



AUSTRALIAN VINTAGE LTD

ABN 79 052 179 932

**Australian Vintage Limited Annual General Meeting
Chairman's Address
Wednesday 25 November, 2009**

Good afternoon ladies and gentlemen and welcome to the 2009 Annual General Meeting of Australian Vintage Limited.

My name is Ian Ferrier and I will be chairing today's meeting. As well as our existing Board members, Perry Gunner and Brian McGuigan who are present I'd like to welcome our newest Director, Richard Davis. Richard joined the board in May 2009 and is a chartered accountant. He was Chief Executive and Director of Invocare. We are delighted to have someone of Richard's calibre join the Board.

At today's meeting there are a number of issues we will cover. I will talk to you about Board changes, give you an overview of our results and how we see the industry. I'll also update you on the discussions that are underway with Constellation brands.

Our chief executive Dane Hudson will update shareholders on progress and how Australian Vintage sees the year ahead.

Board Changes

Let me start by covering the changes to your Board. The Board is committed to board renewal to ensure we have the appropriate balance of experience and skills necessary to deal with a very volatile environment.

I mentioned Richard's appointment and we welcome his contribution. There have been other changes in your Board since we last met. In July this year David Clarke resigned as a director. As many of you may know, David had been on leave due to ill health since late 2008. David was the first chairman of McGuigan Wines when it listed on the Australian Securities Exchange in 1992.

He was instrumental in the growth of this Company including the merger with Simeon Wines in 2002. It is rare to find a leading banker who also has a very deep understanding of the wine industry. He has been a steadying force during the most difficult time the Australian wine industry has ever faced.

Two of our other long serving directors have also retired. Nick Greiner retired in December last year after 17 years as a director, and Christopher Harris retired in June this year. I would like to acknowledge their valuable contribution to the company and thank them for their wise counsel.

Industry Overview and Company Performance

Like other major winemakers, Australian Vintage experienced another difficult year as the fallout of changes in the global wine market continued to impact on every aspect of the business.

You don't have to be an economist to understand that if any industry continues to produce 30 per cent more than demand, it is a recipe for disaster. The bottom line is that in terms of supply and demand, Australia is producing 20 to 40 million cases more than it is selling. The surplus already exceeds 100 million cases. And at the current rates of production, surplus will double in two years.

On the demand side, Australia's wine exports have fallen in volume and value since the peak in 2007. Over the same period, domestic sales of Australian wine have gone down and sales of imported wine have gone up. The impact on the value of vineyards and processing facilities is obvious.

A report released this month by the peak industry bodies demonstrates how dire the situation has become. It found that at least 20 per cent of bearing vines in Australia are surplus to needs, with few long term prospects and on a cost of production basis, at least 17 per cent of vineyard capacity is uneconomic. The global financial crisis hasn't helped but it is not the only factor, with the Australian dollar and cost increases also impacting the business.

It is in this context that I wanted to discuss your Company's performance and prospects. Australian Vintage moved early to face up to the challenges and have since 2006 been taking action to remain competitive. We continue to monitor every aspect of our business, and in January this year we undertook a strategic review. It confirmed our overall strategic direction, but openly demonstrated that we needed to fix our grape contracts and address stock values.

It was clear that we had to face up to the new reality facing the wine industry and we made the decision to take an impairment charge of \$128 million to accurately reflect the market and operating conditions. At the operational level we continue to transform our asset and cost base.

We exited grape purchase agreements and vineyards, sold or closed five wineries and simplified production and packaging. As a result in the past two years, winery costs have fallen \$6 million and other costs by \$10 million.

Last year Australian Vintage again outperformed the industry with sales up 9 per cent. We made progress in reducing our debt and turning around our operating cash flows which stood at a healthy \$17.7 million. And we agreed a new two-year facility with our lenders.

Net profit was of course impacted by the impairment charge we had to take, which saw the Company record a statutory loss of \$123.6 million. However, our actual underlying profit was \$4.3 million. And we've operated through the year without harming the quality of our brands or the quality of our wines.

Our McGuigan range continued to grow in sales and volume, and our McGuigan and Nepenthe Wines won two of the most prestigious international awards available including 'The Best Chardonnay in the World'.

And I am pleased to say our Chief Winemaker, Neil McGuigan was recognised as 'The Best International White Winemaker in the World' at the International Wine Challenge in London in May. This is an enormous honour for him and the Company and we should acknowledge this success.

Indeed on behalf of shareholders I would like to thank all of our 700 staff who have continued to work very hard in such tough times. They have both made the necessary changes and borne the brunt of those hard decisions that has put Australian Vintage in a much stronger position than it was three years ago.

The restructuring in the industry and in Australian Vintage has been painful for shareholders and for our employees and it continues to be an issue that the industry will have to deal with in the coming years. However, by facing up to the challenges early, Australian Vintage is in relatively good shape and has created a sustainable company to deal with the immediate challenges in the market and is ready to take advantage of any improvement in conditions.

Constellation

It is in this context that we are talking with one of the world's largest wine companies, Constellation brands about a proposal to merge with constellation's Australian and UK operations. As many of you would know, Constellation Brands' interests in Australia stem from its purchase of BR Hardy in 2003.

Constellation is the largest wine company in Australia and in the United Kingdom and in Australia produces 25 million cases of quality wine for export and for Australia. The brands are strong and well recognised. The main ones are Hardy's, Banrock Station, Berri and Stanley.

While our discussions with Constellation's head office are progressing well there are a number of material issues that we continue to work through. We do see significant benefits, particularly given the structural imbalance in the industry in Australia, of reduced costs and other synergies from the combined operation.

We believe the business would be better positioned to succeed in the current environment together rather than separately. The new combined business would continue as Australian Vintage limited, listed on the Australian Securities Exchange.

I can't be definitive but at this stage our discussions are focused on a merger where Australian Vintage would purchase the Constellation business with Australian Vintage shares. We hope to be able to update you in January.

Outlook

Turning to the outlook, we expect further upheaval in supply and demand. The 2009 vintage was again too high. Lower demand, the Australian dollar and the global financial crisis will impact sales of Australian wine both here and abroad.

It is hard to predict how the industry will cope with the transformational change that is underway. There will be volatility in the market as competitors make decisions about assets, brands and stock. We will continue to operate our production facilities flexibly to meet the conditions.

Our focus is on returning the business to sustainable growth and shareholder returns. We are confident that despite the conditions, we have production at the right volume and cost and we have flexible supply arrangements.

We remain confident that we can meet our profit forecast and are targeting a 100 per cent growth in net profit after tax, assuming no further strengthening of the Australian dollar. Trading in the first four months is in line with our expectations. And we intend to continue to build our brands and deliver quality wine to Australian and international consumers.

Ian Ferrier
Chairman, Australian Vintage Limited
25 November 2009