

Challenger Wine Trust (ASX:CWT)

Results for year ended 30 June 2010 (FY10)

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Fund Manager
27 August 2010



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Key points

- **Macro conditions continue to impact industry**
 - Excess wine grape capacity in Australia and New Zealand continues
 - Grape prices now at near 20-year lows
 - Strong AUD and NZD, plus impact of the GFC in key export markets, placing additional pressure on the industry
 - Downward pressure on vineyard property values across the industry
- **Operating performance sound; gearing impacted by property revaluations**
 - Profit from operating activities after tax \$15.2 million (FY09: \$16.1m) or 8.5 cents per unit (cpu)
 - 17 properties (85%) revalued at 30 June 2010 – values down 10.2%.
 - FY10 property revaluation decrement: \$30.3 million
 - FY10 distribution: 4.25 cpu; 2H10 distribution: 1 cpu
 - Portfolio is 99.4% leased; WALE is 4.1 years
 - Despite reducing debt in FY10 by \$17.2 million, covenant gearing now at 57.0%
- **Capital management alternatives under review**
 - Advisors appointed
 - Actively engaged in discussions on capital management alternatives

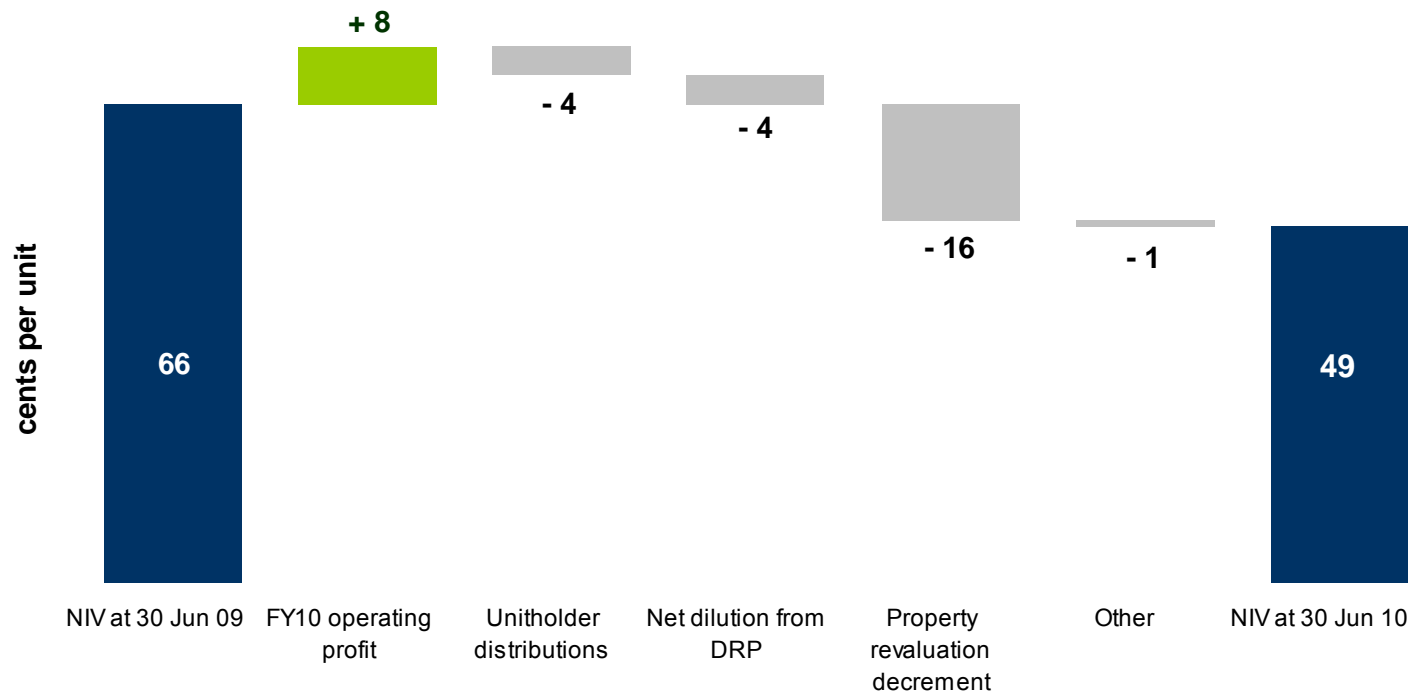
Operating profit equivalent to 8.5 cpu

- Profit from operating activities after tax: \$15.2 million or 8.5 cpu
- Property revaluation decrement: \$30.3 million
- FY10 distribution: 4.25 cpu; 2H10 distribution: 1.0 cpu

	FY10 \$'000	FY09 \$'000
Net property income	30,928	32,620
Financing costs	12,614	13,184
Profit from operating activities after tax	15,166	16,137
Net profit/(loss) after tax (including impact of net fair value movements)	(14,709)	(24,331)
Cash flow from operating activities	16,079	10,578
Distribution to unitholders	7,443	12,092
Distribution per unit (cents)	4.25	7.10

NIV¹ at 49 cpu

- NIV at 49 cpu as at 30 June 2010
- 17 of 21 (85% by value) properties independently revalued at 30 June 2010
 - Remaining 4 independently revalued as at 31 December 2009
- Property revaluations reduced NIV by 16 cpu



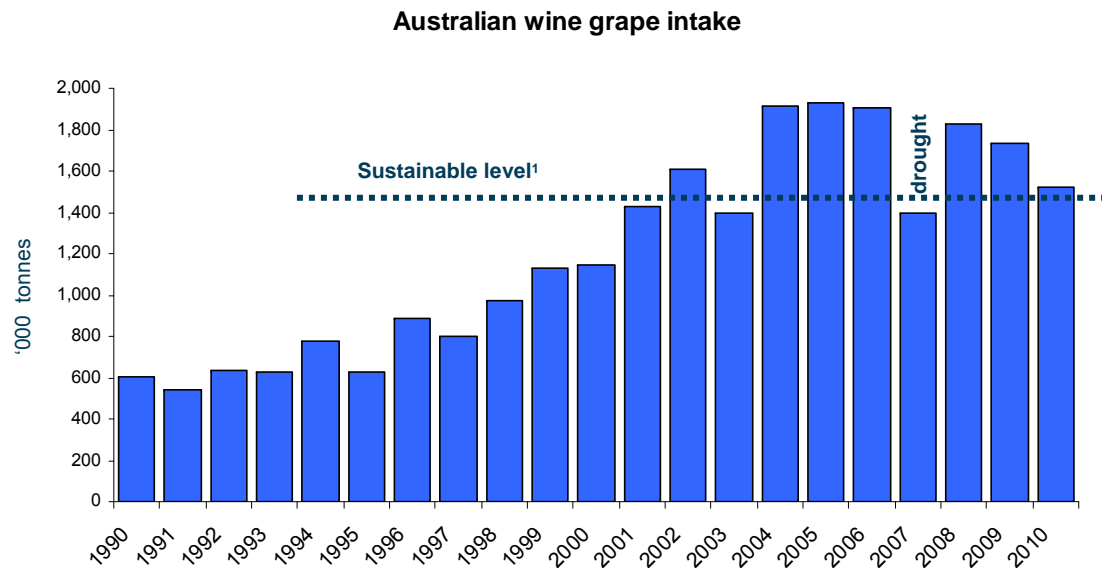
Notes:

1. Net Independent Value – includes water rights at fair value

Industry conditions

Australian wine industry at a glance

- After large vineyard planting late 90's to early 2000's – Australia has surplus vineyard capacity
- Vineyards being removed to reduce production to adjust to lower demand
- Higher barriers to entry should ensure capacity build-up not repeated in medium term
- Australia exports around two-thirds of its wine production

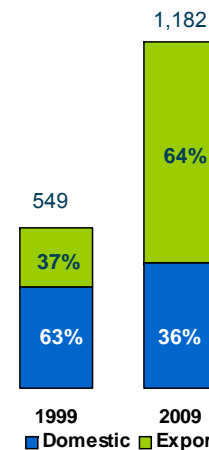


Source: Australian Wine and Brandy Corporation (AWBC)

Notes:

1. Source: Wine Restructuring Action Agenda – Supporting Report November 2009

End markets
(million litres)

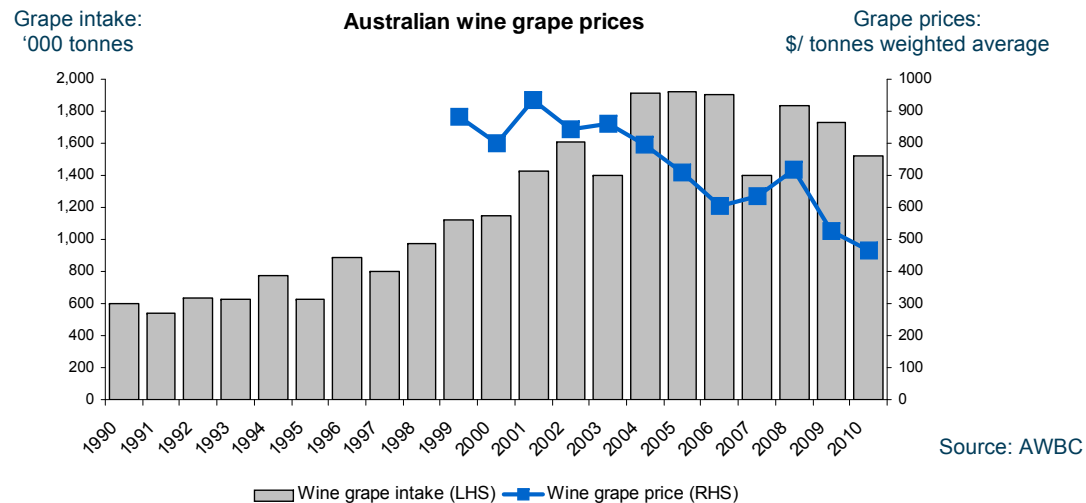


Source:
Australian
Bureau of
Statistics
(ABS)



Australian grape prices impacting valuations

- Grape prices down 35% in last two years
- Low grape prices impacting vineyard profitability and valuations



- Vineyard removals underway; 13,000 ha of vineyards removed to date
 - Estimated further 20,000 ha of Australia's vineyards need to be removed¹
- Many grape contracts not being renewed

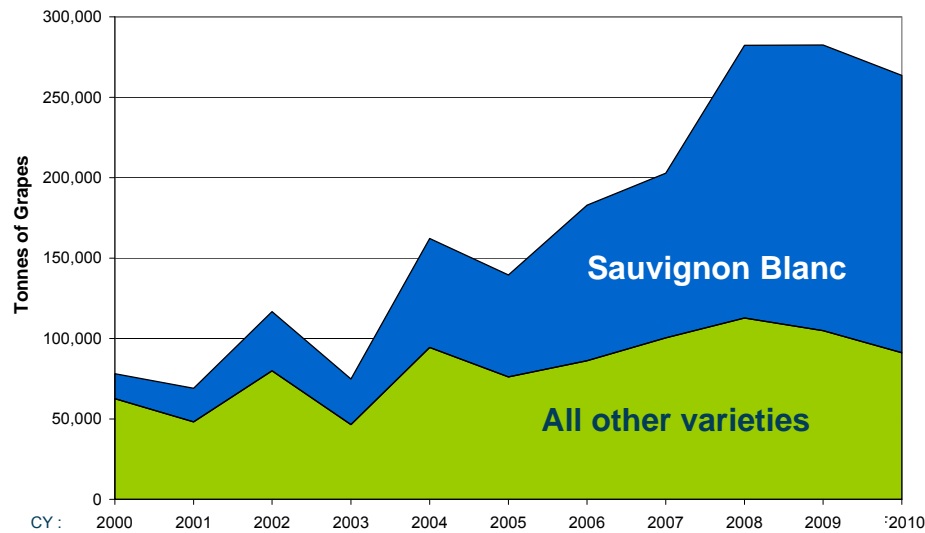
Notes:

1. Source: Wine Grape Growers' Australia

New Zealand - a similar story to Australia

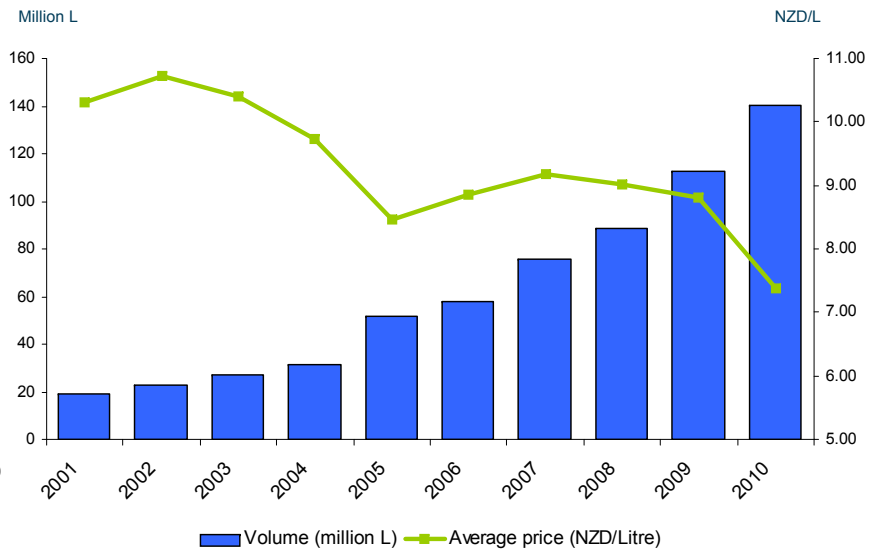
- Large planting of Sauvignon Blanc in early 2000's maturing during GFC
- Lower grape and wine prices; 2010 Sauvignon Blanc grape prices down 26%
- CWT's NZ tenant is Delegat's (Oyster Bay).
- CWT NZ vineyards planted to Merlot, Chardonnay, Pinot Noir in addition to Sauvignon Blanc

Growth in Sauvignon Blanc production in New Zealand



Source: NZ Wine

NZ Wine exports – volume and price



Source: NZ Wine

Portfolio update



Portfolio snapshot at 30 June 2010

		Australia	New Zealand ¹	30 June 2010 Total
Number of assets		17	4	21
Portfolio carrying value	\$ million	169.2	56.8	226.0
Portfolio fair (market) value ²	\$ million	178.7	56.8	235.6
% total portfolio value³	%	76%	24%	100%
Total area	ha	4,643	747	5,390
Planted area	ha	3,637	627	4,264
Occupancy	%	99.3%	100%	99.4%
Weighted Average Lease Expiry	yrs	4.6	2.0	4.1
Average passing rental yield	%	14.6%	10.6%	13.6%

Notes:

1. New Zealand portfolio value at 30 June 2010 based on spot rate of 1.2283
2. Includes water rights at fair value
3. Based on fair value

FY10 revaluations reduce values by \$30.3m

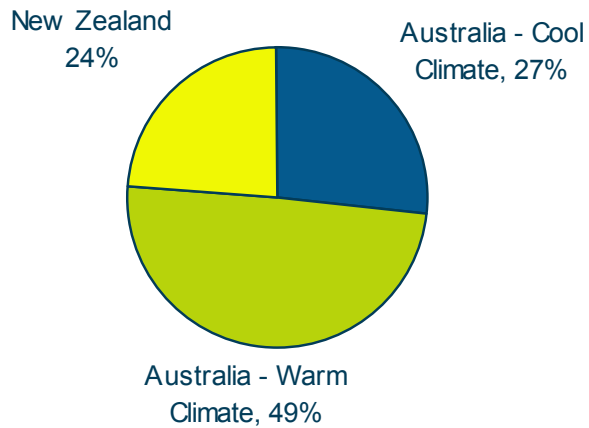
- 17 of 21 properties independently revalued (85% by value) at 30 June 2010
- Remaining 4 properties independently revalued as at 31 December 2009

Climate	Region	% of Portfolio pre-valuation	Fair Value at 30 June 2010 (\$ million)	Fair Value Pre-valuation (\$ million)	2H10 Change (\$ million)	Change (%)
Warm	Murrumbidgee River	28%	64.8	74.0	(9.2)	-12.5%
Warm	Murray River	20%	50.1	53.8	(3.7)	-6.9%
Cool	New Zealand	26%	56.8	67.0	(10.2)	-15.2%
Cool	SA/WA	7%	16.3	18.5	(2.2)	-11.8%
Cool	Central NSW	3%	7.2	9.0	(1.8)	-20.3%
Fair values		85%	195.2	222.3	(27.1)	-12.2%
Properties revalued at 31 Dec 2009		15%	40.4	40.4	N/A	N/A
Total fair values 30 June 2010		100%	235.6	262.7	(27.1)	-10.3%
Uplift in carrying values (water rights)					2.0	
Total carrying values 30 June 2010			226.0	251.6	(25.1)	-10.2%
Plus: 1H10 change in values					(5.2)	
FY10 carrying value decrement					(30.3)	

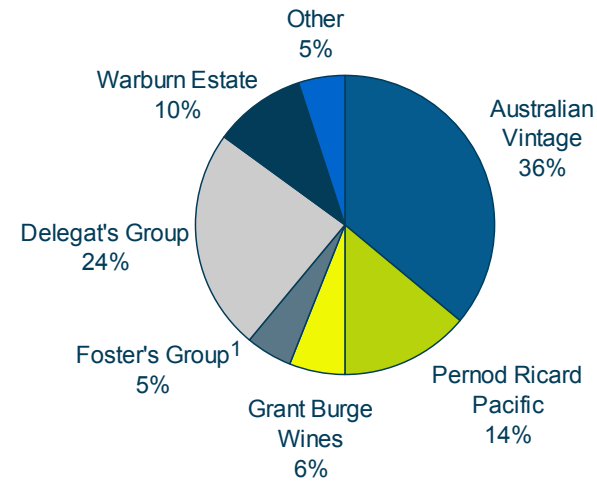
Portfolio well diversified

- 98% of portfolio leased to wine companies

Climate diversification (by fair value)
as at 30 June 2010



Tenant diversification (by fair value)
as at 30 June 2010

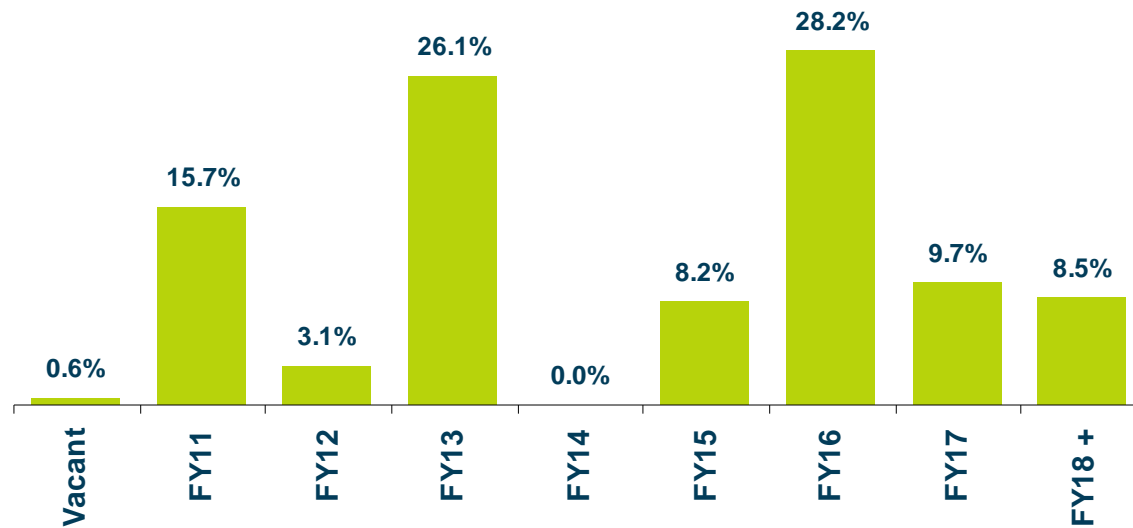


Notes:

1. Foster's wine business is now known as Treasury Estate Wines

WALE 4.1 years

Lease expiry profile (weighted)



Lease renewal profile – FY11 and FY12

- FY11 lease renewals represent 15.7% of portfolio by income
- FY12 lease renewals represent 3.1% of portfolio by income

Property	Tenant	% of portfolio	Lease renewal	Comments
Gundagai Vineyard (NSW)	Greenvalley Properties	6.3%	Sept 10 FY11	Terms agreed for sale
Crownthorpe Vineyard (NZ)	Delegat's Group	7.3%	Apr 11 FY11	One of the largest vineyards in Hawkes Bay. Varieties include Merlot and Chardonnay for Oyster Bay brands
Gimblett Gravels (NZ)	Delegat's Group	1.9%	Apr 11 FY11	Part of the famous Gimblett Gravels sub-region of Hawkes Bay. Mainly planted to Merlot and Cabernet Sauvignon
Chapel Vineyard (SA)	National Viticulture Fund	0.2%	Jun 11 FY11	Located in Coonawarra region. Planted to Cabernet Sauvignon and grown under contract to Foster's Group
Schuberts Vineyard (SA)	Australian Vintage	2.1%	Jul 11 FY12	Located in the Adelaide Hills and planted to white varieties, mainly Sauvignon Blanc and Chardonnay
Sirens Vineyard (WA)	Foster's Group	1.0%	May 12 FY12	Produces exceptional quality fruit that goes into Fifth Leg and Devil's Lair wine brands

Capital management

Debt facilities and covenants

- Borrowings \$134.7 million from 2 domestic banks
- Covenant gearing at 57.0%¹, up from 54.0% at 31 December 2009
- LVR headroom reduced

Facility	Amount (\$ million)	Expiry	LVR covenant at 30 Jun 10	Position as at 30 Jun 10	Headroom on security value as at 30 Jun 10
1	\$58.2	May 2011	Debt to security value <57%	55.0%	3.5%
2	\$76.5	May 2012	Debt (including net fair value of hedge contracts) to security value < 60%	58.6%	2.4%

Notes:

1. Weighted average; includes \$7.2 million term deposit set-off account

Capital management strategy

- Actions to date include property sales, DRP, retention of part of operating profit, and amendment to distribution payment cycle
- Debt reduced by \$17 million in FY10 but not sufficiently offsetting falling property valuations
- Covenant gearing now at 57.0%; LVR headroom tight
- Review of capital management alternatives underway
 - Advisor appointed
 - Actively engaging in discussion with various parties on capital management alternatives

Summary

Summary

- Macro conditions continue to impact industry
- CWT operating performance sound
- Gearing impacted by property revaluations
- Review of capital management alternatives in progress
- Wine companies adjusting to new market dynamics
- CWT's wine company tenancies and WALE of 4.1 years provides security of cashflow

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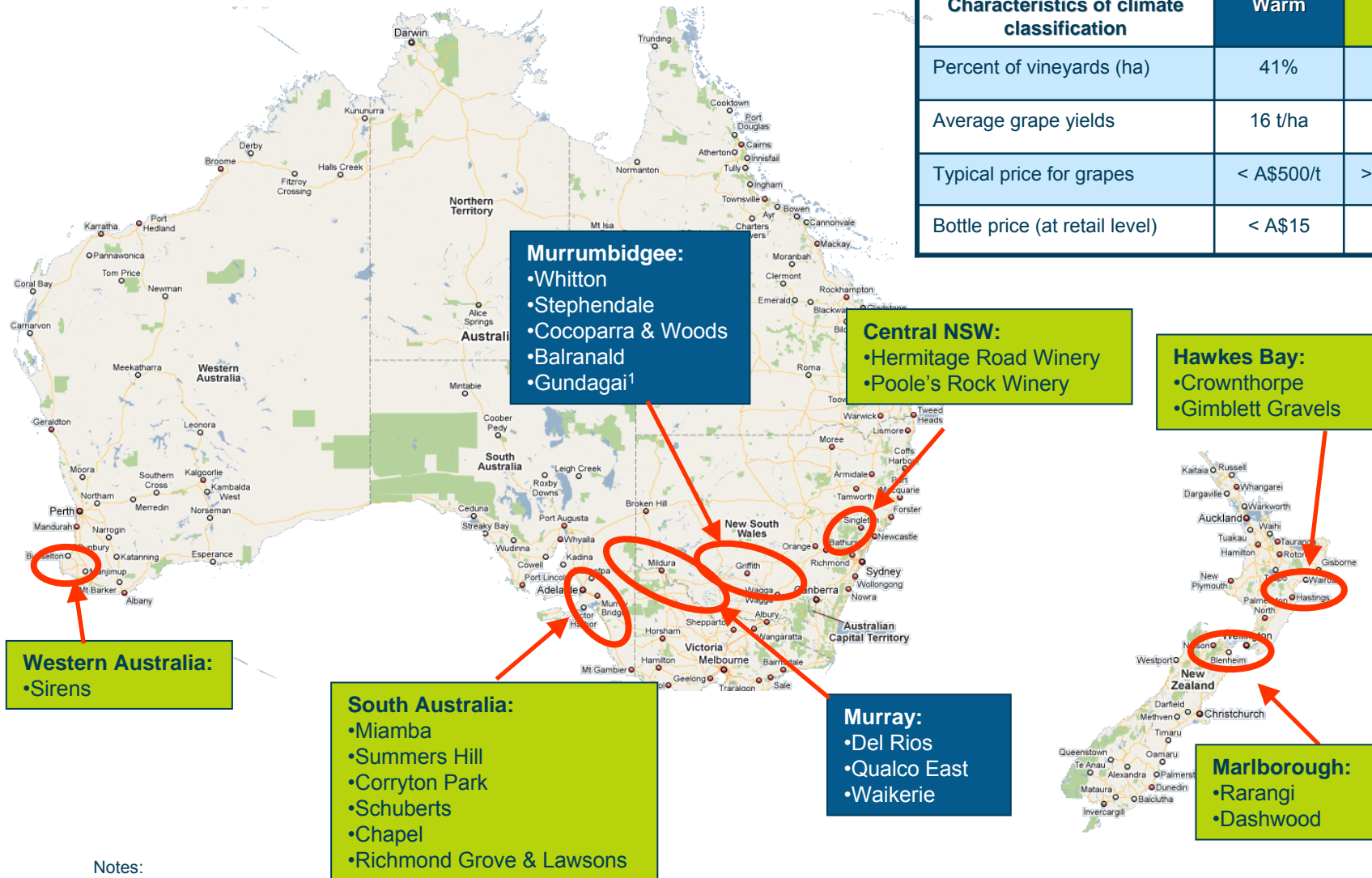
Website

www.challenger.com.au/cwt

Appendices

CWT's property portfolio

Characteristics of climate classification	Warm	Cool
Percent of vineyards (ha)	41%	59%
Average grape yields	16 t/ha	8 t/ha
Typical price for grapes	< A\$500/t	> A\$500/t
Bottle price (at retail level)	< A\$15	> A\$15



Notes:

1. Held for sale

CWT's major tenants

- **Australian Vintage Limited (35%)**
 - ASX listed company in wine sector
 - Wine brands include McGuigan, Sunnyvale, Nepenthe, M, Tempus Two and Yaldara
 - 2009 Winner of the International White Winemaker of the Year (London International Wine Challenge)
- **Delegat's Wine Estate Limited (25%)**
 - Subsidiary of Delegat's Group Limited, NZX listed company in the wine sector
 - Wine brands include Oyster Bay and Delegat's
 - The Oyster Bay brand is one of the top selling New Zealand wine brands in UK, Australia and Canada
- **Pernod Ricard Pacific Pty Ltd (12%)**
 - Subsidiary of Pernod Ricard a French company listed on NYSE Euronext exchange in the spirit and wine sectors
 - Wine brands include Orlando Wines, Jacob's Creek, Wyndham Estate, Lawson's, Trilogy and Richmond Grove
 - The Pernod Ricard Group is the world's co-leader in Wines and Spirits with consolidated sales of €7,203m in FY09
- **Warburn Estate (Aust) Pty Ltd (9%)**
 - Australian private company in the wine sector
 - Wine brands include Warburn, Stephendale, Gossips, The Brass Razu and Aspen Estate
 - A third generation family business
- **Foster's Australia Limited (6%)**
 - ASX listed company in the beer and wine sectors
 - Wine brands include Devil's Lair, Fifth Leg, Lindemans, Penfolds, Rosemount Estate and Wolf Blass
 - Foster's is the largest vineyard owner in Australasia
- **Grant Burge Wines Pty Ltd & Burge Corp Pty Ltd (6%)**
 - Australian private company in wine sector
 - Wine brands include Meshach, Shadrach, Filsell, Miamba, Summers, Cameron Vale, gb and Benchmark
 - Grant Burge is a fifth-generation Barossa Valley, SA winemaker

Detailed income statement

	FY10	FY09	Variance	
	\$000	\$000	\$000	%
Net property income	30,928	32,620	(1,692)	(5.2)
Other income	249	712	(463)	(65.0)
Finance costs	(12,614)	(13,184)	570	4.3
Management fees	(2,008)	(2,350)	342	14.6
Operating expenses	(1,269)	(1,294)	25	1.9
Profit from operating activities before tax	15,286	16,504	(1,218)	(7.4)
Income tax expense	(120)	(367)	247	67.3
Profit from operating activities after tax	15,166	16,137	(971)	(6.0)
Foreign exchange gain	305	-		
Net fair value movement of non current assets sold during the period	117	60		
Net fair value movements & impairments in non-current assets held at end of period	(30,297)	(40,528)		
Net (loss)/profit	(14,709)	(24,331)	9,622	39.5

Movements in fair value and carrying value

	Fair value \$000	Carrying value \$000
30-Jun-09	268,147	257,111
Acquisitions & upgrades	718	718
Disposals	(2,741)	(2,318)
Deferred leasing incentive	886	886
Revaluation changes & impairment	(32,180)	(32,180)
Water rights fair value decrement	-	1,883
Depreciation	(317)	(317)
Foreign currency translation movements	1,065	1,065
30-Jun-10	235,578	226,848

NIV at 49 cents

	\$million		Cents per unit	
	Jun-10	Jun-09	Jun-10	Jun-09
Net Tangible Assets (NTA)	63.6	80.1	33	47
Add: Water rights (at cost)	20.9	21.8		
Net Asset Value (NAV)	84.5	101.9	44	60
Add: Water rights fair value increment ¹	8.7	11.0		
Net Independent Value (NIV)	93.2	112.9	49	66

- NIV includes water rights at fair value (independently valued, reflecting the intrinsic value of CWT)
- NAV includes water rights at cost
- NTA excludes water rights²

Notes:

1. As per independent valuation
2. As water rights are treated as intangible assets held at cost - required under accounting standards for statutory reporting purposes

Selection of tenants' brands from CWT vineyards





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