AUSTRALIAN VINTAGE LTD

ABN: 78 052 179 932

Annual General Meeting
17 November 2015

Chairman's address

Welcome to the 2015 Annual General Meeting of Australian Vintage and thank you for joining us.

Before we go any further I would also like to welcome Mr Ian Ferrier and Mr Brian McGuigan to this meeting. As you would be aware they both have had a long association with the Company.

I would like to formally thank Mr Ian Ferrier for his outstanding commitment and contribution and for his influential leadership. His focus and disciplined approach has been greatly appreciated.

Similarly, Brian McGuigan's contribution to this company has been significant. Brian was the founding Managing Director of this company and was a Non-Executive Director for 9 years. I wish to thank Brian for his passion, commitment and leadership.

As happened in the past, I will provide shareholders with a summary of our performance during the last year and the outlook for this coming financial year.

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

About Australian Vintage

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

We are one of Australia's largest wine producers, capable of crushing 110,000 tonnes a year. We operate wineries in the Hunter Valley and Sunraysia region, have 2,900 hectares of grapes across 11 vineyards and sell 80 million litres of wine.

The McGuigan Black Label is the most popular branded red wine in Australia, and the McGuigan brand is the 2nd most popular Australian brand in the UK.

McGuigan has been named International Winemaker of the Year three times.

It is a truly remarkable result in such a crowded and competitive market.

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

In line with our strategy, our business is changing with the ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of all our branded products now comprise 72% of our total sales dollar. We have reduced our reliance on bulk wine sales and processing. However, if the opportunity presents itself, we will participate in the bulk wine market.

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

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Highlights and Key Points

The combination of our reputation as a low cost premium wine producer together with an increased focus on enhancing the reputation of our higher margin products has seen Company Revenue increase by 7% sales.

Net Profit after tax was down 11% to $9.4 million due mainly to lower than expected yields from our owned vineyards and as a result, the 2015 SGARA profit was down by $0.9 million.

Ignoring one off items such as the sale of Yaldara and the write off of customer incentives, our Net Profit after tax was $7.1 million compared to $7.6 million in the previous year.

The key focus on building our key brands has seen total sales of our branded business grow 43% over the last 3 years.

The continued focus on controlling costs has seen our cash flow from operating activities improve by $5.7 million.

Our net debt decreased during the year to $104.3 million compared to $111.8 million at June 2014. Our gearing is now at a comfortable 36% with a secure banking facility in place until October 2017. Four years ago our net debt was $160.0 million.

During the financial year ended 30 June 2015 we sold our Yaldara winery with an after tax profit of $6.2 million and we wrote off $3.9 million of non-recoverable incentives paid to our overseas customers. We are currently reviewing options to replace the processing capacity of the Yaldara winery.

We recently announced to the market that we have terminated the lease on the 30,000 tonne Del Rios vineyard with effect from 31 December 2015. The lease term was due to expire after the 2023 Vintage but was terminated under the provisions in the lease which provided an election to exit early in the event of a natural disaster such as a frost.

The early termination delivers a material financial benefit to the company. Based on the 2015 average grape prices in the region that this vineyard is located, the net cash benefit is $35 million over the lease term. This takes into account the actual termination payment of $4.9 million and the write off of $8.9 million in vineyard and other costs.

After termination, the benefit is $48.8 million over the remaining 8 year lease term. Whilst these cash benefits will start immediately, the lower grape costs will take a couple of years to flow through our profit and loss result.

I should also point out that the benefits of the Del Rios vineyard lease termination are in addition to the $6.9 million benefit we disclosed to the market in our full year results release. These benefits come from the expiry of above market priced grape contracts that expire from 2016 to 2018. This $6.9 million benefit is calculated using the average 2015 grape price.

We continue to lease a number of vineyards which provide about 26,000 tonnes and all these grapes are above current market price. These vineyards expire in 2021 and 2022 and when compared to the 2015 average grape price provide this Company with grapes that are $5.5 million per annum over the market price.

As a result of our drive to improve efficiencies at our wineries and our packaging facility, and our desire to increase investment in our brands we decided not to pay a dividend in 2015. To date we have increased our Advertising and Promotion expenditure and we are currently looking at increasing our capabilities at our production facility at Merbein. We will also be putting some of the cash savings towards the termination of the Del Rios vineyard lease.

As in previous years, the board will continue to assess the payment of dividends on a year by year basis.

Continued Strong Growth in Branded Sales

Bottled sales in our Australasia/North America segment grew 9% and in the UK/Europe segment 16%.

Our Australasia/North America Bulk and Processing revenue was down $5.2m due mainly to the expiry of a large contract processing contract and reduced bulk wine sales. However, if the opportunity arises we will continue to make bulk wine sales in the future.

The continued focus on our branded sales has seen 18% sales growth in our three key brands, McGuigan, Tempus Two and Nepenthe.

Market Conditions

For the year ended September 2015, Australian export sales have recorded their strongest period of growth since the export value peaked in October 2007. Value increased by 8% to $1.96 billion and volume also increased by 5% to 734 million litres. This is very encouraging.

The lower Australian dollar and the series of successful free trade agreements with China, Japan, and South Korea all lead to a positive outlook for Australian wine export sales.

In terms of global production it is estimated that the 2015 production was up 2% on the previous year and in line with the long term average. There is no doubt that global production has stabilised which will help the global oversupply that has been evident in the past 10 or so years.

Australian Wine Industry

Australian production for 2015 is 1.67 million tonnes which is just below the 8 year average crush of 1.7 million tonnes. The 2015 crush is very much in line with what we sell on an annual basis.

Total area under vines has also seen a significant decrease with an estimated reduction of 24,000 hectares in Australia.

These factors lead us to the conclusion that the wine industry is heading towards a balanced stock to sales position.

Whilst domestic wine sales have increased by 14% to 609 million litres, all of this increase has come from imported wine which has increased by 90% or 73 million litres. Imported sparkling and New Zealand Sauvignon Blanc were the main contributors to the increase in imported wine.

The weakening of the Australian Dollar has also helped margins but the full benefits have not flowed through due to the continued intense margin pressure in our key overseas markets.

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Outlook

Global industry conditions remain very challenging. However, with the weakening of the Australian dollar and the recently signed Free Trade Agreements, we are seeing signs of improved conditions in the wine industry.

This company will continue to focus on the core strategies of quality, growing branded business, growing export and maintaining low cost position.

The 2016 result will be negatively impacted by the high cost of the 2014 Vintage. We estimate that the negative impact is around $5.3 million. However, the 2015 vintage cost is lower than 2014 and will help improve margins going forward.

Sales for the first four months to October 2015 are very encouraging with stronger sales in both the domestic and export markets. Sales into Asia are slightly up on last year and we continue to be confident that our long term agreement with COFCO will result in ongoing improved sales.

Subject to normal 2016 vineyard yields and forecast FX we expect our 2015 net profit after tax to be about 10% up on last year's $7.1 million net profit after tax and before one off items.

Richard Davis, Chairman

Australian Vintage Limited

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