</b>           |

The percentage of the total holding of the twenty largest holders of Ordinary Shares was 64.05%.

## 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 SHAREHOLDER NOTICE) |
|---------------------------------------|--|
| Allan Gray Investment Management      | 45,059,587   |
| Renaissance Smaller Companies Pty Ltd | 13,839,095   |
| Brandes                               | 11,624,939   |

## Twenty largest shareholders

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

| SHARES HELD   | NUMBER OF<br>ORDINARY<br>SHARES HELD | % OF LISTED<br>SHARES |
|---|--------------------------------------|-----------------------|
| 1. CITICORP NOMINEES PTY LIMITED                                    | 35,917,151                           | 15.46                 |
| 2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                        | 32,787,364                           | 14.12                 |
| 3. J P MORGAN NOMINEES AUSTRALIA LIMITED                            | 25,910,744                           | 11.16                 |
| 4. NATIONAL NOMINEES LIMITED  | 13,090,241                           | 5.64                  |
| 5. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (MBA A/C)   | 10,723,193                           | 4.62                  |
| 6. SANDHURST TRUSTEES LTD (WENTWORTH WILLIAMSON A/C)                | 4,929,256                            | 2.12                  |
| 7. SECVEST CAPITAL PTY LIMITED                                      | 4,202,996                            | 1.81                  |
| 8. GARRETT SMYTHE LTD   | 3,221,394                            | 1.39                  |
| 9. ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD (CUSTODIAN A/C)        | 2,536,362                            | 1.09                  |
| 10. MR ZHIWEI LIN   | 2,258,687                            | 0.97                  |
| 11. RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PISELECT) | 1,705,740                            | 0.73                  |
| 12. HENLEAZE INVESTMENTS PTY LTD                                    | 1,500,000                            | 0.65                  |
| 13. 127 VICTORIA PTY LTD  | 1,450,000                            | 0.62                  |
| 14. MR GRAHAM JOHN HARVEY   | 1,400,000                            | 0.60                  |
| 15. BNP PARIBAS NOMS (NZ) LTD (DRP)                                 | 1,372,927                            | 0.59                  |
| 16. MR BRIAN FREDERICK DITCHFIELD                                   | 1,330,020                            | 0.57                  |
| 17. WAUCHOPE & KILGOUR PTY LTD                                      | 1,200,000                            | 0.52                  |
| 18. SUNRISE VINEYARDS PTY LTD (MOULARADELLIS S/F A/C)               | 1,110,000                            | 0.48                  |
| 19. MS LIANG CHEN   | 1,100,000                            | 0.47                  |
| 20. MRS LILIAN JEANETTE WARMBRAND                                   | 1,010,000                            | 0.43                  |
| <b>Totals: Top 20 holders of Fully Paid Ordinary Shares</b>         | <b>148,756,075</b>                   | <b>64.05</b>          |
| <b>Total Remaining Holders Balance</b>                              | <b>83,506,307</b>                    |                       |

## Directors' report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2016. 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 60**

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

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

**Neil A McGuigan B. App. Sc (OENO), Age 58**

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

**Perry R Gunner B. Ag. Sc, Grad. Dip, Bus. Admin, Age 69**

**(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 63**

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

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

**Naseema Sparks AM, Age 63**

**(Non-Executive) Director since 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. In 2016 was awarded a Member of the Order of Australia in recognition to significant service to business and commerce and to women through advancing female participation and retention in the workforce. Chairperson of the Remuneration Committee.

## Directorships of other listed companies

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

| NAME           | COMPANY                        | PERIOD OF DIRECTORSHIP |
|----------------|--------------------------------|------------------------|
| Richard Davis  | InvoCare Limited               | Since 2012             |
|                | Monash IVF Group Limited       | Since 2014             |
| Perry Gunner   | Freedom Foods Group Limited    | Since 2003             |
|                | Viterra Inc (Canada)           | 2004 to 2013           |
|                | A2 Corporation Ltd (N.Z.)      | 2010 to 2015           |
| 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 2016, a fully franked dividend of 1.50 cents per share will be paid on the 9th November 2016.

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

## Review of operations and future developments

### Key Points

- Net Profit after tax and before one off items \$7.2 million compared to \$7.1 million in the prior year
- Net loss of \$2.0 million after vineyard lease termination payment
- Revenue up \$11.8 million to \$242.7 million, reflecting higher branded sales partially offset by lower bulk sales

## Review of operations and future developments (continued)

- Sales of McGuigan, Tempus Two and Nepenthe up 20%
- 1.5 cent per share fully final franked dividend declared
- Cash flow from operating activities prior to vineyard lease termination payment up \$9.3 million to \$11.4 million
- Net Debt of \$101.4 million compared to \$103.6 million as at 30 June 2015 and existing banking facility extended to September 2019 (from September 2017)

The Company continues to transition the business from a bulk wine producer to a quality branded bottled wine business. Over the last five years sales of our three key brands, McGuigan, Tempus Two and Nepenthe have almost doubled. At the same time the contribution from our bulk and processing business in Australia and overseas declined by \$14 million due to market conditions.

Whilst the UK continues to be our main overseas market, we have a strong focus on growing and strengthening our distribution channels in other overseas markets. Over the last five years branded sales into Asia have grown by 89% and sales into Canada have grown by 128%. We expect this trend to continue.

Cash flow from operating activities increased by \$4.4 million and if you exclude the one off lease termination payment of \$4.9 million, operating cash flow increased by \$9.3 million. With the expiry of a number of onerous contracts and the termination of a vineyard lease, we expect this cash flow to further improve in 2017.

The year was shaping up to deliver a 16% net profit (before one off items) growth but the unexpected outcome of the Brexit vote in the UK unfortunately impacted our result by \$1.1 million after tax. This has not changed our commitment to the UK and we are working with our retailer and distributor partners to recover lost margins caused by the weakening GBP.

### Sales

Revenue for the year increased by 5% due to increased branded sales. Partially offsetting the increased branded sales was reduced sales of low margin bulk.

Australasia / North America packaged sales were up 8% on last year with an increase in bottled sales of 18% and a decrease of 20% in our cask sales.

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

| DIVISION      | INCREASE IN SALES |
|---------------|-------------------|
| Australia     | 4%                |
| New Zealand   | 15%               |
| Asia          | 22%               |
| North America | 23%               |

Over the last five years branded sales into Asia have grown by 89% and over the same period sales into North America have grown by 128%.

UK / Europe packaged and bulk sales were up 5% on last year with packaged sales up 13% and bulk sales down by 77%. Sales of bulk wine declined by \$6.8 million to \$2.1 million.

The contribution from this segment was down by \$1.0 million due to the impact of the Brexit decision and the resulting decline in the GBP. Prior to the \$1.5 million adjustment for the lower GBP this segment was on track to record a \$0.5 million increase in contribution.

Revenue from the vineyard segment declined by \$1.1 million as a result of the strategy to reduce our vineyard management activities.

| SALES BY SEGMENT                              | 12 MONTHS TO     |                  | CHANGE        |          |
|---|------------------|------------------|---------------|----------|
|   | 30/6/16<br>\$000 | 30/6/15<br>\$000 | \$000         | %        |
| Australasia / North America Packaged          | 106,672          | 99,026           | 7,646         | 8        |
| UK / Europe                                   | 102,506          | 98,000           | 4,506         | 5        |
| Cellar Door                                   | 8,185            | 7,860            | 325           | 4        |
| Australasia / North America bulk & processing | 22,222           | 21,804           | 418           | 2        |
| Vineyards                                     | 3,101            | 4,206            | (1,105)       | (26)     |
|   | <b>242,686</b>   | <b>230,896</b>   | <b>11,790</b> | <b>5</b> |



## Review of operations and future developments (continued)

### EBIT and Net Profit (before one off items and unrealised FX loss)

EBIT before one off items and the Brexit impact is \$17.8 million compared to \$16.7 million in the previous period. The contribution from the Australasia / North America packaged segment was down by \$1.0 million due to a \$1.9 million reduction in contribution from Australian Cask sales. The cask market is currently being supported by an unsustainable low price which in part is being supported through the use of the WET rebate.

The UK / Europe segment was on track to record an improved contribution of \$0.5 million with sales of the McGuigan brand growing by 20%. However, the dramatic decline in the GBP as a result of the Brexit vote meant that an unrealised FX loss of \$1.5 million was booked at 30 June.

The improved contribution from the vineyard segment was due to an increased SGARA, the result of an average yield from our owned vineyards. In the previous year the yield from our owned vineyards was below average.

| RESULTS   | 12 MONTHS TO     |                  | CHANGE          |              |
|---|------------------|------------------|-----------------|--------------|
|   | 30/6/16<br>\$000 | 30/6/15<br>\$000 | \$000           | %            |
| Australasia / North America Packaged                            | 6,208            | 7,194            | (986)           | (14)         |
| UK / Europe   | 4,965            | 4,457            | 508             | 11           |
| Cellar Door   | 1,568            | 1,430            | 138             | 10           |
| Australasia / North America bulk and processing                 | 447              | 116              | 331             | 285          |
| Vineyards   | 4,569            | 3,512            | 1,057           | 30           |
| Total   | 17,757           | 16,709           | 1,048           | 6            |
| Net Finance costs   | (5,775)          | (6,352)          | 577             | 9            |
| Profit Before tax   | 11,982           | 10,357           | 1,625           | 16           |
| Tax   | (3,687)          | (3,225)          | (462)           | (14)         |
| <b>Net Profit (before one off items and unrealised FX loss)</b> | <b>8,295</b>     | <b>7,132</b>     | <b>1,163</b>    | <b>16</b>    |
| Unrealised FX loss due to Brexit impact on FX                   | (1,519)          | -                | -               | -            |
| Tax   | 456              | -                | -               | -            |
| <b>Net Profit (before one off items)</b>                        | <b>7,232</b>     | <b>7,132</b>     | <b>100</b>      | <b>1</b>     |
| Adjustment to provision for onerous contracts                   | -                | 924              | (924)           | -            |
| Profit on Sale of Yaldara                                       | -                | 6,351            | (6,351)         | -            |
| Overseas Customer Incentives plus Stock NRV                     | -                | (5,559)          | 5,559           | -            |
| Vineyard lease exit   | (13,148)         | (1,005)          | (12,143)        | -            |
| Total one off adjustments (before tax)                          | (13,148)         | 711              | (13,859)        | -            |
| Tax   | 3,944            | 1,523            | 2,421           | -            |
| <b>Total one off items (after tax)</b>                          | <b>(9,204)</b>   | <b>2,234</b>     | <b>(11,438)</b> | <b>-</b>     |
| <b>Total Net Profit (after one off adjustments)</b>             | <b>(1,972)</b>   | <b>9,366</b>     | <b>(11,338)</b> | <b>(121)</b> |
| <b>EBIT before one off items and unrealised FX</b>              | <b>17,757</b>    | <b>16,709</b>    | <b>1,048</b>    | <b>6</b>     |
| <b>EBIT after one off items</b>                                 | <b>3,090</b>     | <b>17,420</b>    | <b>(14,330)</b> | <b>(82)</b>  |

## Review of operations and future developments (continued)

### Financial Position

The gearing ratio is at a comfortable 35% (35% as at 30 June 2015) and the banking facility has recently been extended out to September 2019 (from September 2017).

The cash flow from operating activities has increased by \$4.4 million even allowing for the one off payment for the lease termination.

### Outlook

Australian Vintage continues to transition the business from a bulk wine producer to a quality branded business.

Our strategy to focus on growing our export business, increase sales of our three key brands and controlling costs is the right strategy to build a sustainable growing business. We will continue to have short term challenges but we remain confident that the company will continue to grow in the medium to long term.

One of the biggest challenges we have faced over the last ten years has been the onerous nature of most of our grape contracts. However, with the recent termination of the Del Rios vineyard lease and the expiry of some onerous third party grower contracts, we are expecting a significant reduction in our future grape costs. We are well on the way to replacing a significant portion of the 35,000 tonnes that expired due to the lease termination and expiry of grower contracts. We expect to make grape savings of around \$9 million to \$10 million per annum. Due to the nature of our business, the improved cash flow will not impact our profit until 2018.

Our bank funding remains secure with the recent extension of our banking facility to September 2019. This together with our expected improved cash flow from reduced grape payments will improve our financial stability.

Global conditions remain tough and with the recent impact of Brexit on the GBP we continue to face challenges. Since Brexit the GBP has moved unfavourably by 17% which will put pressure on our UK margins. Assuming no price adjustment, for the next 12 months a 1pence movement in the GBP impacts our Net Profit after Tax by approximately \$0.3 million.

The UK market will remain fragile and will impact global markets and we do not expect any change in conditions in the next 12 months. In 2017 we will face ongoing margin pressure in the UK and as a result we are looking at various strategies to minimize the impact of the Brexit, but they will take some time to implement.

We remain confident that AVL is well placed to continue to be a major force in the UK. Whilst the UK will be a challenge we continue to grow our business in China and we are close to finalising a distribution agreement with a major distributor in the US.

A further market update will be provided at our Annual General meeting in November 2016.

As part of our growing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to reintroduce the Dividend. A fully franked dividend of 1.5c per share will be paid to all shareholders on 9 November 2016. The Record Date to establish shareholder dividend entitlements is 21 October 2016. The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 9 November 2016. Shares issued under the DRP will be at a 2.5% discount to the weighted average market price of all Company shares sold on the ASX during the 5 business days after the Record Date.

## 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 Risk Committee Meeting and 2 Remuneration Committee meetings.

| DIRECTORS'                 | BOARD<br>MEETINGS<br>ATTENDED | AUDIT<br>COMMITTEE<br>ATTENDED | RISK<br>COMMITTEE<br>ATTENDED | REMUNERATION<br>COMMITTEE<br>ATTENDED |
|----------------------------|-------------------------------|--------------------------------|-------------------------------|---------------------------------------|
| Richard Davis              | 12                            | 2                              | 1                             | 2                                     |
| Neil McGuigan              | 12                            | N/A                            | N/A                           | N/A                                   |
| Perry Gunner               | 10                            | N/A                            | 1                             | 1                                     |
| John Davies                | 12                            | 2                              | 1                             | N/A                                   |
| Naseema Sparks             | 12                            | 2                              | N/A                           | 2                                     |
| <b>Total Meetings Held</b> | <b>12</b>                     | <b>2</b>                       | <b>1</b>                      | <b>2</b>                              |

## Directors' shareholdings

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

|                | FULLY PAID ORDINARY SHARES | EXECUTIVE PERFORMANCE RIGHTS AND OPTIONS |
|----------------|----------------------------|--|
| Richard Davis  | 110,000                    | -  |
| Neil McGuigan  | 915,000                    | 2,652,260                                |
| Perry Gunner   | 879,986                    | -  |
| John Davies    | 300,000                    | -  |
| Naseema Sparks | -                          | -  |

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

| ISSUING ENTITY         | NUMBER OF<br>SHARES UNDER<br>OPTION / RIGHT | CLASS OF<br>SHARES | EXERCISE PRICE OF<br>OPTION / RIGHT | EXPIRY DATE OF<br>OPTION / RIGHT |
|------------------------|---|--------------------|-------------------------------------|----------------------------------|
| Australian Vintage Ltd | 1,383,400                                   | Ordinary           | Right *                             | 15 September 2016                |
| Australian Vintage Ltd | 1,156,514                                   | Ordinary           | Right *                             | 22 August 2017                   |
| Australian Vintage Ltd | 4,000,000                                   | Ordinary           | \$0.376                             | 1 November 2020                  |
|                        | 6,539,914                                   |                    |                                     |                                  |

\* 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 (KMP) are defined as an individual who is responsible for strategic planning, management and performance of a division or function and reports directly to the Chief Executive Officer.

| NAME                           | POSITION  | DATES      |
|--------------------------------|---|------------|
| <b>Non-executive Directors</b> |   |            |
| Richard Davis                  | Chairman  | Full Year  |
| Perry Gunner                   | Non-executive Director  | Full Year  |
| John Davies                    | Non-executive Director  | Full Year  |
| Naseema Sparks                 | Non-executive Director  | Full Year  |
| <b>Executives</b>              |   |            |
| Neil McGuigan                  | Chief Executive Officer   | Full Year  |
| Mike Noack                     | Company Secretary & Chief Financial Officer                     | Full Year  |
| Cameron Ferguson               | General Manager, Sales & Marketing, Australasia / North America | Full Year  |
| Julian Dyer                    | General Manager, UK / Europe                                    | Full Year  |
| Flora Sarris                   | General Counsel   | Full Year* |

\* Resigned 17th August 2016.

### Remuneration Committee and Director Compensation

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

## Remuneration Report (continued)

The Remuneration Committee reviews the fee levels for Non-Executive Directors from time to time utilising appropriate remuneration benchmark data from comparable Australian ASX listed companies of similar size as a guide to independent market levels of remuneration such positions attract. A review of fees was undertaken within the year ended 30th June 2016, with information received that Non-executive Director compensation is aligned with the market.

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

### Remuneration Components

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

### Remuneration Committee and Executive Compensation

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

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

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

### Remuneration Objectives & Principles

In the 2015/16 review process, the Board revised its remuneration objectives and principles with respect to both the Chief Executive Officer and Executive compensation as follows:

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

In alignment with those remuneration objectives and principles, AVL is shifting its approach to remuneration with respect to the positions of the Chief Executive Officer and other Executives. The goal is to move to a Total Reward Framework over coming years, with AVL taking a balanced approach to its Fixed and Variable pay mix on offer to its Executives.

The below reflects the above and represents a target pay mix for the Chief Executive Officer and other Executives and was first adopted in the year ended 30th June 2016 and is being progressively implemented in conjunction with remuneration reviews over the coming three to four years.

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

## Remuneration Report (continued)

The use of a service hurdle within the Long-Term incentive arrangements reflects the need to focus on both retention of critical key management personnel, who are in positions to influence shareholder return via the delivery of the five-year strategy; as well as incentivise those individuals on performance outcomes.

### Remuneration Components

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

#### 1. Base Compensation

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

#### 2. Short Term Incentives

Short term incentive (STI) payments take into account the extent to which specific financial and operating targets are 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. Non-financial measures may include items such as corporate risk control and work health and safety outcomes, as well as related organisational behaviours that may impact culture.

However, the primary measure is the performance against profit targets, with Company Performance set at a minimum of 90% achievement of financial year budget and acting as a first gate to determine the incentive opportunity to be made available for assessment. The Remuneration Committee may, from time to time, elect to make exceptions to this principle in the event of extraordinary circumstances and in the circumstances where an incentive payment may support retention of critical talent.

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

Objectives and performance indicators are determined annually as follows:

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

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

The table below shows the maximum STI payments for 2016, the breakdown between financial and operational key performance indicator targets and the actual percentage of the maximum STI achieved:

|                  | 2016<br>MINIMUM<br>BONUS \$ | 2016<br>MAXIMUM<br>BONUS \$ | KEY PERFORMANCE TARGETS |           | 2016<br>% OF MAXIMUM<br>GRANTED |
|------------------|-----------------------------|-----------------------------|-------------------------|-----------|---------------------------------|
|                  |                             |                             | FINANCIAL               | OPERATING |                                 |
| Neil McGuigan    | 0                           | 300,000                     | 60%                     | 40%       | 82.8%                           |
| Michael Noack    | 0                           | 129,193                     | 40%                     | 60%       | 87.4%                           |
| Cameron Ferguson | 0                           | 108,533                     | 30%                     | 70%       | 87.4%                           |
| Julian Dyer      | 0                           | 100,384                     | 35%                     | 65%       | 85.1%                           |
| Flora Sarris     | 0                           | 86,976                      | 0%                      | 100%      | 87.4%                           |

## Remuneration Report (continued)

### 3. Long Term Incentives

#### Performance Rights and Options Plans:

Established in August 2012, this long term incentive is provided as a right to an issue of shares. This right or option is subject to the achievement of set growth rates in earnings per share until the vesting date and the satisfaction of continuous employment criteria. The plan is available to senior management as approved by the Board. Rights and options can be exercised if following criteria are met:

#### Rights issued August 2012:

- For all rights, continuous employment must be maintained up until the exercise date.
- 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.

#### Rights issued July 2013:

- For all rights, continuous employment must be maintained up until the exercise date.
- 25% of Performance Rights will vest if the EPS for the four years 2014 to 2017 inclusive achieves a continuous annual growth rate (CAGR) 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 CAGR 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 CAGR 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.

#### Options issued November and December 2015:

- 20% of options will vest if continuous employment is maintained up to 1st July 2019.
- 40% of the options will vest if Australian Vintage's EPS achieves a CAGR of at least 15% for the three financial years 2016 to 2018 inclusive. If the EPS CAGR is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting is interpolated on a straight line between 7.5% and 15%.
- 40% of the options will vest if the Total Shareholder Return (TSR) achieves a CAGR of at least 15% over the period 1 July to 30 June 2018. If TSR is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting is interpolated on a straight line between 10% and 15%.

### 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 3,250,000 (2015 : Nil) share options granted to key management personnel as part of their remuneration. No shares were issued during or since the end of the financial year as a result of the exercise of performance rights or options under the above Plans.



## Remuneration Report (continued)

### Relative proportions of fixed vs variable remuneration expense

|                                | FIXED REMUNERATION |      | AT RISK - STI |      | AT RISK - LTI |      |
|--------------------------------|--------------------|------|---------------|------|---------------|------|
|                                | 2016               | 2015 | 2016          | 2015 | 2016          | 2015 |
| <b>Non-executive Directors</b> |                    |      |               |      |               |      |
| Richard Davis                  | 100%               | 100% | 0%            | 0%   | 0%            | 0%   |
| Perry Gunner                   | 100%               | 100% | 0%            | 0%   | 0%            | 0%   |
| John Davies                    | 100%               | 100% | 0%            | 0%   | 0%            | 0%   |
| Naseema Sparks                 | 100%               | 100% | 0%            | 0%   | 0%            | 0%   |
| <b>Executives</b>              |                    |      |               |      |               |      |
| Neil McGuigan                  | 72%                | 73%  | 25%           | 27%  | 3%            | 0%   |
| Michael Noack                  | 81%                | 82%  | 18%           | 18%  | 1%            | 0%   |
| Cameron Ferguson               | 79%                | 80%  | 20%           | 20%  | 1%            | 0%   |
| Julian Dyer                    | 82%                | 85%  | 17%           | 15%  | 1%            | 0%   |
| Flora Sarris                   | 77%                | 80%  | 23%           | 20%  | 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 hold the following performance rights and options:

| KEY MANAGEMENT PERSONNEL |         | NUMBER GRANTED   | EXERCISE PRICE | GRANT DATE       | EXPIRY DATE       |
|--------------------------|---------|------------------|----------------|------------------|-------------------|
| Neil McGuigan            | Options | 2,000,000        | \$0.376        | 17 November 2015 | 1 November 2020   |
|                          | Rights  | 395,257          | N/A            | 15 August 2012   | 15 September 2016 |
|                          | Rights  | 257,003          | N/A            | 22 July 2013     | 22 August 2017    |
| Michael Noack            | Options | 450,000          | \$0.376        | 4 December 2015  | 1 November 2020   |
|                          | Rights  | 158,103          | N/A            | 15 August 2012   | 15 September 2016 |
|                          | Rights  | 128,502          | N/A            | 22 July 2013     | 22 August 2017    |
| Cameron Ferguson         | Options | 400,000          | \$0.376        | 4 December 2015  | 1 November 2020   |
|                          | Rights  | 197,628          | N/A            | 15 August 2012   | 15 September 2016 |
|                          | Rights  | 128,502          | N/A            | 22 July 2013     | 22 August 2017    |
| Julian Dyer              | Options | 400,000          | \$0.376        | 4 December 2015  | 1 November 2020   |
|                          | Rights  | 128,502          | N/A            | 22 July 2013     | 22 August 2017    |
| Flora Sarris             | Rights  | 158,103          | N/A            | 15 August 2012   | 15 September 2016 |
|                          | Rights  | 102,801          | N/A            | 22 July 2013     | 22 August 2017    |
| <b>TOTAL</b>             |         | <b>4,904,401</b> |                |                  |                   |

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

The following table summarises the value of options granted during the financial year, in relation to options granted to key management personnel as part of their remuneration:

|                  | VALUE OF OPTIONS GRANTED AT THE GRANT DATE <sup>(1)</sup> |
|------------------|---|
| Neil McGuigan    | 124,980   |
| Michael Noack    | 28,472  |
| Cameron Ferguson | 25,308  |
| Julian Dyer      | 25,308  |

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

## Remuneration Report (continued)

### Key Management Personnel equity holdings

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

| 2016                           | BALANCE @<br>1/7/15<br>No. | GRANTED AS<br>REMUNERATION<br>No. | RECEIVED ON<br>EXERCISE OF<br>OPTIONS<br>No. | NET OTHER<br>CHANGE<br>No. | BALANCE @<br>30/6/16<br>No. | BALANCE HELD<br>NOMINALLY<br>No. |
|--------------------------------|----------------------------|-----------------------------------|--|----------------------------|-----------------------------|----------------------------------|
| <b>Non-executive Directors</b> |                            |                                   |  |                            |                             |                                  |
| Richard Davis                  | 110,000                    | -                                 | -  | -                          | 110,000                     | -                                |
| Perry Gunner                   | 555,124                    | -                                 | -  | 324,862                    | 879,986                     | -                                |
| John Davies                    | -                          | -                                 | -  | 300,000                    | 300,000                     | -                                |
| Naseema Sparks                 | -                          | -                                 | -  | -                          | -                           | -                                |
| <b>Executives</b>              |                            |                                   |  |                            |                             |                                  |
| Neil McGuigan                  | 570,000                    | -                                 | -  | 345,000                    | 915,000                     | -                                |
| Michael Noack                  | 74,441                     | -                                 | -  | 154,400                    | 228,841                     | -                                |
| Cameron Ferguson               | -                          | -                                 | -  | -                          | -                           | -                                |
| Julian Dyer                    | -                          | -                                 | -  | -                          | -                           | -                                |
| Flora Saris                    | 30,000                     | -                                 | -  | 18,000                     | 48,000                      | -                                |
|                                | <b>1,339,565</b>           | <b>-</b>                          | <b>-</b>                                     | <b>1,142,262</b>           | <b>2,481,827</b>            | <b>-</b>                         |

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

| 2016             | BAL. @<br>1/7/15<br>No. | GRANTED AS<br>REMUNERATION<br>No. | EXERCISED<br>No. | OTHER<br>CHANGE<br>No. | BAL. @<br>30/6/16<br>No. | BAL. VESTED<br>@ 30/6/16<br>No. | VESTED<br>BUT NOT<br>EXERCIS-<br>ABLE<br>No. | VESTED<br>AND<br>EXERCIS-<br>ABLE<br>No. | OPTIONS<br>VESTED<br>DURING<br>THE YEAR<br>No. |
|------------------|-------------------------|-----------------------------------|------------------|------------------------|--------------------------|---------------------------------|--|--|--|
| Neil McGuigan    | 652,260                 | 2,000,000                         | -                | -                      | 2,652,260                | -                               | -  | -  | -  |
| Michael Noack    | 286,605                 | 450,000                           | -                | -                      | 736,605                  | -                               | -  | -  | -  |
| Cameron Ferguson | 326,130                 | 400,000                           | -                | -                      | 726,130                  | -                               | -  | -  | -  |
| Julian Dyer      | 128,502                 | 400,000                           | -                | -                      | 528,502                  | -                               | -  | -  | -  |
| Flora Sarris     | 260,904                 | -                                 | -                | -                      | 260,904                  | -                               | -  | -  | -  |
|                  | <b>1,654,401</b>        | <b>3,250,000</b>                  | <b>-</b>         | <b>-</b>               | <b>4,904,401</b>         | <b>-</b>                        | <b>-</b>                                     | <b>-</b>                                 | <b>-</b>                                       |

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

## Remuneration Report (continued)

### Key Management Personnel Remuneration

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

| 2016                        | SHORT-TERM BENEFITS |         |       |                       | POST EMPLOYMENT   |       | SHARE BASED PAYMENTS |                                       |                       | TOTAL     |
|-----------------------------|---------------------|---------|-------|-----------------------|-------------------|-------|----------------------|---------------------------------------|-----------------------|-----------|
|                             | Salary & Fees       | Bonus   | Other | Non - Monetary<br>(a) | Super - annuation | Other | Cash Settled         | Equity Settled Options <sup>(c)</sup> | Equity Settled Shares |           |
|                             | \$                  | \$      | \$    | \$                    | \$                | \$    | \$                   | \$                                    | \$                    | \$        |
| Non-Executive directors     |                     |         |       |                       |                   |       |                      |                                       |                       |           |
| Richard Davis               | 107,763             | -       | -     | 2,000                 | 10,237            | -     | -                    | -                                     | -                     | 120,000   |
| Perry Gunner                | 71,233              | -       | -     | 2,000                 | 6,767             | -     | -                    | -                                     | -                     | 80,000    |
| John Davies                 | 71,233              | -       | -     | 2,000                 | 6,767             | -     | -                    | -                                     | -                     | 80,000    |
| Naseema Sparks              | 71,233              | -       | -     | 2,000                 | 6,767             | -     | -                    | -                                     | -                     | 80,000    |
| Sub-total                   | 321,462             | -       | -     | 8,000                 | 30,538            | -     | -                    | -                                     | -                     | 360,000   |
| Executives                  |                     |         |       |                       |                   |       |                      |                                       |                       |           |
| Neil McGuigan               | 638,780             | 248,400 | -     | 32,649                | 35,000            | -     | -                    | 24,958                                | -                     | 979,787   |
| Michael Noack               | 368,689             | 112,915 | -     | 89,115                | 35,000            | -     | -                    | 5,412                                 | -                     | 611,131   |
| Julian Dyer                 | 332,790             | 85,427  | -     | -                     | 74,778            | -     | -                    | 4,810                                 | -                     | 497,805   |
| Cameron Ferguson            | 309,713             | 94,858  | -     | 26,200                | 29,423            | -     | -                    | 4,810                                 | -                     | 465,004   |
| Flora Sarris <sup>(b)</sup> | 248,196             | 83,728  | -     | 1,200                 | 23,579            | -     | -                    | -                                     | -                     | 356,703   |
| Sub-total                   | 1,898,168           | 625,328 | -     | 149,164               | 197,780           | -     | -                    | 39,990                                | -                     | 2,910,430 |
| TOTAL                       | 2,219,630           | 625,328 | -     | 157,164               | 228,318           | -     | -                    | 39,990                                | -                     | 3,270,430 |

### 2015

|                                | Salary & Fees<br>\$ | Bonus<br>\$    | Other<br>\$ | Non - Monetary<br>(a)<br>\$ | Super - annuation<br>\$ | Other<br>\$ | Cash Settled<br>\$ | Equity Settled Options<br>\$ | Equity Settled Shares<br>\$ | \$               |
|--------------------------------|---------------------|----------------|-------------|-----------------------------|-------------------------|-------------|--------------------|------------------------------|-----------------------------|------------------|
| <b>Non-Executive directors</b> |                     |                |             |                             |                         |             |                    |                              |                             |                  |
| Richard Davis                  | 60,000              | -              | -           | 2,000                       | 5,550                   | -           | -                  | -                            | -                           | 67,550           |
| Ian Ferrier <sup>(d)</sup>     | 91,667              | -              | -           | 2,000                       | 8,479                   | -           | -                  | -                            | -                           | 102,146          |
| Brian McGuigan <sup>(d)</sup>  | 55,000              | -              | -           | 2,000                       | 5,088                   | -           | -                  | -                            | -                           | 62,088           |
| Perry 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           |
| <b>Sub-total</b>               | <b>326,788</b>      | <b>-</b>       | <b>-</b>    | <b>8,833</b>                | <b>30,228</b>           | <b>-</b>    | <b>-</b>           | <b>-</b>                     | <b>-</b>                    | <b>365,849</b>   |
| <b>Executives</b>              |                     |                |             |                             |                         |             |                    |                              |                             |                  |
| Neil McGuigan                  | 609,731             | 256,500        | -           | 32,649                      | 35,000                  | -           | -                  | -                            | -                           | 933,880          |
| 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          |
| <b>Sub-total</b>               | <b>1,797,864</b>    | <b>579,837</b> | <b>-</b>    | <b>148,391</b>              | <b>185,703</b>          | <b>-</b>    | <b>-</b>           | <b>-</b>                     | <b>-</b>                    | <b>2,711,795</b> |
| <b>TOTAL</b>                   | <b>2,124,652</b>    | <b>579,837</b> | <b>-</b>    | <b>157,224</b>              | <b>215,931</b>          | <b>-</b>    | <b>-</b>           | <b>-</b>                     | <b>-</b>                    | <b>3,077,644</b> |

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

(b) Resigned 17th August 2016. Bonus includes \$7,712 paid during the current year relating to the achievement of prior year key performance targets.

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

(d) Resigned 1st June 2015.

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

## Remuneration Report (continued)

### Company Performance

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2016:

|  | 30 JUNE<br>2012<br>\$ M | 30 JUNE<br>2013<br>\$ M | 30 JUNE<br>2014<br>\$ M | 30 JUNE<br>2015<br>\$ M | 30 JUNE<br>2016<br>\$ M |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total Revenue                                      | 228.0                   | 208.5                   | 214.8                   | 230.9                   | 242.7                   |
| EBIT   | 23.4                    | 24.1                    | 23.8                    | 17.5                    | 3.1                     |
| EBIT (before one off items)                        | 23.4                    | 20.8                    | 19.7                    | 16.7                    | 16.2                    |
| Net Profit / (Loss) after tax                      | 7.1                     | 7.1                     | 10.5                    | 9.4                     | (2.0)                   |
| Net Profit / (Loss) after tax before one off items | 7.1                     | 5.0                     | 7.7                     | 7.1                     | 7.2                     |

|                            | 30 JUNE<br>2012 | 30 JUNE<br>2013 | 30 JUNE<br>2014 | 30 JUNE<br>2015 | 30 JUNE<br>2016 |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Earnings per share - cents | 5.4             | 5.3             | 5.1             | 4.0             | (0.8)           |
| Dividends declared - cents | 2.6             | 2.6             | 2.2             | Nil             | 1.5             |

|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Market capitalisation - \$ million            | 44.9  | 63.0  | 74.3  | 84.8  | 131.2 |
| Enterprise value (debt + equity) - \$ million | 366.2 | 384.0 | 404.2 | 398.3 | 399.2 |

|   |      |       |       |       |       |
|---|------|-------|-------|-------|-------|
| Share price at start of year - \$ per share | 0.27 | 0.34  | 0.475 | 0.32  | 0.365 |
| Share price at end of year - \$ per share   | 0.34 | 0.475 | 0.32  | 0.365 | 0.565 |

### 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 MCCUIGAN

- (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 participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr McGuigan's employment is terminated by the Company, the Company must pay the equivalent of one year's total remuneration (excluding short term incentive). Mr McGuigan may resign by providing 6 months written notice to the Company or a lesser period as agreed by the company.

## 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 participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr Noack's employment is terminated by the company, the company must pay Mr Noack the equivalent of one year's total remuneration (excluding short term incentive). Mr Noack may resign by providing 3 months written notice to the Company or a lesser period as agreed by the company.

### CAMERON FERGUSON

- (i) Term of agreement - no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation, motor vehicle allowance and wine allowance.
  - b. Short term incentive - entitlement to a bonus subject to certain key performance criteria. Key performance criteria include defined financial (including divisional profitability), commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr Ferguson's is made redundant by the company, the company must pay Mr Ferguson the equivalent of one year's total remuneration (excluding short term incentive). 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 participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Ms Sarris's employment is terminated by the company, the company must pay Ms Sarris the equivalent of one year's total remuneration (excluding short term incentive). 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 participate in AVL's Performance Rights and Share Options. The Performance Rights are subject to meeting growth target rates in earnings per share and the Share Options are subject to meeting growth rates in earnings share and total shareholder return, and service conditions.
- (iii) If Mr Dyer's employment is terminated by the Company, the Company may restrain Mr Dyer from working for a Business in Competition / Company customer for a period of up to 6 months. The Company will pay Base Salary for period in which restraint is enforced. Mr Dyer may resign by providing 3 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 37.

## Indemnification of officers and auditors

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

## Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors Reports) instrument 2016/191 and 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 2016 a fully franked dividend of 1.5 cents per share was declared on the 24th August 2016 and will be paid on the 9th November 2016.

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  
24 August 2016



**NEIL MCGUIGAN**  
Chief Executive Officer  
24 August 2016



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

24 August 2016

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 2016, 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 stylized, handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A stylized, handwritten signature in black ink that appears to read "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 2016, 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 39 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 2016 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 35 of the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.

  
 DELOITTE TOUCHE TOHMATSU

  
 Jody Burton  
 Partner  
 Chartered Accountants  
 Adelaide, 24 August 2016

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

## 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 40 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  
24 August 2016



**NEIL MCGUIGAN**  
Chief Executive Officer  
24 August 2016

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

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

|  | NOTE | CONSOLIDATED   |                |
|--|------|----------------|----------------|
|  |      | 2016<br>\$'000 | 2015<br>\$'000 |
| Revenue  | 5    | 242,686        | 230,896        |
| Cost of sales  | 5    | (181,350)      | (171,206)      |
| <b>Gross Profit</b>  |      | <b>61,336</b>  | <b>59,690</b>  |
| Fair value of grapes picked  | 17   | 4,206          | 2,816          |
| Investment Income  | 5    | 86             | 138            |
| Other gains and losses   | 5    | (94)           | 1,795          |
| Distribution expenses  |      | (13,709)       | (13,631)       |
| Gain on provision for onerous contracts                                    |      | -              | 924            |
| Sales and marketing expenses   |      | (28,522)       | (26,139)       |
| Administration expenses  |      | (7,207)        | (7,929)        |
| Finance costs  | 5    | (5,790)        | (6,397)        |
| Gain on sale of Yaldara winery and brand name                              |      | -              | 6,351          |
| Gain on sale of other property, plant and equipment                        |      | 157            | 14             |
| Vineyard lease exit  | 5    | (13,148)       | (1,005)        |
| Non-recoverable incentives to customers                                    | 5    | -              | (5,559)        |
| <b>Profit / (Loss) before tax</b>  |      | <b>(2,685)</b> | <b>11,068</b>  |
| Income tax benefit / (expense)   | 6    | 713            | (1,702)        |
| <b>Net Profit / (Loss) for the year</b>                                    |      | <b>(1,972)</b> | <b>9,366</b>   |
| <b>Other comprehensive income / (loss), net of income tax:</b>             |      |                |                |
| <i>Items that may be subsequently classified to the profit or loss:</i>    |      |                |                |
| Net gain / (loss) on hedging   |      | 1,375          | (243)          |
| Exchange differences arising on translation of foreign operations          |      | (48)           | 110            |
| <b>Other comprehensive income / (loss) for the year, net of income tax</b> |      | <b>1,327</b>   | <b>(133)</b>   |
| <b>Total comprehensive income / (loss) for the year</b>                    |      | <b>(645)</b>   | <b>9,233</b>   |
| <b>Earnings Per Share:</b>   |      |                |                |
| Basic (cents per share)  | 36   | (0.8)          | 4.0            |
| Diluted (cents per share)  | 36   | (0.8)          | 4.0            |

Notes to the financial statements are included on pages 44 to 84.

## Consolidated Statement of Financial Position

AS AT 30 JUNE 2016

|                                      | NOTE | CONSOLIDATED   |                |
|--------------------------------------|------|----------------|----------------|
|                                      |      | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>Current Assets</b>                |      |                |                |
| Cash and cash equivalents            | 43   | 6,011          | 2,309          |
| Trade and other receivables          | 10   | 42,789         | 39,312         |
| Inventories                          | 11   | 145,218        | 147,997        |
| Other financial assets               | 12   | 827            | -              |
| Other                                | 13   | 1,622          | 4,867          |
| <b>Total Current Assets</b>          |      | <b>196,467</b> | <b>194,485</b> |
| <b>Non-Current Assets</b>            |      |                |                |
| Trade and other receivables          | 14   | -              | 446            |
| Inventories                          | 15   | 52,444         | 51,005         |
| Other financial assets               | 16   | 334            | 59             |
| Biological assets                    | 17   | 32,828         | 32,828         |
| Property, plant and equipment        | 18   | 81,375         | 83,200         |
| Goodwill                             | 19   | 37,685         | 37,685         |
| Other intangible assets              | 20   | 5,784          | 6,102          |
| Water Licenses                       | 21   | 7,554          | 7,554          |
| Deferred tax assets                  | 6    | 36,134         | 36,011         |
| <b>Total Non-Current Assets</b>      |      | <b>254,138</b> | <b>254,890</b> |
| <b>Total Assets</b>                  |      | <b>450,605</b> | <b>449,375</b> |
| <b>Current Liabilities</b>           |      |                |                |
| Trade and other payables             | 23   | 43,813         | 40,962         |
| Borrowings                           | 24   | 259            | 1,514          |
| Other financial liabilities          | 25   | 248            | 1,534          |
| Provisions                           | 26   | 5,346          | 5,956          |
| Other                                | 27   | 215            | 495            |
| <b>Total Current Liabilities</b>     |      | <b>49,881</b>  | <b>50,461</b>  |
| <b>Non-Current Liabilities</b>       |      |                |                |
| Borrowings                           | 28   | 107,131        | 104,390        |
| Other financial liabilities          | 29   | 309            | 20             |
| Provisions                           | 30   | 1,520          | 2,144          |
| <b>Total Non-Current Liabilities</b> |      | <b>108,960</b> | <b>106,554</b> |
| <b>Total Liabilities</b>             |      | <b>158,841</b> | <b>157,015</b> |
| <b>Net Assets</b>                    |      | <b>291,764</b> | <b>292,360</b> |
| <b>Equity</b>                        |      |                |                |
| <i>Capital and reserves</i>          |      |                |                |
| Issued capital                       | 33   | 443,266        | 443,266        |
| Reserves                             | 34   | 2,047          | 671            |
| Accumulated losses                   | 35   | (153,549)      | (151,577)      |
| <b>Total Equity</b>                  |      | <b>291,764</b> | <b>292,360</b> |

Notes to the financial statements are included on pages 44 to 84.

## Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

|   | SHARE<br>CAPITAL<br>\$'000 | EQUITY -<br>SETTLED<br>EMPLOYEE<br>BENEFITS<br>RESERVE<br>\$'000 | HEDGING<br>RESERVE<br>\$'000 | FOREIGN<br>CURRENCY<br>TRANSLATION<br>RESERVE<br>\$'000 | ACCUMULATED<br>LOSSES<br>\$'000 | TOTAL<br>\$'000 |
|---|----------------------------|--|------------------------------|---|---------------------------------|-----------------|
| Balance at 1 July 2015  | 443,266                    | 1,497  | (1,027)                      | 201   | (151,577)                       | 292,360         |
| Loss for the period   | -                          | -  | -                            | -   | (1,972)                         | (1,972)         |
| Net loss on interest rate swaps                                   | -                          | -  | (216)                        | -   | -                               | (216)           |
| Net gain on foreign exchange hedges                               | -                          | -  | 2,181                        | -   | -                               | 2,181           |
| Exchange differences arising on translation of foreign operations | -                          | -  | -                            | (69)  | -                               | (69)            |
| Income tax relating to components of other comprehensive income   | -                          | -  | (590)                        | 21  | -                               | (569)           |
| <b>Total comprehensive income for the period</b>                  | <b>-</b>                   | <b>-</b>   | <b>1,375</b>                 | <b>(48)</b>   | <b>(1,972)</b>                  | <b>(645)</b>    |
| Recognition of share based payments                               | -                          | 49   | -                            | -   | -                               | 49              |
| <b>Balance at 30 June 2016</b>                                    | <b>443,266</b>             | <b>1,546</b>   | <b>348</b>                   | <b>153</b>  | <b>(153,549)</b>                | <b>291,764</b>  |
| Balance at 1 July 2014  | 443,266                    | 1,497  | (784)                        | 91  | (155,833)                       | 288,237         |
| Profit for the period   | -                          | -  | -                            | -   | 9,366                           | 9,366           |
| Net gain on interest rate swaps                                   | -                          | -  | 86                           | -   | -                               | 86              |
| Net loss on 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>                  | <b>-</b>                   | <b>-</b>   | <b>(243)</b>                 | <b>110</b>  | <b>9,366</b>                    | <b>9,233</b>    |
| Dividend paid   | -                          | -  | -                            | -   | (5,110)                         | (5,110)         |
| <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>  |

Notes to the financial statements are included on pages 44 to 84.

## Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

|   | NOTE   | CONSOLIDATED   |                 |
|---|--------|----------------|-----------------|
|   |        | 2016<br>\$'000 | 2015<br>\$'000  |
| <b>Cash flows from operating activities</b>                       |        |                |                 |
| Receipts from customers   |        | 259,277        | 247,221         |
| Termination payment on exit of vineyard lease                     |        | (4,946)        | -               |
| Other payments to suppliers and employees                         |        | (242,777)      | (239,085)       |
| <b>Cash generated from operations</b>                             |        | <b>11,554</b>  | <b>8,136</b>    |
| Interest and other costs of finance paid                          |        | (5,108)        | (6,090)         |
| Interest and bill discounts received                              |        | 15             | 45              |
| <b>Net cash provided by operating activities</b>                  | 43 (d) | <b>6,461</b>   | <b>2,091</b>    |
| <b>Cash flows from investing activities</b>                       |        |                |                 |
| Payments for property, plant and equipment                        |        | (4,148)        | (4,272)         |
| Payments for intangibles  | 20     | (280)          | (199)           |
| Proceeds from sale of property, plant & equipment                 |        | 183            | 15,516          |
| <b>Net cash (used in) / provided by investing activities</b>      |        | <b>(4,245)</b> | <b>11,045</b>   |
| <b>Cash flows from financing activities</b>                       |        |                |                 |
| Proceeds from borrowings  |        | 3,000          | -               |
| Dividends paid  |        | -              | (5,110)         |
| Repayment of borrowings   |        | (1,514)        | (9,919)         |
| <b>Net cash provided by / (used in) financing activities</b>      |        | <b>1,486</b>   | <b>(15,029)</b> |
| Net increase / (decrease) in cash and cash equivalents            |        | 3,702          | (1,893)         |
| Cash and cash equivalents at the beginning of the financial year  |        | 2,309          | 4,202           |
| <b>Cash and cash equivalents at the end of the financial year</b> | 43     | <b>6,011</b>   | <b>2,309</b>    |

Notes to the financial statements are included on pages 44 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, United Kingdom, Asia, New Zealand and North America.

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 24th August 2016.

## 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 two amendments to AASBs issues by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

| STANDARD / INTERPRETATION  | REQUIREMENTS  |
|--|---|
| AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality' | This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standard and Interpretations, allowing that Standard to effectively be withdrawn. |

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

### 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', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'   | 1 January 2018   | 30 June 2019  |
| AASB 16 'Leases'  | 1 January 2019   | 30 June 2020  |
| 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 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128' | 1 January 2018   | 30 June 2019  |
| AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'  | 1 January 2016   | 30 June 2017  |



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

### 2.2 Standards and Interpretations in issue not yet adopted (continued)

| STANDARD /<br>INTERPRETATION   | EFFECTIVE FOR ANNUAL<br>REPORTING PERIODS<br>BEGINNING ON OR<br>AFTER | EXPECTED TO BE<br>INITIALLY APPLIED IN<br>THE FINANCIAL YEAR<br>ENDING |
|--|---|--|
| AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'            | 1 January 2016  | 30 June 2017   |
| AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception | 1 January 2016  | 30 June 2017   |
| AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses' | 1 January 2017  | 30 June 2018   |
| AASB 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'            | 1 January 2017  | 30 June 2018   |

The potential effect of the above Standards and Interpretations on the Group's financial statements, other than AASB 2014-6 (which is set out below) has not yet been determined.

#### 2.2.1 Impact of changes to Australian Accounting Standards – Agriculture: Bearer Plants

AASB 2014-6 'Amendments to Australian Accounting Standards – Agriculture: Bearer Plants'

The amendments to AASB 116 and AASB 141 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with AASB 116, instead of AASB 141. The produce growing on bearer plants continues to be accounted for in accordance with AASB 141.

The amendments apply for annual periods beginning on or after 1 January 2016 and will first be applied by the Group for the year ending 30 June 2017.

This will require the bearer plants to be subject to annual depreciation based upon the cost or deemed cost as at 1 July 2016 with retrospective application from 1 July 2015.

Upon adoption of this standard the Group intends to value the vines based on the written down value of original costs of the bearer plants. The above change will result in the classification of vines changing from biological assets to property plant and equipment and the carrying value is expected to decrease by between approximately \$18 to \$24 million. The tax consequence of this adjustment results in a net increase in deferred tax asset of between approximately \$1 million to \$2 million. The vines will now be depreciated and this is expected to increase depreciation expense in future years by between approximately \$0.5million to \$1 million.

As a result of the amendments to the standards the produce from operating leased vines will now be required to be fair valued in accordance with the principles of AASB 141 rather than valued at cost. This is expected to result in a decrease in inventory as at 1 July 2016 of between approximately \$4 to \$6 million. The tax consequence of this adjustment is expected to result in a net increase in deferred tax asset of between approximately \$1.2 to \$1.8 million.

The effect on profit in future years will not be material.

The above adjustments are expected to result in a decrease of retained earnings at 1 July 2016 of between approximately \$20 million to \$26 million.

## 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.

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

### 3.6 Derivative financial instruments (continued)

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.

#### 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.

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

### 3.8 Financial instruments (continued)

#### 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.

### 3.9 Financial instruments issued by the Group

#### Debt and equity instruments

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

#### Financial guarantee contract liabilities

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

#### Financial liabilities

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

#### Other financial liabilities

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

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

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

#### De-recognition of financial liabilities

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

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

### 3.10 Foreign currency

#### Foreign currency transactions

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

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

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

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

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

#### Foreign operations

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

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

### 3.11 Goodwill

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

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. 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 Group are measured as revenue at fair value less estimated costs to sell at the point of harvest (including production costs). A gain or loss arising from a change in fair values less estimated costs to sell is included in the profit and loss in the period in which the gain/loss arises. The agricultural produce is recorded within inventory.

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

### 3.14 Impairment of long-lived assets

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### 3.15 Income tax

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

#### Current tax

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

#### Deferred tax

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

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

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

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

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

#### Current and deferred tax for the period

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

#### Tax consolidation

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

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

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



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

### 3.16 Intangible assets

#### Brand names and Registered Trademarks

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

#### Software

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

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

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

### 3.17 Inventories

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

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

### 3.18 Leased assets

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

#### Group as lessor

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

#### Group as lessee

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

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

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

### 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.



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

### 3.21 Property, plant and equipment (continued)

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 |

### 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 Group for the reporting period.

### 3.24 Share-based payments

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

### 3.25 Trade credits

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

### 3.26 Water licences

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

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

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

### 4.1 Critical judgements in applying accounting policies

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

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

#### Onerous Contracts

The Group 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 Group to acquire grapes at various prices some of which exceed market values.

The agreements in the current market have become onerous. The Group 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 Group 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 – 2015 : 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 11.47% (2015: 12.18%), 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 16.3 % (2015 : 17.9%) (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 Group 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 2016.

In determining the fair value of the biological assets, the forecast cash flows from the vineyards have been discounted using a 12.85% (2015 : 13.44%) 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   |                |
|---|--|----------------|----------------|
|   |  | 2016           | 2015           |
|   |  | \$'000         | \$'000         |
| <b>(a) Revenue – continuing operations</b>  |  |                |                |
| Revenue from the sale of goods  |  | 235,880        | 223,955        |
| Revenue from contract processing  |  | 3,705          | 2,735          |
| Revenue from rendering contract vineyard services   |  | 3,101          | 4,206          |
| <b>Total</b>  |  | <b>242,686</b> | <b>230,896</b> |
| <b>Investment income</b>  |  |                |                |
| Rental income   |  | 71             | 93             |
| Interest income   |  | 15             | 45             |
| <b>Total</b>  |  | <b>86</b>      | <b>138</b>     |
| <b>Other gains / (losses)</b>   |  |                |                |
| Wine equalisation tax rebate  |  | 500            | 500            |
| (Loss) / gain on unrealised foreign exchange  |  | (1,519)        | 181            |
| Other rebates   |  | 773            | 481            |
| Other   |  | 152            | 633            |
| <b>Total</b>  |  | <b>(94)</b>    | <b>1,795</b>   |
| <b>(b) Profit / (Loss) before income tax</b>  |  |                |                |
| Profit before income tax has been arrived at after crediting / (charging) the following gains and losses:   |  |                |                |
| Gain / (Loss) on disposal of Yaldara winery and brand name  |  | -              | 6,351          |
| Gain / (Loss) on disposal of other property, plant and equipment  |  | 157            | 14             |
| Gain / (Loss) on unrealised foreign exchange  |  | (1,519)        | 181            |
| Loss on vineyard lease exit <sup>(1)</sup>  |  | (13,148)       | (1,005)        |
| Loss on Non Recoverable Incentives to Customers <sup>(2)</sup>  |  | -              | (5,559)        |
| (1) For the year ended 30th June 2016 the Group has expensed \$13,148,000 (2015 : \$1,005,000) in relation to the termination and exit of from the Del Rios vineyard lease. These costs included a termination payment, legal fees, vineyard running costs and other associated costs |  |                |                |
| (2) The decision to write off incentives made to various customers was based on market developments during the year and a significant portion relates to overseas customers   |  |                |                |
| Profit / (Loss) before income tax has been arrived at after charging the following expenses:  |  |                |                |
| Cost of sales   |  | 181,350        | 171,206        |
| Operating lease rental expenses (minimum lease payments)  |  | 8,768          | 10,944         |
| Employee benefit expense:   |  |                |                |
| Share-based payments:   |  |                |                |
| Equity settled share-based payments   |  | 49             | -              |
|   |  | 49             | -              |
| Termination benefits  |  | 345            | 150            |
| Superannuation benefits   |  | 2,580          | 2,626          |
| Other employee benefits (incl. salaries and wages)  |  | 34,721         | 33,828         |
| <b>Total employee benefits expense</b>  |  | <b>37,695</b>  | <b>36,604</b>  |
| <b>(c) Depreciation and amortisation expense:</b>   |  |                |                |
| Depreciation of non-current assets - charged to cost of sales   |  | 4,722          | 4,931          |
| Depreciation of non-current assets - other  |  | 1,073          | 1,114          |
| Amortisation of non-current assets  |  | 598            | 589            |
| <b>Total depreciation and amortisation expense</b>  |  | <b>6,393</b>   | <b>6,634</b>   |
| <b>(d) Finance costs:</b>   |  |                |                |
| Interest on bank overdrafts and loans   |  | 5,582          | 5,856          |
| Interest on obligations under finance lease   |  | 86             | 314            |
|   |  | <b>5,668</b>   | <b>6,170</b>   |
| Unwinding of discounts  |  | 122            | 227            |
| <b>Total finance costs</b>  |  | <b>5,790</b>   | <b>6,397</b>   |

The weighted average rate on funds borrowed is 4.24% per annum (2015: 4.66% per annum).

## Note 6: Income taxes

|  |  | CONSOLIDATED   |                |
|--|--|----------------|----------------|
|  |  | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>(a) Income tax recognised in profit or loss</b>   |  |                |                |
| <b>Current tax</b>   |  |                |                |
| Current tax (benefit) / expense in respect of the current year   |  | -              | -              |
|  |  | -              | -              |
| <b>Deferred tax</b>  |  |                |                |
| Deferred tax (benefit) / expense relating to the current year  |  | (692)          | 1,656          |
| Adjustments recognised in the current year in relation to the current tax of prior years   |  | (21)           | 46             |
|  |  | (713)          | 1,702          |
| Total income tax (benefit) / expense recognised in the current year relating to continuing operations  |  | (713)          | 1,702          |
| The prima facie income tax (benefit) / expense on pre-tax accounting income / (loss) from operations reconciles to the income tax expense in the financial statements as follows:      |  |                |                |
| Profit / (Loss) from operations  |  | (2,685)        | 11,068         |
| Income (benefit) / tax expense calculated at 30%   |  | (806)          | 3,320          |
| Non-deductible expenses  |  | 114            | 71             |
| Capital losses utilised (not previously recorded)  |  | -              | (1,735)        |
|  |  | (692)          | (1,664)        |
| Adjustments recognised in the current year in relation to tax of prior years   |  | (21)           | 46             |
| Total tax (benefit) / expense  |  | (713)          | 1,702          |
| The tax rate used for the 2016 and 2015 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>   |  | (569)          | 58             |

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

CONSOLIDATED

| Temporary differences 2016             | Opening<br>Balance<br>\$'000 | Charged to<br>Income<br>\$'000 | Charged to<br>Equity<br>\$'000 | Acquisitions/<br>Disposals<br>\$'000 | Closing<br>Balance<br>\$'000 |
|--|------------------------------|--------------------------------|--------------------------------|--------------------------------------|------------------------------|
| <b>Gross deferred tax liabilities:</b> |                              |                                |                                |                                      |                              |
| Inventories                            | (5,566)                      | (666)                          | -                              | -                                    | (6,232)                      |
| Intangibles                            | (60)                         | 36                             | -                              | -                                    | (24)                         |
| Property, plant and equipment          | (9,067)                      | (197)                          | -                              | -                                    | (9,264)                      |
| Other                                  | (35)                         | 1                              | -                              | -                                    | (34)                         |
|  | (14,728)                     | (826)                          | -                              | -                                    | (15,554)                     |
| <b>Gross deferred tax assets:</b>      |                              |                                |                                |                                      |                              |
| Trade and other receivables            | 87                           | (61)                           | -                              | -                                    | 26                           |
| Inventories                            | 11,100                       | (10,982)                       | -                              | -                                    | 118                          |
| Trade and other payables               | 677                          | 632                            | -                              | -                                    | 1,309                        |
| Provisions                             | 3,042                        | (391)                          | -                              | -                                    | 2,651                        |
| Tax losses                             | 34,822                       | 12,348                         | -                              | -                                    | 47,170                       |
| Other                                  | 1,011                        | (28)                           | (569)                          | -                                    | 414                          |
|  | 50,739                       | 1,518                          | (569)                          | -                                    | 51,688                       |
| <b>Net deferred tax asset</b>          | <b>36,011</b>                | <b>692</b>                     | <b>(569)</b>                   | <b>-</b>                             | <b>36,134</b>                |

## Note 6: Income taxes (continued)

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

### CONSOLIDATED

| Temporary differences 2015             | Opening Balance<br>\$'000 | Charged to Income<br>\$'000 | Charged to Equity<br>\$'000 | Acquisitions/<br>Disposals<br>\$'000 | Closing Balance<br>\$'000 |
|--|---------------------------|-----------------------------|-----------------------------|--------------------------------------|---------------------------|
| <b>Gross deferred tax liabilities:</b> |                           |                             |                             |                                      |                           |
| Inventories                            | (5,747)                   | 181                         | -                           | -                                    | (5,566)                   |
| Intangibles                            | (468)                     | 408                         | -                           | -                                    | (60)                      |
| Property, plant and equipment          | (8,246)                   | (821)                       | -                           | -                                    | (9,067)                   |
| Other                                  | (30)                      | (5)                         | -                           | -                                    | (35)                      |
|  | (14,491)                  | (237)                       | -                           | -                                    | (14,728)                  |
| <b>Gross deferred tax assets:</b>      |                           |                             |                             |                                      |                           |
| Trade and other receivables            | 60                        | 27                          | -                           | -                                    | 87                        |
| Inventories                            | 11,645                    | (545)                       | -                           | -                                    | 11,100                    |
| Trade and other payables               | 588                       | 89                          | -                           | -                                    | 677                       |
| Provisions                             | 3,732                     | (690)                       | -                           | -                                    | 3,042                     |
| Tax losses                             | 34,700                    | 122                         | -                           | -                                    | 34,822                    |
| Other                                  | 1,375                     | (422)                       | 58                          | -                                    | 1,011                     |
|  | 52,100                    | (1,419)                     | 58                          | -                                    | 50,739                    |
| <b>Net deferred tax asset</b>          | <b>37,609</b>             | <b>(1,656)</b>              | <b>58</b>                   | <b>-</b>                             | <b>36,011</b>             |

There are no unrecognised revenue tax losses relating to the Group. The Group has not recognised \$1,062,000 (2015: \$1,062,000) of capital losses. The Directors expect the future financial performance of the Group will facilitate the full recovery of the revenue tax losses.

### Tax Consolidation

#### Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Vintage Ltd. The members of the tax-consolidated group are identified in note 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     |                  |
|------------------------------|------------------|------------------|
|                              | 2016<br>\$       | 2015<br>\$       |
| Short-term employee benefits | 3,002,122        | 2,861,713        |
| Post-employment benefits     | 228,318          | 215,931          |
| Share based payments         | 39,990           | -                |
| Termination benefits         | -                | -                |
|                              | <u>3,270,430</u> | <u>3,077,644</u> |

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

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

### Australian Vintage Ltd Performance Rights and Option Plan

Established in August 2012, this long term incentive is provided as either a right to an issue of shares or an option to purchase shares. These rights and options are subject to the achievement of set growth rates in earnings per share and total shareholder return over a 4 year period up until the vesting date and continuous employment which are assessed annually. The plan is available to senior management as approved by the board. There were 4,000,000 options issued in the current year under this plan to employees (2015 : NIL). These rights and options were priced using a binominal option pricing model.

The table below summarises all performance rights on issue:

|  | 2016 NUMBER      | 2015 NUMBER      |
|--|------------------|------------------|
| Balance at the beginning of the financial year (i)   | 2,539,914        | 2,539,914        |
| Granted during the financial year (ii)               | 4,000,000        | -                |
| 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>6,539,914</b> | <b>2,539,914</b> |

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

| 2016                       | No.              | Vested No. | Unvested No.     | Grant Date | Vesting Date | Expiry Date | Exercise Price \$ |
|----------------------------|------------------|------------|------------------|------------|--------------|-------------|-------------------|
| Rights issued 15 August 12 | 1,383,400        | -          | 1,383,400        | 15/08/12   | 15/08/16     | 15/09/16    | N/A               |
| Rights issued 22 July 13   | 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> |            |              |             |                   |
| <b>2015</b>                |                  |            |                  |            |              |             |                   |
| Rights issued 15 August 12 | 1,383,400        | -          | 1,383,400        | 15/08/12   | 15/08/16     | 15/09/16    | N/A               |
| Rights issued 22 July 13   | 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> |            |              |             |                   |

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

| 2016 (2015 : NIL)             | No.              | Vested No. | Unvested No.     | Grant Date | Vesting Date | Expiry Date | Exercise Price \$ |
|-------------------------------|------------------|------------|------------------|------------|--------------|-------------|-------------------|
| Options issued 17 November 15 | 2,000,000        | -          | 2,000,000        | 17/11/15   | 31/08/18     | 01/11/20    | 0.376             |
| Options issued 4 December 15  | 2,000,000        | -          | 2,000,000        | 04/12/15   | 31/08/18     | 01/11/20    | 0.376             |
|                               | <b>4,000,000</b> | <b>-</b>   | <b>4,000,000</b> |            |              |             |                   |

The weighted average fair value of the share options granted during the financial year is \$0.376 (2015 : Nil). Options were priced using a binomial option pricing model. Details of inputs to the model are set out below:

| OPTIONS GRANT DATE            | No.       | Grant date Share Price | Exercise Price | Expected Volatility | Option Life (days) | Dividend Yield | Risk-free Interest Rate |
|-------------------------------|-----------|------------------------|----------------|---------------------|--------------------|----------------|-------------------------|
| Options issued 17 November 15 | 400,000   | 0.415                  | 0.376          | 33.09%              | 1,567              | -              | 2.22%                   |
| Options issued 17 November 15 | 1,600,000 | 0.415                  | 0.376          | 33.09%              | 1,415              | 3.9%           | 2.22%                   |
| Options issued 4 December 15  | 400,000   | 0.395                  | 0.376          | 33.28%              | 1,550              | -              | 2.26%                   |
| Options issued 4 December 15  | 1,600,000 | 0.395                  | 0.376          | 33.28%              | 1,398              | 3.9%           | 2.26%                   |

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

Nil (2015 : Nil)

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

| 2016                          | No.              | Vested No. | Unvested No.     | Grant Date | Vesting Date | Expiry Date | Exercise Price \$ |
|-------------------------------|------------------|------------|------------------|------------|--------------|-------------|-------------------|
| Rights issued 15 August 12    | 1,383,400        | -          | 1,383,400        | 15/08/12   | 15/08/16     | 15/09/16    | N/A               |
| Rights issued 22 July 13      | 1,156,514        | -          | 1,156,514        | 22/07/13   | 22/07/17     | 21/08/17    | N/A               |
| Options issued 17 November 15 | 2,000,000        | -          | 2,000,000        | 17/11/15   | 31/08/18     | 01/11/20    | 0.376             |
| Options issued 4 December 15  | 2,000,000        | -          | 2,000,000        | 04/12/15   | 31/08/18     | 01/11/20    | 0.376             |
|                               | <b>6,539,914</b> | <b>-</b>   | <b>6,539,914</b> |            |              |             |                   |
| <b>2015</b>                   |                  |            |                  |            |              |             |                   |
| Rights issued 15 August 12    | 1,383,400        | -          | 1,383,400        | 15/08/12   | 15/08/16     | 15/09/16    | N/A               |
| Rights issued 22 July 13      | 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   |                |
|---------------------------------------|----------------|----------------|
|                                       | 2016<br>\$     | 2015<br>\$     |
| <b>Auditor of the parent company</b>  |                |                |
| Audit or review of financial report   | 377,100        | 369,700        |
| Other services – other audit services | 28,355         | 23,500         |
| Other services – taxation advice      | 9,000          | 8,125          |
| Other services – taxation compliance  | 34,000         | 34,000         |
|                                       | <b>448,455</b> | <b>435,325</b> |

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

## Note 10: Current trade and other receivables

|                              | CONSOLIDATED   |                |
|------------------------------|----------------|----------------|
|                              | 2016<br>\$'000 | 2015<br>\$'000 |
| Trade receivables (i)        | 41,806         | 38,818         |
| Allowance for doubtful debts | (22)           | (392)          |
|                              | <b>41,784</b>  | <b>38,426</b>  |
| Loans to other entities (ii) | 500            | 500            |
| Other receivables            | 505            | 386            |
|                              | <b>42,789</b>  | <b>39,312</b>  |

(i) The average credit period on sales of goods and rendering of services is 61 days (2015: 63 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, \$23.4 million (2015: \$22.2 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 \$3.0 million (2015: \$4.4 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              | 2,911        | 4,108        |
| 60 – 90 days              | 57           | 139          |
| 90 – 120 days             | 14           | 128          |
| <b>Total</b>              | <b>2,982</b> | <b>4,375</b> |
| <b>Average age (days)</b> | <b>37</b>    | <b>37</b>    |

### Movement in the allowance of doubtful debts

|   |       |       |
|---|-------|-------|
| Balance at the beginning of the year                      | (392) | (219) |
| Impairment (losses) / reversals recognised on receivables | (447) | (345) |
| Amounts written off as not collectable                    | 817   | 172   |
| Balance at the end of the year                            | (22)  | (392) |

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

Included in the allowance for doubtful debts are no individually impaired trade receivables (2015 : \$378,000) 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 for the prior year is aged over 120 days.



## Note 11: Current inventories

|                                | CONSOLIDATED   |                |
|--------------------------------|----------------|----------------|
|                                | 2016<br>\$'000 | 2015<br>\$'000 |
| Bulk wine                      | 104,022        | 105,506        |
| Other stores and raw materials | 4,043          | 3,970          |
| Work in progress               | 6,440          | 5,339          |
| Bottled wine                   | 30,713         | 33,182         |
|                                | <b>145,218</b> | <b>147,997</b> |

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$181.4 million (2015: \$171.2 million).

## Note 12: Other financial assets

|  |            |          |
|--|------------|----------|
| Hedge assets – foreign currency forwards and options | 827        | -        |
|  | <b>827</b> | <b>-</b> |

## Note 13: Other current assets

|             |              |              |
|-------------|--------------|--------------|
| Prepayments | 1,622        | 4,867        |
|             | <b>1,622</b> | <b>4,867</b> |

## Note 14: Non-current trade and other receivables

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

## Note 15: Non-current inventories

|              |               |               |
|--------------|---------------|---------------|
| Bulk wine    | 50,828        | 49,259        |
| Bottled wine | 1,616         | 1,746         |
|              | <b>52,444</b> | <b>51,005</b> |

## Note 16: Other non-current financial assets

|  |            |           |
|--|------------|-----------|
| Hedge assets – foreign currency forwards and options | 226        | -         |
| Investments in companies (i)                         | 59         | 59        |
| Other  | 49         | -         |
|  | <b>334</b> | <b>59</b> |

(i) Relates to investments in wine related businesses

## Note 17: Biological assets

|   | CONSOLIDATED   |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| Fair value less costs to sell of vines at beginning of year | 32,828         | 33,184         |
| Disposals   | -              | (356)          |
| Fair value less costs to sell of vines at end of year       | 32,828         | 32,828         |

### (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 \$4,206,000 (2015: \$2,816,000).

### (b) Physical quantity of vines

|   | CONSOLIDATED |             |
|---|--------------|-------------|
|   | 2016<br>No.  | 2015<br>No. |
| Number of vines owned                               | 1,414,624    | 1,414,624   |
| Acres owned   | 1,897        | 1,897       |
| Number of grapes crushed - owned vineyards (tonnes) | 22,259       | 18,599      |

### (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 35 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 12.85% (2015 : 13.44%).

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 18: Property, plant and equipment

|                                  | CONSOLIDATED   |                |
|----------------------------------|----------------|----------------|
|                                  | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>(a) Vineyard Improvements</b> |                |                |
| at cost                          | 14,169         | 14,165         |
| accumulated depreciation         | (8,289)        | (7,592)        |
|                                  | 5,880          | 6,573          |
| <b>Freehold Land</b>             |                |                |
| at cost                          | 13,076         | 13,076         |
| <b>Buildings</b>                 |                |                |
| At cost                          | 15,904         | 15,720         |
| accumulated depreciation         | (4,738)        | (4,384)        |
|                                  | 11,166         | 11,336         |

## Note 18: Property, plant and equipment (continued)

|   |  | CONSOLIDATED  |               |
|---|--|---------------|---------------|
|   |  | 2016          | 2015          |
|   |  | \$'000        | \$'000        |
| <b>(a) Vineyard Improvements (continued)</b>                                      |  |               |               |
| Plant and equipment under lease   |  |               |               |
| at cost   |  | 13,561        | 13,561        |
| accumulated amortisation  |  | (2,139)       | (1,701)       |
|   |  | <b>11,422</b> | <b>11,860</b> |
| Plant and equipment   |  |               |               |
| at cost   |  | 107,388       | 104,633       |
| accumulated depreciation  |  | (67,557)      | (64,278)      |
|   |  | <b>39,831</b> | <b>40,355</b> |
| Total Property, Plant and Equipment   |  |               |               |
| at cost   |  | 164,098       | 161,155       |
| accumulated depreciation and amortisation   |  | (82,723)      | (77,955)      |
|   |  | <b>81,375</b> | <b>83,200</b> |
| <b>(b) Reconciliations</b>  |  |               |               |
| Vineyard Improvements   |  |               |               |
| carrying amount at beginning of the financial year                                |  | 6,573         | 7,292         |
| additions   |  | 4             | 45            |
| disposals   |  | -             | (63)          |
| depreciation  |  | (697)         | (701)         |
| at end of year  |  | <b>5,880</b>  | <b>6,573</b>  |
| Freehold land   |  |               |               |
| carrying amount at beginning of the financial year                                |  | 13,076        | 13,726        |
| disposals   |  | -             | (650)         |
| at end of year  |  | <b>13,076</b> | <b>13,076</b> |
| Buildings   |  |               |               |
| carrying amount at beginning of the financial year                                |  | 11,336        | 12,609        |
| additions   |  | 183           | 230           |
| disposals   |  | -             | (1,129)       |
| depreciation  |  | (354)         | (374)         |
| at end of year  |  | <b>11,165</b> | <b>11,336</b> |
| Plant and equipment under lease   |  |               |               |
| carrying amount at beginning of the financial year                                |  | 11,860        | 12,314        |
| additions   |  | -             | -             |
| amortisation  |  | (438)         | (454)         |
| at end of year  |  | <b>11,422</b> | <b>11,860</b> |
| Plant and equipment   |  |               |               |
| carrying amount at beginning of the financial year                                |  | 40,355        | 44,117        |
| additions   |  | 3,959         | 3,996         |
| disposals   |  | (177)         | (3,242)       |
| depreciation  |  | (4,306)       | (4,516)       |
| at end of year  |  | <b>39,831</b> | <b>40,355</b> |
| Aggregate depreciation and amortisation recognised as an expense during the year: |  |               |               |
| Buildings   |  | 354           | 374           |
| Vineyard improvements   |  | 697           | 701           |
| Plant and equipment   |  | 4,306         | 4,516         |
| Plant and equipment under lease   |  | 438           | 454           |
|   |  | <b>5,795</b>  | <b>6,045</b>  |

## Note 19: Goodwill

|  | CONSOLIDATED |        |
|--|--------------|--------|
|  | 2016         | 2015   |
|  | \$'000       | \$'000 |
| Gross carrying amount:                     |              |        |
| Balance at beginning of the financial year | 44,085       | 44,085 |
| Balance at end of the financial year       | 44,085       | 44,085 |
| <b>Accumulated impairment losses</b>       |              |        |
| Balance at beginning of financial year     | 6,400        | 6,400  |
| Balance at end of financial year (i)       | 6,400        | 6,400  |
| <b>Net book value</b>                      |              |        |
| At the beginning of the financial year     | 37,685       | 37,685 |
| At the end of the financial year           | 37,685       | 37,685 |

### 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 Group and therefore the value in use method is the method used by the Group for assessing whether the assets in the CGU are impaired. The recoverable amount of 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 Group started with the cash flows from the year ended 30 June 2016 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 Group has used the weighted average cost of capital as a guide to determine the discount rate applied to the cash flows as it is considered the most appropriate discount rate for the risk specific to the assets in the CGU'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 Group applied a pre-tax discount rate of 11.47% p.a. (2015: 12.18% 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 Group; and the debt / equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the Group and the Australian wine industry and have been considered in relation to the Group.

### Key Assumptions

The 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 11.47% (2015 : 12.18%);
- Risk Free rate of 1.98% (2015 : 3.11%);
- Cost of debt 5.5% (2015 : 5.5%);
- Levered Beta of 0.85 (2015 : 0.85); and
- Terminal Growth Rate of 2.5% (2015 : 2.5%).

### 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.

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

- The discount rate can be increased by 5.8 percentage points (to 17.3%) 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 \$6.6 million per annum (representing a 43% 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 50% 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 20: Other intangible assets

|   | CONSOLIDATED   |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>Brand Names and Registered Trademarks:</b> |                |                |
| Balance at 1 July                             | 4,828          | 6,080          |
| Disposed during the year                      | -              | (1,252)        |
| Balance at 30 June                            | 4,828          | 4,828          |
| <b>Software:</b>                              |                |                |
| Balance at 1 July                             | 1,274          | 1,664          |
| Costs incurred during the year                | 280            | 199            |
| Amortisation expense                          | (598)          | (589)          |
| Balance at 30 June                            | 956            | 1,274          |
| <b>Total other intangible assets</b>          | <b>5,784</b>   | <b>6,102</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 Group applied a pre-tax discount rate of 16.3% p.a. (2015: 17.9% p.a.) to account for the risk associated with the assets in the current financial markets.

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

### Key Assumptions

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

- Terminal Growth Rate of 2.5% (2015 : 2.5%)
- Pre-tax Weighted Average Cost of Capital / Discount rate of 16.3% (2015 : 17.9%)
- Cost of debt 5.5% (2015 : 5.5%)
- Levered Beta of 1.19 (2015 : 1.19)
- Revenue growth rate of 6% (2015 : 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 Group has performed sensitivity analysis on the brand names valuation models as follows:

- The discount rate can be increased to 21.8% before an impairment is recognised.
- A decline of \$0.4 million per annum (representing a 29% 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 21: Water licences

|                                    | CONSOLIDATED   |                |
|------------------------------------|----------------|----------------|
|                                    | 2016<br>\$'000 | 2015<br>\$'000 |
| Permanent water licences – at cost | 7,554          | 7,554          |
| Balance at 1 July                  | 7,554          | 7,554          |
| <b>Balance at 30 June</b>          | <b>7,554</b>   | <b>7,554</b>   |

## Note 22: Assets pledged as security

|  | CONSOLIDATED   |                |
|--|----------------|----------------|
|  | 2016           | 2015           |
|  | \$'000         | \$'000         |
| 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  | 197,662        | 199,002        |
| Receivables  | 42,789         | 39,758         |
| Property, plant and equipment (including Biological Assets)  | 114,203        | 116,028        |
|  | <b>354,654</b> | <b>354,788</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)                  | 27,192        | 27,147        |
| Goods and services tax payable      | 3,115         | 2,445         |
| Value added tax payable             | 764           | 776           |
| Other accounts payable and accruals | 12,742        | 10,594        |
|                                     | <b>43,813</b> | <b>40,962</b> |

(i) The average credit period on purchase of goods is 33 days (2015: 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:

|                               |            |              |
|-------------------------------|------------|--------------|
| Finance lease liabilities (i) | 259        | 1,514        |
|                               | <b>259</b> | <b>1,514</b> |

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

## Note 25: Other current financial liabilities

|  |            |              |
|--|------------|--------------|
| Hedge liabilities – forward exchange contracts | -          | 733          |
| Hedge liabilities – foreign currency options   | -          | 481          |
| Interest rate swap                             | 248        | 320          |
|  | <b>248</b> | <b>1,534</b> |

## Note 26: Current provisions

|  |              |              |
|--|--------------|--------------|
| Directors retirement benefit (note 31) | 149          | 149          |
| Onerous contracts (note 31)            | 462          | 1,544        |
| Employee entitlements (i)              | 4,735        | 4,263        |
|  | <b>5,346</b> | <b>5,956</b> |

(i) The current provision for employee entitlements includes \$3,470,753 (2015 : \$3,411,270) of annual leave and vested long service leave entitlements.

## Note 27: Other current liabilities

|                   |            |            |
|-------------------|------------|------------|
| Income in advance | 215        | 495        |
|                   | <b>215</b> | <b>495</b> |

## Note 28: Non-current borrowings

|                                | CONSOLIDATED   |                |
|--------------------------------|----------------|----------------|
|                                | 2016<br>\$'000 | 2015<br>\$'000 |
| Secured - at amortised cost:   |                |                |
| Commercial Bills (i)           | 107,000        | 104,000        |
| Finance lease liabilities (ii) | 131            | 390            |
|                                | <b>107,131</b> | <b>104,390</b> |

- (i) Commercial bills with a variable interest rate were issued in 2016. The current weighted average interest rate on the bills is 4.22% (2015: 4.90%). The commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 22).
- (ii) Secured by assets subject to the finance lease.

## Note 29: Non-current other financial liabilities

|                    |            |           |
|--------------------|------------|-----------|
| Interest rate swap | 309        | 20        |
|                    | <b>309</b> | <b>20</b> |

## Note 30: Non-current provisions

|                             |              |              |
|-----------------------------|--------------|--------------|
| Employee entitlements       | 784          | 961          |
| Onerous contracts (note 31) | 736          | 1,183        |
|                             | <b>1,520</b> | <b>2,144</b> |

## Note 31: Provisions

|  | CONSOLIDATED                       |   |                                    |   |
|--|------------------------------------|---|------------------------------------|---|
|  | 2016                               |   | 2015                               |   |
|  | \$'000<br>Onerous<br>Contracts (i) | \$'000<br>Directors<br>Retirement<br>Benefit (ii) | \$'000<br>Onerous<br>Contracts (i) | \$'000<br>Directors<br>Retirement<br>Benefit (ii) |
| Balance at beginning of year   | 2,727                              | 149   | 3,702                              | 149   |
| Increase resulting from new provisions   | -                                  | -   | 1,238                              | -   |
| Reductions arising from payments/other sacrifices of future economic benefits                | (1,608)                            | -   | (1,569)                            | -   |
| Unwinding of discount and effect of changes in the discount rate                             | 176                                | -   | 280                                | -   |
| Reductions resulting from re-measurement, contract re-negotiation or settlement without cost | (97)                               | -   | (924)                              | -   |
| <b>Balance at end of year</b>  | <b>1,198</b>                       | <b>149</b>  | <b>2,727</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.

## Note 32: Defined contribution plans

The total expense recognised in the statement of comprehensive income of \$2,580,000 (2015: \$2,626,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 30 June 2016, contributions of \$164,121 (2015: \$156,349) due in respect of the reporting period had not been paid over to the plans. The amounts were paid in July 2016.

## Note 33: Issued capital

| CONSOLIDATED   |         |         |  |  |
|--|---------|---------|--|--|
|  | 2016    | 2015    |  |  |
|  | \$'000  | \$'000  |  |  |
| 232,262,382 Fully paid ordinary shares (2015: 232,262,382) | 443,266 | 443,266 |  |  |

| CONSOLIDATED                             |             |         |             |         |
|--|-------------|---------|-------------|---------|
|  | 2016        | 2016    | 2015        | 2015    |
|  | Number      | \$'000  | Number      | \$'000  |
| <b>Fully paid ordinary share capital</b> |             |         |             |         |
| Beginning of financial year              | 232,262,382 | 443,266 | 232,262,382 | 443,266 |
| <b>Issued during the year</b>            |             |         |             |         |
| Share Issue                              | -           | -       | -           | -       |
| Placement                                | -           | -       | -           | -       |
| Share issue costs                        | -           | -       | -           | -       |
| End of financial year                    | 232,262,382 | 443,266 | 232,262,382 | 443,266 |

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

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

### Performance Right and Share Options

Details of share options and performance rights 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                               |              |            |
|--|--------------|------------|
|  | 2016         | 2015       |
|  | \$'000       | \$'000     |
| Employee equity-settled benefits (i)       | 1,546        | 1,497      |
| Hedging reserve (ii)                       | 348          | (1,027)    |
| Foreign currency translation reserve (iii) | 153          | 201        |
|  | <b>2,047</b> | <b>671</b> |

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

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

## Note 35: Accumulated losses

|  |                  |                  |
|--|------------------|------------------|
| Balance at beginning of financial year | (151,577)        | (155,833)        |
| Net (loss) / profit                    | (1,972)          | 9,366            |
| Dividends paid                         | -                | (5,110)          |
| End of financial year                  | <b>(153,549)</b> | <b>(151,577)</b> |



## Note 36: Earnings per share

|                            | CONSOLIDATED               |                            |
|----------------------------|----------------------------|----------------------------|
|                            | 2016<br>Cents<br>Per Share | 2015<br>Cents<br>Per Share |
| Basic earnings per share   | (0.8)                      | 4.0                        |
| Diluted earnings per share | (0.8)                      | 4.0                        |

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 / (Loss) for the year  | (1,972)                             | 9,366                               |
|   | 2016<br>'000<br>Number of<br>Shares | 2015<br>'000<br>Number of<br>Shares |
| <b>Basic earnings per share</b>   |                                     |                                     |
| Weighted average number of ordinary shares used in calculating basic earnings per share   | 232,262                             | 232,262                             |
| <b>Diluted earnings per share</b>   |                                     |                                     |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 235,030                             | 232,262                             |

## Note 37: Dividends

|  | Date dividend paid<br>/ payable | Amount per<br>security<br>¢ | Amount per<br>security of<br>foreign sourced<br>dividend<br>¢ | Franking % |
|--|---------------------------------|-----------------------------|---|------------|
| Final dividend – year ended 30 June 2016<br>(determined subsequent to balance date) <sup>(1)</sup> | 9 November 2016                 | 1.5                         | -   | 100%       |
| Final dividend – year ended 30 June 2015   | -                               | -                           | -   | -          |
| Final dividend – year ended 30 June 2014   | 19 November 2014                | 2.2                         | -   | 100%       |

(1) The record date for determining an entitlement to receipt of the final dividend is 21 October 2016 and the company expects to pay the dividend on 9 November 2016.

There were no dividends paid during the year ended 30 June 2016 (2015 : \$5,110,000 in respect of the year ended 30 June 2014).

The franking account balance at 30 June 2016 was \$8,919,000 (2015 : 8,919,000).

## 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 (lease terms from 3 to 7 years)
- Plant and equipment (lease terms 1 – 5 years)

The following sets out payments recognised as an expense

|   | CONSOLIDATED   |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| Minimum lease payments  | 30,818         | 72,729         |
| The following sets out the commitments to future lease payments relating to operating leases: |                |                |
| – not longer than 1 year  | 6,433          | 10,809         |
| – longer than 1 year and not longer than 5 years  | 22,277         | 39,807         |
| – longer than 5 years   | 2,108          | 22,113         |
|   | <b>30,818</b>  | <b>72,729</b>  |

### (b) Finance leases

Finance leases relate to plant and equipment with a lease term of up to 5 years, expiring between 30 June 2016 and March 2018.

|  | MINIMUM FUTURE<br>LEASE PAYMENTS<br>CONSOLIDATED |                | PRESENT VALUE OF MINIMUM<br>FUTURE LEASE PAYMENTS<br>CONSOLIDATED |                |
|--|--|----------------|---|----------------|
|  | 2016<br>\$'000                                   | 2015<br>\$'000 | 2016<br>\$'000  | 2015<br>\$'000 |
| No Later than 1 year                         | 280  | 1,600          | 259   | 1,514          |
| Later than 1 year and not later than 5 years | 136  | 417            | 131   | 390            |
| Minimum lease payments*                      | 416  | 2,017          | 390   | 1,904          |
| Less future finance changes                  | (26)   | (113)          | -   | -              |
| Present value of minimum lease payments      | 390  | 1,904          | 390   | 1,904          |
| Current borrowings (note 24)                 |  |                | 259   | 1,514          |
| Non-Current borrowings (note 28)             |  |                | 131   | 390            |
|  |  |                | <b>390</b>  | <b>1,904</b>   |

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

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

### (c) Capital expenditure commitments

|                               | CONSOLIDATED   |                |
|-------------------------------|----------------|----------------|
|                               | 2016<br>\$'000 | 2015<br>\$'000 |
| Property, Plant and Equipment |                |                |
| – not longer than 1 year      | 26             | 52             |
|                               | <b>26</b>      | <b>52</b>      |

## Note 39: Contingent liabilities

|                 |     |     |
|-----------------|-----|-----|
| Bank guarantees | 412 | 820 |
|-----------------|-----|-----|

## Note 40: Subsidiaries

| NAME OF ENTITY                              | COUNTRY OF INCORPORATION | OWNERSHIP OF INTEREST |           |
|---|--------------------------|-----------------------|-----------|
|   |                          | 2016<br>%             | 2015<br>% |
| <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 2016

|  | CONSOLIDATED   |                |
|--|----------------|----------------|
|  | 2016<br>\$'000 | 2015<br>\$'000 |
| Revenue  | 242,686        | 230,896        |
| Cost of sales  | (181,350)      | (171,206)      |
| <b>Gross Profit</b>  | <b>61,336</b>  | <b>59,690</b>  |
| Fair value of grapes picked  | 4,206          | 2,816          |
| Investment income  | 86             | 138            |
| Other gains and losses   | (94)           | 1,795          |
| Distribution expenses  | (13,709)       | (13,631)       |
| Gain on provision for onerous contracts                                    | -              | 924            |
| Sales and marketing expenses   | (28,522)       | (26,139)       |
| Administration expenses  | (7,207)        | (7,929)        |
| Finance costs  | (5,790)        | (6,397)        |
| Gain on sale of Yaldara winery and brand name                              | -              | 6,351          |
| Gain on sale of other property, plant and equipment                        | 157            | 14             |
| Legal fees on vineyard lease dispute                                       | (13,148)       | (1,005)        |
| Non-recoverable incentives to customers                                    | -              | (5,559)        |
| <b>Profit / (Loss) before income tax</b>                                   | <b>(2,685)</b> | <b>11,068</b>  |
| Income tax expense   | 713            | (1,702)        |
| <b>Net Profit / (Loss) for the year</b>                                    | <b>(1,972)</b> | <b>9,366</b>   |
| <b>Other comprehensive income / (loss) net of income tax:</b>              |                |                |
| Net gain / (loss) on hedging   | 1,375          | (243)          |
| Exchange differences arising on translation of foreign operations          | (48)           | 110            |
| <b>Other comprehensive income / (loss) for the year, net of income tax</b> | <b>1,327</b>   | <b>(133)</b>   |
| <b>Total comprehensive income / (loss) for the year</b>                    | <b>(645)</b>   | <b>9,233</b>   |

## Note 40: Subsidiaries (continued)

Consolidated Statement of Financial Position – Closed Group  
As at 30 June 2016

|                                      | CONSOLIDATED   |                |
|--------------------------------------|----------------|----------------|
|                                      | 2016           | 2015           |
|                                      | \$'000         | \$'000         |
| <b>Current Assets</b>                |                |                |
| Cash and cash equivalents            | 5,994          | 2,280          |
| Trade and other receivables          | 42,789         | 39,193         |
| Inventories                          | 145,218        | 147,997        |
| Other financial assets               | 827            | -              |
| Other                                | 1,578          | 4,948          |
| <b>Total Current Assets</b>          | <b>196,406</b> | <b>194,418</b> |
| <b>Non-Current Assets</b>            |                |                |
| Trade and other receivables          | -              | 446            |
| Inventories                          | 52,444         | 51,005         |
| Other financial assets               | 334            | 59             |
| Biological assets                    | 32,828         | 32,828         |
| Property, plant and equipment        | 81,375         | 83,200         |
| Goodwill                             | 37,685         | 37,685         |
| Other intangible assets              | 5,784          | 6,102          |
| Water Licences                       | 7,554          | 7,554          |
| Deferred tax assets                  | 36,134         | 36,011         |
| <b>Total Non-Current Assets</b>      | <b>254,138</b> | <b>254,890</b> |
| <b>Total Assets</b>                  | <b>450,544</b> | <b>449,308</b> |
| <b>Current Liabilities</b>           |                |                |
| Trade and other payables             | 43,792         | 40,942         |
| Borrowings                           | 259            | 1,514          |
| Other financial liabilities          | 248            | 1,534          |
| Provisions                           | 5,346          | 5,956          |
| Other                                | 215            | 495            |
| <b>Total Current Liabilities</b>     | <b>49,860</b>  | <b>50,441</b>  |
| <b>Non-Current Liabilities</b>       |                |                |
| Borrowings                           | 107,131        | 104,390        |
| Other financial liabilities          | 309            | 20             |
| Provisions                           | 1,520          | 2,144          |
| <b>Total Non-Current Liabilities</b> | <b>108,960</b> | <b>106,554</b> |
| <b>Total Liabilities</b>             | <b>158,820</b> | <b>156,995</b> |
| <b>Net Assets</b>                    | <b>291,724</b> | <b>292,313</b> |
| <b>Equity</b>                        |                |                |
| Issued capital                       | 443,178        | 443,177        |
| Reserves                             | 2,067          | 684            |
| Accumulated losses                   | (153,521)      | (151,548)      |
| <b>Total Equity</b>                  | <b>291,724</b> | <b>292,313</b> |

## Note 41: Segment information

The Group'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, grapes, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.

### Vineyards

- provides vineyard management and maintenance services within Australia and includes 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 (2015 : 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

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

|  | REVENUE        | REVENUE        | RESULTS        | RESULTS       |
|--|----------------|----------------|----------------|---------------|
|  | 2016           | 2015           | 2016           | 2015          |
|  | \$'000         | \$'000         | \$'000         | \$'000        |
| Australasia / North America packaged                 | 106,672        | 99,026         | 6,208          | 7,194         |
| UK / Europe  | 102,506        | 98,000         | 3,446          | 4,457         |
| Cellar door  | 8,185          | 7,860          | 1,568          | 1,430         |
| Australasia / North America bulk wine and processing | 22,222         | 21,804         | 447            | 116           |
| Vineyards  | 3,101          | 4,206          | 4,569          | 3,512         |
| <b>Total</b>   | <b>242,686</b> | <b>230,896</b> | <b>16,238</b>  | <b>16,709</b> |
| Finance costs – interest paid                        |                |                | (5,790)        | (6,397)       |
| Gain on provision for onerous contracts              |                |                | -              | 924           |
| Interest received                                    |                |                | 15             | 45            |
| Gain on sale of Yaldara winery and brand name        |                |                | -              | 6,351         |
| Vineyard lease exit                                  |                |                | (13,148)       | (1,005)       |
| Non-recoverable incentives to customers              |                |                | -              | (5,559)       |
| <b>Profit / (Loss) before tax</b>                    |                |                | <b>(2,685)</b> | <b>11,068</b> |

## Note 41: Segment information (continued)

### Geographical Segments

|               | REVENUE FROM CUSTOMERS |                |
|---------------|------------------------|----------------|
|               | 2016<br>\$'000         | 2015<br>\$'000 |
| Australia     | 112,967                | 110,559        |
| UK / Europe   | 102,506                | 98,000         |
| North America | 10,882                 | 8,486          |
| Asia          | 12,056                 | 10,119         |
| Other         | 4,275                  | 3,732          |
|               | <b>242,686</b>         | <b>230,896</b> |

The group has sales to two major customers (2015 : three) who individually account for greater than 10% of annual sales. The total sales for these customers were \$66.9 million (2015: \$62.7 million).

## Note 42: Related party transactions

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

### Equity interests in related parties

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

### Key management personnel remuneration

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

### Other transactions with key management personnel

- (i) During the prior year the Group entered into the following transactions with entities associated with Brian McGuigan:
  - (a) The Group purchased grapes from Australian Horticultural Management Pty Limited ("AHM") to the value of \$149,101 on normal commercial terms. A balance of \$99,055 was owed by the Group at 30 June 2015.
  - (b) The Group sold bottled wine to AHM to the value of \$39,303 on normal commercial terms. A balance of \$24,771 was owed to the Group at 30 June 2015.
  - (c) McGuigan Nominees Pty Ltd holds a minority interest in an entity which received \$289,898 from the Group for fruit, paid \$16,532 to the Group for the contract processing of fruit to wine and received \$73,715 from the Group 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 Group 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 Group for the year ending 30th June 2015 was \$318,721.
- (ii) During the year the Group entered into the following transactions with Woodnibs Pty Ltd and HVV Management Pty Ltd (entities associated with Neil McGuigan):
  - (a) The Group sold concentrate to the value of \$13,963 (2015 : \$7,415) on normal commercial terms.
  - (b) The Group charged rent to the value of \$8,625 (2014 : \$8,498) on normal commercial terms.

### 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  |                |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| Cash  | 6,011          | 2,309          |
| <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          |
| Amount Unused   | -              | -              |
|   | -              | 1,276          |
| Unsecured revolving lease facility:                                       |                |                |
| Amount Used   | 97             | 188            |
| Amount Unused   | 253            | 162            |
|   | 350            | 350            |
| Bank Guarantee / Surrender facility:                                      |                |                |
| Amount Used   | 412            | 820            |
| Amount Unused   | 2,238          | 1,830          |
|   | 2,650          | 2,650          |
| Corporate purchasing card facility:                                       |                |                |
| Amount Used   | 18             | 234            |
| Amount Unused   | 482            | 266            |
|   | 500            | 500            |
| Cash advance facility:  |                |                |
| Amount Used   | 107,000        | 104,000        |
| Amount Unused   | 9,000          | 6,000          |
|   | 116,000        | 110,000        |
| Total facility  | 124,500        | 119,776        |

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

During the reporting period Australian Vintage Ltd did not issue any ordinary shares (2015 : Nil).

There were no shares issued to Directors as remuneration for the year ending 30th June 2016 (2015 : 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 and total shareholder return over a 4 year period up until the vesting date and continuous employment which are assessed annually. During the reporting period there were 4,000,000 options issued (2015 : Nil). There were no other share options issued or exercised during the reporting period (2015: Nil).

During the financial year the company did not issue any shares (2015 : 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   |                |
|--|----------------|----------------|
|  | 2016<br>\$'000 | 2015<br>\$'000 |
| Profit / (Loss) from ordinary activities after income tax  | (1,972)        | 9,366          |
| Depreciation and amortisation of non-current assets  | 6,393          | 6,634          |
| (Profit) / Loss on sale of non-current assets  | (6)            | (8,823)        |
| Share based payments   | 49             | -              |
| <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  | (3,031)        | 2,332          |
| Inventories  | 1,340          | (7,124)        |
| Other current assets   | 3,245          | (1,086)        |
| Deferred tax assets  | (692)          | 1,598          |
| <b>Increase / (decrease) in liabilities</b>  |                |                |
| Current trade and other payables   | 2,649          | (165)          |
| Provisions   | (1,234)        | (601)          |
| Other  | (280)          | (40)           |
| <b>Net cash provided by / (used in) operating activities</b>   | <b>6,461</b>   | <b>2,091</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 2015.

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 <sup>(i)</sup>                               | 107,390        | 105,904        |
| Cash and cash equivalents (net of bank overdraft) | (6,011)        | (2,309)        |
| <b>Net Debt</b>                                   | <b>101,379</b> | <b>103,595</b> |
| <br>Equity <sup>(ii)</sup>                        | <br>291,764    | <br>292,360    |
| <b>Net debt to equity ratio</b>                   | <b>35%</b>     | <b>35%</b>     |

(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.
- The Group is able to declare a dividend provided certain ratios are met or the dividend is approved by the National Australia Bank or the dividend is underwritten

#### Significant accounting policies

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

## Note 44: Financial instruments (continued)

### (b) Categories of financial instruments

|   | CONSOLIDATED   |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>Financial assets</b>   |                |                |
| Available for sale  | 59             | 59             |
| Receivables   | 42,789         | 39,758         |
| Cash and cash equivalents   | 6,011          | 2,309          |
| Derivative instruments in designated hedge accounting relationships | 1,102          | -              |
| <b>Financial liabilities</b>  |                |                |
| Derivative instruments in designated hedge accounting relationships | 557            | 1,554          |
| Carried at amortised cost   | 151,203        | 146,886        |

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

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

### (c) Financial risk management objectives

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

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures.

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

### (d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 44(e)) 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         |                |
|------------------|----------------|----------------|----------------|----------------|
|                  | 2016<br>\$'000 | 2015<br>\$'000 | 2016<br>\$'000 | 2015<br>\$'000 |
| US dollars       | -              | -              | 432            | 918            |
| GB pounds        | 7,274          | 5,594          | 17,474         | 11,429         |
| Euro             | -              | -              | 1,352          | 873            |
| Canadian Dollars | -              | -              | 1,297          | 1,471          |

## Note 44: Financial instruments (continued)

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

#### Foreign currency sensitivity analysis

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

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

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   |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>Increase (Deterioration) in foreign exchange rate by 10%</b> |                |                |
| Profit or loss – GBP Impact                                     | (588)          | (371)          |
| Profit or loss – USD Impact                                     | (14)           | (16)           |
| Profit or loss – EURO Impact                                    | (84)           | (56)           |
| Profit or loss – CAD Impact                                     | (83)           | (94)           |
| <b>Decrease (Improvement) in foreign exchange rate by 10%</b>   |                |                |
| Profit or loss – GBP Impact                                     | 718            | 454            |
| Profit or loss – USD Impact                                     | 17             | 19             |
| Profit or loss – EURO Impact                                    | 103            | 68             |
| Profit or loss – CAD Impact                                     | 101            | 114            |

It is the policy of the Group to enter into foreign exchange contracts to cover specific foreign currency exposure. The Group also enters into forward and option foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out 12 months which is based on 50-75% (50% covered at 30th June 2016) coverage of highly probable sales and 25-50% (25% covered at 30th June 2016) 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 Canada. The Group has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

The following table details the forward foreign currency contracts and foreign exchange option contracts as at 30 June 2016:

| CURRENCY                  | EXCHANGE RATE | FOREIGN CURRENCY FC<br>'000 | CONTRACT VALUE AUD<br>\$'000 | FAIR VALUE AUD<br>\$'000 |
|---------------------------|---------------|-----------------------------|------------------------------|--------------------------|
| <b>Forward Contracts:</b> |               |                             |                              |                          |
| Sell Euros                | 0.6734        | 250                         | 371                          | (3)                      |
| Sell Euros                | 0.6608        | 500                         | 756                          | 5                        |
| <b>Option Contracts:</b>  |               |                             |                              |                          |
| Sell Euros                | 0.7000-0.6535 | 1,000                       | 1,530                        | (25)                     |
| Sell Euros                | 0.6600-0.5870 | 250                         | 426                          | 9                        |
| Sell Euros                | 0.6700-0.5940 | 700                         | 1,178                        | 7                        |
| <b>Option Contracts:</b>  |               |                             |                              |                          |
| Sell GB Pounds            | 0.5100-0.4722 | 2,295                       | 4,859                        | 348                      |
| Sell GB Pounds            | 0.5100-0.4690 | 2,295                       | 4,892                        | 350                      |
| Sell GB Pounds            | 0.5100-0.4930 | 1,000                       | 2,028                        | 152                      |
| Sell GB Pounds            | 0.5600-0.5075 | 1,000                       | 1,970                        | 30                       |
| Sell GB Pounds            | 0.5600-0.4975 | 1,000                       | 2,010                        | 33                       |
| Sell GB Pounds            | 0.5200-0.4865 | 2,000                       | 4,111                        | 219                      |

## Note 44: Financial instruments (continued)

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

| CURRENCY                  | EXCHANGE RATE | FOREIGN CURRENCY FC<br>'000 | CONTRACT VALUE AUD<br>\$'000 | FAIR VALUE AUD<br>\$'000 |
|---------------------------|---------------|-----------------------------|------------------------------|--------------------------|
| <b>Forward Contracts:</b> |               |                             |                              |                          |
| Sell Canadian Dollars     | 0.95554       | 500                         | 523                          | (2)                      |
| <b>Option Contracts:</b>  |               |                             |                              |                          |
| Sell Canadian Dollars     | 1.0300-0.9806 | 2,200                       | 2,243                        | (70)                     |
| <b>Forward Contracts:</b> |               |                             |                              |                          |
| Sell Hong Kong Dollars    | 5.735         | 18                          | 3                            | -                        |
| <b>Forward Contracts:</b> |               |                             |                              |                          |
| Sell Swedish Krona        | 6.300         | 171                         | 27                           | -                        |

The following table details the forward foreign currency contracts and foreign exchange option contracts as at 30 June 2015:

|                           |               |       |       |       |
|---------------------------|---------------|-------|-------|-------|
| <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 44: Financial instruments (continued)

As at reporting date the aggregate amount of unrealised profits/(losses) under foreign exchange contracts deferred in the hedging reserve relating to the exposure on anticipated future transactions is \$1,053 thousand profit before tax (2015: a loss of \$1,214 thousand before tax). It is anticipated that the sales will take place in the periods prescribed in the table below at which stage the amount deferred in equity will be released into the profit or loss.

| OUTSTANDING<br>CONTRACTS  | YEAR END<br>EXCHANGE RATE |          | FOREIGN CURRENCY<br>FC '000 |          | NOTIONAL VALUE<br>\$'000 |          | FAIR VALUE<br>\$'000 |          |
|---------------------------|---------------------------|----------|-----------------------------|----------|--------------------------|----------|----------------------|----------|
|                           | 30/06/16                  | 30/06/15 | 30/06/16                    | 30/06/15 | 30/06/16                 | 30/06/15 | 30/06/16             | 30/06/15 |
| <b>Forward contracts:</b> |                           |          |                             |          |                          |          |                      |          |
| <b>Cash flow hedges</b>   |                           |          |                             |          |                          |          |                      |          |
| <b>Sell Euro</b>          |                           |          |                             |          |                          |          |                      |          |
| Less than 3 months        | 0.6711                    | 0.6847   | 750                         | 200      | 1,128                    | 273      | 3                    | (17)     |
| 3 to 6 months             |                           |          | -                           | -        | -                        | -        | -                    | -        |
| 6 to 9 months             |                           |          | -                           | 250      | -                        | 368      | -                    | 1        |
| 9 to 12 months            |                           |          | -                           | 750      | -                        | 1,108    | -                    | -        |
| <b>Sell GB Pounds</b>     |                           |          |                             |          |                          |          |                      |          |
| Less than 3 months        | 0.5586                    | 0.4874   | -                           | 1,500    | -                        | 2,803    | -                    | (262)    |
| 3 to 6 months             |                           |          | -                           | 2,500    | -                        | 4,762    | -                    | (365)    |
| More than 12 months       |                           |          | -                           | 1,000    | -                        | 2,000    | -                    | (72)     |
| <b>Sell Euro</b>          |                           |          |                             |          |                          |          |                      |          |
| Less than 3 months        | 0.6711                    | 0.6847   | -                           | 200      | -                        | 310      | -                    | (19)     |
| <b>Sell CAD</b>           |                           |          |                             |          |                          |          |                      |          |
| More than 12 months       | 0.9653                    | 0.9518   | 500                         | -        | 523                      | -        | (2)                  | -        |
| <b>Option Contracts:</b>  |                           |          |                             |          |                          |          |                      |          |
| <b>Cash flow hedges</b>   |                           |          |                             |          |                          |          |                      |          |
| <b>Sell GB Pounds</b>     |                           |          |                             |          |                          |          |                      |          |
| Less than 3 months        | 0.5586                    | 0.4874   | 1,059                       | 1,250    | 2,250                    | 2,460    | 161                  | (100)    |
| 3 to 6 months             |                           |          | 3,059                       | 1,250    | 6,249                    | 2,460    | 343                  | (125)    |
| 6 to 9 months             |                           |          | 1,059                       | 833      | 2,250                    | 1,640    | 162                  | (95)     |
| 9 to 12 months            |                           |          | 2,059                       | -        | 4,260                    | -        | 193                  | -        |
| More than 12 months       |                           |          | 2,353                       | 2,000    | 4,861                    | 4,034    | 272                  | (142)    |
| <b>Sell EURO</b>          |                           |          |                             |          |                          |          |                      |          |
| Less than 3 months        | 0.6711                    | 0.6847   | -                           | -        | -                        | -        | -                    | -        |
| 3 to 6 months             |                           |          | 500                         | -        | 765                      | -        | (10)                 | -        |
| 6 to 9 months             |                           |          | 500                         | -        | 765                      | -        | (14)                 | -        |
| 9 to 12 months            |                           |          | 250                         | -        | 726                      | -        | 9                    | -        |
| More than 12 months       |                           |          | 700                         | 1,000    | 1,178                    | 1,530    | 7                    | (20)     |
| <b>Sell CAD</b>           |                           |          |                             |          |                          |          |                      |          |
| Less than 3 months        | 0.9653                    | 0.9518   | 600                         | -        | 612                      | -        | (14)                 | -        |
| 3 to 6 months             |                           |          | 600                         | -        | 612                      | -        | (19)                 | -        |
| 6 to 9 months             |                           |          | 600                         | -        | 612                      | -        | (22)                 | -        |
| 9 to 12 months            |                           |          | 600                         | -        | 612                      | -        | (16)                 | -        |

### (f) Interest rate risk management

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

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

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

## Note 44: Financial instruments (continued)

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

#### Interest rate sensitivity analysis

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

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

- net profit after tax would increase and decrease by \$159,000 (2015: increase/decrease by \$195,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowing which are not covered by the interest rate swap agreements.

#### Interest rate swap contracts

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

At balance date, the Group has three (2015: four) interest rate swap agreements with a notional amount of \$70 million (2015: \$95 million), as follows:

| EXPIRY DATE | CURRENCY | AMOUNT        | PAY RATE | ROLLOVER FREQUENCY | RECEIVE RATE |
|-------------|----------|---------------|----------|--------------------|--------------|
| 4-Sep-17    | AUD      | \$ 25,000,000 | 2.25%    | Monthly            | AUD-BBR-BBSY |
| 26-Jul-18   | AUD      | \$ 25,000,000 | 2.29%    | Monthly            | AUD-BBR-BBSY |
| 17-Jan-17   | AUD      | \$ 20,000,000 | 2.13%    | Monthly            | AUD-BBR-BBSY |
|             |          | \$ 70,000,000 |          |                    |              |

The swaps in place cover 69% (2015: 68%) of the total net debt as at 30 June 2016. 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<br>FIXED INTEREST RATE |           | NOTIONAL<br>PRINCIPAL AMOUNT |                | FAIR VALUE     |                |
|---|---|-----------|------------------------------|----------------|----------------|----------------|
|   | 2016<br>%                                 | 2015<br>% | 2016<br>\$'000               | 2015<br>\$'000 | 2016<br>\$'000 | 2015<br>\$'000 |
| Outstanding floating<br>for fixed contracts |   |           |                              |                |                |                |
| Less than 1 year                            | 2.13                                      | 3.09      | 20,000                       | 70,000         | (44)           | (285)          |
| 1 – 2 years                                 | 2.25                                      | 2.25      | 25,000                       | 25,000         | (177)          | (55)           |
| 2 – 5 years                                 | 2.29                                      | -         | 25,000                       | -              | (336)          | -              |

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

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

### (g) Credit risk management

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

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

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

Trade receivables consist of a large number of customers, spread across several geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. Details of the Groups exposure to significant counterparties at the end of the reporting period are disclosed in note 10.

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

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

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

## Note 44: Financial instruments (continued)

### (h) Liquidity risk management

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

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

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities.

The contractual maturity is based on the earliest date on which the Group may be required to pay. The amounts below are based on undiscounted cash flows and include principal and interest:

| CONSOLIDATED                       | WEIGHTED<br>AVERAGE<br>INTEREST RATE | LESS THAN<br>1 MONTH<br>\$'000 | 1-3 MONTHS<br>\$'000 | 3 MONTHS<br>TO 1 YEAR<br>\$'000 | 1-5 YEARS<br>\$'000 | 5+ YEARS<br>\$'000 |
|------------------------------------|--------------------------------------|--------------------------------|----------------------|---------------------------------|---------------------|--------------------|
| <b>2016</b>                        |                                      |                                |                      |                                 |                     |                    |
| Non-interest bearing assets        | -                                    | 10,452                         | 21,408               | 10,952                          | -                   | -                  |
| Non-interest bearing liabilities   | -                                    | 17,514                         | 26,361               | 186                             | 309                 | -                  |
| Finance Lease liability            | 8.84                                 | 24                             | 47                   | 210                             | 136                 | -                  |
| Floating interest rate liabilities | 4.01                                 | 155                            | 309                  | 927                             | 37,464              | -                  |
| Fixed interest rate liabilities    | 4.33                                 | 253                            | 505                  | 1,886                           | 71,462              | -                  |
| Fixed interest rate assets         | -                                    | -                              | -                    | -                               | -                   | -                  |
| Financial Guarantees               | -                                    | -                              | 412                  | -                               | -                   | -                  |
| <b>2015</b>                        |                                      |                                |                      |                                 |                     |                    |
| Non-interest bearing assets        | -                                    | 9,705                          | 20,176               | 9,705                           | -                   | -                  |
| Non-interest bearing liabilities   | -                                    | 16,863                         | 24,174               | 245                             | 20                  | -                  |
| Finance Lease liability            | 8.72                                 | 43                             | 696                  | 871                             | 407                 | -                  |
| Floating interest rate liabilities | 4.30                                 | 122                            | 244                  | 1,097                           | 35,828              | -                  |
| Fixed interest rate liabilities    | 5.19                                 | 316                            | 632                  | 2,864                           | 71,558              | -                  |
| Fixed interest rate assets         | -                                    | -                              | -                    | -                               | -                   | -                  |
| Financial Guarantees               | -                                    | -                              | 820                  | -                               | -                   | -                  |

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 \$17.0 million were unused at the end of the reporting period (2015: \$13.3 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<br>1 MONTH<br>\$'000 | 1-3 MONTHS<br>\$'000 | 3 MONTHS<br>TO 1 YEAR<br>\$'000 | 1-5 YEARS<br>\$'000 | 5+ YEARS<br>\$'000 |
|----------------------------|--------------------------------|----------------------|---------------------------------|---------------------|--------------------|
| <b>2016</b>                |                                |                      |                                 |                     |                    |
| Net settled:               |                                |                      |                                 |                     |                    |
| Interest rate swaps        | -                              | -                    | (248)                           | (309)               | -                  |
| Net settled:               |                                |                      |                                 |                     |                    |
| Forward exchange contracts | -                              | -                    | 1                               | -                   | -                  |
| Foreign currency options   | 52                             | 257                  | 517                             | 226                 | -                  |
|                            | <u>52</u>                      | <u>257</u>           | <u>270</u>                      | <u>(83)</u>         | <u>-</u>           |
| <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)               | -                  |
|                            | <u>(97)</u>                    | <u>(376)</u>         | <u>(828)</u>                    | <u>(254)</u>        | <u>-</u>           |

## Note 44: Financial instruments (continued)

### (i) Fair value of financial instruments

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

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

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

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

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

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

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

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

|   | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL  |
|---|---------|---------|---------|--------|
|   | \$'000  | \$'000  | \$'000  | \$'000 |
| <b>Financial assets designated in cash flow hedges</b>      |         |         |         |        |
| Derivative financial assets – 30 June 2016                  | -       | 1,053   | -       | 1,053  |
| Derivative financial assets – 30 June 2015                  | -       | -       | -       | -      |
| <b>Financial liabilities designated in cash flow hedges</b> |         |         |         |        |
| Derivative financial liabilities – 30 June 2016             | -       | 557     | -       | 557    |
| Derivative financial liabilities – 30 June 2015             | -       | 1,554   | -       | 1,554  |

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

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



## Note 44: Financial instruments (continued)

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

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

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

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

| FINANCIAL ASSETS/<br>FINANCIAL LIABILITIES | FAIR VALUE AS AT 30/6/16<br>\$ 000 | FAIR VALUE AS AT 30/6/15<br>\$ 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              | Assets \$1                         | Liabilities \$733                  | Level 2              | (1)                                     | N/A                               | N/A   |
| B) Foreign currency options                | Assets \$1,052                     | Liabilities \$481                  | Level 2              | (1)                                     | N/A                               | N/A   |
| C) Interest rate Swaps                     | Liabilities \$557                  | Liabilities \$340                  | Level 2              | (2)                                     | N/A                               | N/A   |

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

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

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

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

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

## Note 45: Events after the reporting period

In respect of the financial year ended 30 June 2016, a fully franked dividend of 1.5 cents per share was declared on the 24th August 2016 and will be paid on the 9th November 2016.

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

| 46.1 Financial Position          | CONSOLIDATED   |                |
|----------------------------------|----------------|----------------|
|                                  | 2016<br>\$'000 | 2015<br>\$'000 |
| <b>Assets</b>                    |                |                |
| Current assets                   | 195,800        | 222,198        |
| Non-current assets               | 264,068        | 252,583        |
| Total assets                     | 459,868        | 474,781        |
| <b>Liabilities</b>               |                |                |
| Current liabilities              | 43,075         | 46,246         |
| Non-current liabilities          | 180,369        | 192,086        |
| Total liabilities                | 223,444        | 238,332        |
| <b>Net Assets</b>                | <b>236,424</b> | <b>236,449</b> |
| <b>Equity</b>                    |                |                |
| Issued Capital                   | 443,266        | 443,266        |
| Accumulated Losses               | (208,659)      | (207,272)      |
| <b>Reserves</b>                  |                |                |
| Equity settled employee benefits | 1,546          | 1,497          |
| Hedging                          | 348            | (1,028)        |
| Foreign currency translation     | (77)           | (14)           |
| Total reserves                   | 1,817          | 455            |
| <b>Total equity</b>              | <b>236,424</b> | <b>236,449</b> |

| 46.2 Financial Performance          | CONSOLIDATED                         |                                      |
|-------------------------------------|--------------------------------------|--------------------------------------|
|                                     | Year ended<br>30 June 2016<br>\$'000 | Year ended<br>30 June 2015<br>\$'000 |
| Profit / (Loss) for the year        | (1,387)                              | 212                                  |
| Other comprehensive income / (loss) | 1,376                                | (243)                                |
| Total comprehensive income / (loss) | (11)                                 | (31)                                 |

| 46.3 Guarantees entered into by parent entity   | CONSOLIDATED   |                |
|---|----------------|----------------|
|   | 2016<br>\$'000 | 2015<br>\$'000 |
| Guarantee provided under the deed of cross guarantee (i)  | 5,754          | 11,307         |
| (i) The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 40. |                |                |

|   |     |     |
|---|-----|-----|
| <b>46.4 Contingent Liabilities of the parent entity</b> |     |     |
| Bank Guarantees   | 412 | 820 |

|  |    |    |
|--|----|----|
| <b>46.5 Capital Commitments of the parent entity</b> |    |    |
| Plant and Equipment                                  |    |    |
| Not longer than 1 year                               | 26 | 52 |

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