



AUSTRALIAN VINTAGE LTD

**FINANCIAL REPORT FOR THE YEAR ENDED**

**30 JUNE 2017**

**(ACN: 052 179 932 ASX REFERENCE: AVG)**

# Directors' report

## For the financial year ended 30 June 2017

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2017. 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 61**

(Chairman - appointed 1<sup>st</sup> 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 59**

(Chief Executive Officer) Director since 21 July 2010.

Neil was previously the General Manager of Production and Wine Supply at Australian Vintage Ltd. 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 70**

(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 64**

(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 64**

(Non-Executive) Director since 28 January 2015

Currently Deputy Chairperson of Racing NSW and Director of Melbourne IT Limited, PMP Limited 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.

**Peter J Perrin, Age 59**

(Non-Executive) Director since 28 March 2017

General Manager of Torbreck Vintners. Trustee of The Wolf Blass Foundation. 35 years' experience in the sales and marketing of premium Australian wines both in Australia and overseas.

**Jiang Yuan (Dixon), Age 40**

(Non-Independent, Non-Executive) Director since 7 June 2017

Founder of www.yesmywine.com, the largest imported wine platform in the world, based in China.

Well known for pioneering data analytics and an innovator in imported wines in China, Dixon has considerable experience in distribution and selling of wine into Asia.

# Directors' report

## For the financial year ended 30 June 2017

### 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 H Davis	InvoCare Limited	Since 2012
	Monash IVF Group Limited	Since 2014
Perry R Gunner	Freedom Foods Group Limited	Since 2003
	A2 Corporation Ltd (N.Z.)	2010 to 2015
Naseema Sparks	PMP Limited	Since 2010
	Melbourne IT Limited	Since 2012
	Grays e-Commerce Group Limited	2014 - 2016

### 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 2017, a fully franked dividend of 1.0 cents per share has been declared and will be paid on 10<sup>th</sup> November 2017. In respect of the financial year ended 30 June 2016, a fully franked dividend of 1.5 cents per share was paid on the 9<sup>th</sup> November 2016.

### Review of operations and future developments

#### Key Points

- Net Profit after tax \$4.3 million compared to after tax loss of \$2.2 million in the prior period
- Net Profit after tax and before one off items \$4.3 million compared to \$7.0 million in prior period
- Cash Flow from Operating Activities positive \$14.0 million compared to \$6.5 million in prior period
- Net Debt of \$82.8 million compared to \$101.4 million as at 30 June 2016
- Revenue down \$16.2 million to \$226.5 million, with unfavourable foreign currency impacting revenue by negative \$17.5 million
- Sales volumes of McGuigan, Tempus Two and Nepenthe up 4%
- 1.0 cent per share fully franked final dividend declared

Although profitability is not where we want it, when you consider the fall of the GBP following Brexit, our financial result is credible, especially when you consider our positive cash flow of \$14 million. Based on the average exchange rate that was present in the 2016 financial year, our 2017 cash flow would have been \$4.7 million higher and our net profit after tax would also have been \$3.3 million higher. This clearly demonstrates that our long-term strategies are correct.

Our core business continues to improve with sales volumes of AVL's three key brands, McGuigan, Tempus Two and Nepenthe continuing to grow against some market conditions that have seen wine volumes decline.

During the year we increased our focus on the Tempus Two brand which resulted in a 28% improvement in sales and a 50% increase in gross margin. Over the last 12 months the McGuigan brand has grown by 6% in volume in the UK market against a market decline of 3.1%.

# Directors' report

## For the financial year ended 30 June 2017

### Review of operations and future developments (continued)

Whilst the UK continues to be our main overseas market, we have a strong focus on growing and strengthening our distribution channels in the key overseas markets of Asia and the United States. In the 6 month period to 30 June 2017, sales into Asia have increased by 60% and contribution increased by 241% when compared to the same 6 month period in the prior period. Whilst some of this increase is due to the timing of orders, it does reflect that our partnership with COFCO is the right strategy. For the full year, sales into Asia increased by 19% and contribution by 21%. We expect this trend to continue.

The UK market remains a tough market with the current exchange rate making it hard to achieve a satisfactory return. The Company has taken some price increases in early January 2017, but this does not cover the full impact of the unfavourable exchange rates. For the next 12 months, we will continue to focus on improving sales mix and implementing further price increases.

The focus on our quality of wine has again been rewarded with the company's wines continuing to win awards at significant wine shows. At the recently held San Francisco International Wine Competition, the McGuigan Shortlist Riesling and the Farms Shiraz won double golds, other McGuigan brands picked up a further 5 golds, Nepenthe received 4 gold medals and Tempus Two received 3 gold medals. These awards are on top of the 425 trophies and medals that we received in the last 12 months to June 2017. Having won the International Winemaker of the Year four times at the prestigious International Wine and Spirits Competition in London, the company continues to produce world leading quality wine.

#### Sales

Revenue for the year decreased 7% or \$16.2 million due to the unfavourable foreign currency which accounted for \$17.5 million of this decrease.

Australasia/North America packaged sales were down 1% on last year with an increase in bottled sales of 1% and a decrease of 6% in our cask sales. Our new distributor in the USA, Palm Bay, have launched Tempus Two to great acceptance with the launch of McGuigan "The Plan" to be executed early in 2018.

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

Division	Movement in Sales (%)
Australia	(2)
New Zealand	(14)
Asia	19
North America	(2)

Australian sales decreased by 2% due to a 6% decline in cask sales. This decline is in line with the consumption trend of casks in the Australian domestic market. Due to significant pricing pressure on the McGuigan brand in Australia, the company took a stance on promotional support and as a result, sales of this brand dropped during part of the year. Sales of Black Label are now back on track and growing

Sales to New Zealand were down due to new legislation on promotion depth and frequency. Since this new legislation was introduced, sales have recovered to levels seen in the previous year. In the last 6 months, sales to New Zealand have been in line with the previous year's corresponding period.

Sales to Asia have grown by 19% with the last 6 months showing a 60% growth when compared to the same corresponding period in the prior period.

UK/Europe packaged and bulk sales were down by 14% on last year with packaged sales down 12% or \$12.3 million and bulk and private label sales down 54% or \$1.8 million. The unfavourable GBP negatively impacted sales by \$17.3 million when compared to the prior period.

# Directors' report

## For the financial year ended 30 June 2017

### Review of operations and future developments (continued)

#### Sales By Segment

	12 Months to		Change	
	30/06/17 \$'000	30/06/16 \$'000	Variation \$'000	%
Australasia/North America Packaged	106,005	106,672	(667)	(1)
UK/Europe	88,454	102,506	(14,052)	(14)
Cellar Door	7,834	8,185	(351)	(4)
Australasia/North America bulk & processing	20,358	22,222	(1,864)	(8)
Vineyards	3,799	3,101	698	23
	<b>226,450</b>	<b>242,686</b>	(16,236)	(7)

#### EBIT and Net Profit

EBIT is \$11.3 million compared to \$3.2 million in the previous period. Before one off items EBIT is \$11.3 million compared to \$16.4 million. The contribution from the Australasia/North America packaged segment was in line with last year.

The UK/Europe segment was significantly impacted by the unfavourable GBP. Actual sales volumes improved on last year in a market that saw wine sales decline. The contribution from this segment was down by \$3.3 million due to the unfavourable GBP.

Australasia/North America Bulk segment contribution declined by \$1.5 million due to losses on some bulk wine sales. These bulk sales were made to remove wine that was not required for future sales.

The decreased contribution from the vineyard segment was due to a change in accounting standards on vines.

	12 Months to		Change	
	30/06/17 \$'000	30/06/16 \$'000	\$'000	%
Australasia / North America Packaged	6,258	6,249	9	-
UK / Europe	208	3,500	(3,292)	(94)
Cellar Door	1,456	1,568	(112)	(7)
Australasia / North America bulk and processing	(1,075)	447	(1,522)	(340)
Vineyards	4,414	4,610	(196)	(4)
<b>EBIT</b>	<b>11,261</b>	<b>16,374</b>	<b>(5,113)</b>	<b>(31)</b>
Finance costs	(5,025)	(5,790)	765	13
Interest received	15	15	-	-
Profit Before Tax	6,251	10,599	(4,348)	(41)
Tax	(1,948)	(3,590)	1,642	46
<b>Net Profit (before one off items)</b>	<b>4,303</b>	<b>7,009</b>	<b>(2,706)</b>	<b>(39)</b>

Vineyard lease exit	-	(13,148)	13,148	
Tax	-	3,944	(3,944)	
<b>Total one-off items (after tax)</b>	<b>-</b>	<b>(9,204)</b>	<b>9,204</b>	

Total Net Profit / (Loss) (after one off adjustments)	4,303	(2,195)	6,498	
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#### Financial Position

Due to the recent \$16.5 million placement of shares and the improved cash flow from operating activities, the net debt decreased by \$18.6 million. The gearing ratio is now at a comfortable 29% (38% as at 30 June 2016). The existing banking facility remains in place until September 2019.

#### Outlook

The Company continues to focus on growing its three key brands, McGuigan, Tempus Two and Nepenthe and whilst the last 12 months have been challenging due mainly to the unfavourable GBP, we remain confident that our strategy is the correct one.

# Directors' report

## For the financial year ended 30 June 2017

### Review of operations and future developments (continued)

One of the most pleasing aspects of our business is the cash flow from operating activities which improved by \$7.5 million over the prior period.

Over the last 12 months the McGuigan brand has grown by 6% in the UK against a total UK wine market decline of 10% and the McGuigan Black Label Red remains the biggest selling red wine in Australia. Our major brand continues to perform well.

As foreshadowed in our May 2017 press release on the placement to Vintage China, the company will be undertaking major capital projects to further improve efficiencies and quality of wine. Our total capital spend for the next 12 months will be approximately \$19.0 million and will focus on:

	<b>\$M</b>
Major efficiency upgrades at Buronga Hill Winery	5.3
Efficiency improvements at our Merbein packaging facility	6.1
Vineyard developments	1.9
IT upgrade	0.9
Other (normal replacement capital)	4.8
	<b>19.0</b>

Our proposed capital spend will incorporate several sustainability initiatives including:

- The completion of the 1,640Kw solar panel system at our Buronga Hill Winery
- The installation of a 300Kw solar panel system at our Merbein Packaging facility
- The development of a vineyard adjacent to our Buronga Hill Winery that will use the waste water from the winery

Australian Vintage has transformed over the last 10 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue as we push into the Asian and US markets. Our persistence on improving efficiency will mean that the company will spend \$19.0 million on capital projects over the next 12 months.

Based on the GBP exchange rate remaining at around 61 pence and a normal 2018 vintage, we expect our 2018 result to be at least 10% up on this year's Net Profit After Tax result.

Assuming no price adjustment for the next 12 months, a 1 pence movement in the GBP impacts our Net Profit after tax by approximately \$0.4M.

A further market update will be provided at our Annual General meeting in November 2017.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a dividend. A fully franked dividend of 1.0c per share will be paid to all shareholders on 10 November 2017. The Record Date to establish shareholder dividend entitlements is 20 October 2017. The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 10 November 2017. 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' report

## For the financial year ended 30 June 2017

### 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 13 Board Meetings, 2 Audit Committee Meetings, 2 Risk Committee Meetings and 2 Remuneration Committee meetings.

Directors'	Board Meetings Attended	Audit Committee Attended	Risk Committee Attended	Remuneration Committee Attended
Richard H Davis	13	2	2	2
Neil A McGuigan	12	2	2	2
Perry R Gunner	12	-	2	2
John D Davies	12	2	2	2
Naseema Sparks	13	2	2	2
Peter J Perrin <sup>(a)</sup>	4	-	-	-
Jiang Yuan (Dixon) <sup>(b)</sup>	1	-	-	-
<b>Total Meetings Held</b>	<b>13</b>	<b>2</b>	<b>2</b>	<b>2</b>

<sup>(a)</sup> Appointed 28 March 2017

<sup>(b)</sup> Appointed 7 June 2017

### 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	1,005,000	4,257,003
Perry R Gunner	1,173,886	-
John D Davies	300,000	-
Naseema Sparks	-	-
Peter Perrin	9,800	-
Jiang Yuan	35,939,389	-

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

Issuing Entity	Number of shares under option / right	Class of shares	Exercise price of option / right	Expiry date of option / right
Australian Vintage Ltd	950,912	Ordinary	Right <sup>(a)</sup>	21 August 2017
Australian Vintage Ltd	4,000,000	Ordinary	\$0.376	1 November 2020
Australian Vintage Ltd	3,852,000	Ordinary	\$0.528	1 November 2021
	8,802,912			

<sup>(a)</sup> Performance Rights entitle the owner to an issue of shares at the vesting date subject to certain performance criteria.

# Directors' report

## For the financial year ended 30 June 2017

### 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.

#### Key Management Personnel for the year comprised:

Name	Position	Dates
<b><u>Non-executive Directors</u></b>		
Richard H Davis	Chairman	Full Year
Perry R Gunner	Non-executive Director	Full Year
John D Davies	Non-executive Director	Full Year
Naseema Sparks	Non-executive Director	Full Year
Peter Perrin	Non-executive Director	Since 28 March 2017
Jiang Yuan	Non-executive Director	Since 7 June 2017
<b><u>Executives</u></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	Resigned 17 August 2016

#### Remuneration Committee and Director Compensation

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 30<sup>th</sup> June 2017, with advice received that Non-Executive Director compensation is aligned with the market. 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.

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

#### Remuneration Components for Non-Executive Directors

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 2016/17 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.



# Directors' report

## For the financial year ended 30 June 2017

### Remuneration report (continued)

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 30<sup>th</sup> 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 (Target of 50% by FY20)	At Risk Remuneration (Variable Reward)	
	Short-Term Incentive (Target of 25% by FY20)	Long-Term Incentive (Target of 25% by FY20)
Comprises: <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, in some years, service hurdles. Target of 25% of Total Remuneration.

For FY16 and FY17, 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. The service hurdle will be discontinued in FY18.

#### 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 in terms of the Financial opportunity. 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, along with corporate financial and behavioural objectives, 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, and are calculated as follows:



# Directors' report

## For the financial year ended 30 June 2017

### Remuneration report (continued)

The table below shows the maximum STI payments for 2017, the breakdown between financial and operational key performance indicator targets and the actual percentage of the maximum STI achieved:

	2017	2017	Key Performance Targets			2017 % of maximum granted <sup>(1)</sup>
	Minimum Bonus	Maximum Bonus	Financial	Behaviours	Operational	
	\$	\$				
Neil McGuigan	0	300,000	40%	10%	50%	76.5%
Michael Noack	0	125,276	25%	10%	65%	83.7%
Cameron Ferguson	0	124,844	25%	10%	65%	74.7%
Julian Dyer	0	114,456	25%	10%	65%	74.7%

<sup>(1)</sup> The 2017 STI payment was based on the actual net profit compared to the budget net profit which included the impact of BREXIT. In approving the STI 2017 payment, the board also took into account the amount of time and effort management dedicated to securing the recent placement to Vintage China which has resulted in significant improved liquidity for the company, the positive volume growth performance in UK in spite of ongoing currency challenges and the need to maintain motivation and manage retention of key staff.

### 3. Long Term Incentives

#### Performance Rights and Options Plan:

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 July 2013:

- For all rights, continuous employment must be maintained up until the exercise date.
- 25% of Performance Rights will vest if the Earnings Per Share (EPS) for the four years 2014 to 2017 inclusive achieves a compound annual growth rate (CAGR) of at least 5% per annum using the 30<sup>th</sup> 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 30<sup>th</sup> 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 30<sup>th</sup> June 2013 financial year results as a base year.
- All these rights expired on 22<sup>nd</sup> August 2017.

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 are subject to an EPS hurdle. If the EPS CAGR for the three years FY16 to FY18 inclusive is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting occurs on a straight line between 25% and 100%.
- 40% of the options are subject to a Total Shareholder Return (TSR) hurdle. If TSR for the three years FY16 to FY18 is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting occurs on a straight line between 25% and 100%.

Options issued November and December 2016:

- 30% of options will vest if continuous employment is maintained up to 1st July 2020.
- 30% of the options are subject to an EPS hurdle. If the EPS CAGR for the three years FY17 to FY19 inclusive is less than 7.5% no options will vest under this performance condition. If the EPS CAGR is between 7.5% and 15% vesting occurs on a straight line between 25% and 100%.
- 40% of the options are subject to a TSR hurdle. If TSR for the three years FY17 to FY19 is less than 10%, no options will be vested under this performance condition. If the TSR is between 10% and 15% vesting occurs on a straight line between 25% and 100%.

#### **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 2,852,000 (2016 : 3,250,000) 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.

Directors' report  
For the financial year ended 30 June 2017

Remuneration report (continued)

Relative proportions of fixed vs variable remuneration expense

	Fixed Remuneration		At Risk - STI		At Risk - LTI	
	2017	2016	2017	2016	2017	2016
<b>Non-executive Directors</b>						
Richard Davis	100%	100%	0%	0%	0%	0%
Perry R Gunner	100%	100%	0%	0%	0%	0%
John Davies	100%	100%	0%	0%	0%	0%
Naseema Sparks	100%	100%	0%	0%	0%	0%
Peter Perrin	100%	100%	0%	0%	0%	0%
Jiang Yuan	100%	100%	0%	0%	0%	0%
<b>Executives</b>						
Neil McGuigan	70%	72%	22%	25%	8%	3%
Michael Noack	81%	81%	17%	18%	2%	1%
Cameron Ferguson	77%	79%	20%	20%	3%	1%
Julian Dyer	78%	82%	19%	17%	3%	1%

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
Options	2,000,000	\$0.528	23 November 2016	1 November 2021
Rights	257,003	N/A	22 July 2013	22 August 2017
Mike Noack				
Options	450,000	\$0.376	4 December 2015	1 November 2020
Options	284,000	\$0.528	19 December 2016	1 November 2021
Rights	128,502	N/A	22 July 2013	22 August 2017
Cameron Ferguson				
Options	400,000	\$0.376	4 December 2015	1 November 2020
Options	284,000	\$0.528	19 December 2016	1 November 2021
Rights	128,502	N/A	22 July 2013	22 August 2017
Julian Dyer				
Options	400,000	\$0.376	4 December 2015	1 November 2020
Options	284,000	\$0.528	19 December 2016	1 November 2021
Rights	128,502	N/A	22 July 2013	22 August 2017
<b>TOTAL</b>	<b>6,744,509</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 to key management personnel during the financial year:

	Value of options granted at the grant date <sup>(1)</sup>
Neil McGuigan	188,820
Michael Noack	27,264
Cameron Ferguson	27,264
Julian Dyer	27,264

<sup>(1)</sup> 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.

Directors' report  
For the financial year ended 30 June 2017

**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:

2017	Balance at 1/7/16 No.	Granted as remuneration No.	Received on exercise of options No.	Net other change No.	Balance at 30/6/17 No.	Balance held nominally No.
<b>Non-executive Directors</b>						
Richard H Davis	110,000	-	-	-	110,000	-
Perry R Gunner	879,986	-	-	293,900	1,173,886	-
John Davies	300,000	-	-	-	300,000	-
Naseema Sparks	-	-	-	-	-	-
Peter Perrin	-	-	-	9,800	9,800	-
Jiang Yuan	-	-	-	35,939,389	35,939,389	-
<b>Executives</b>						
Neil McGuigan	915,000	-	-	90,000	1,005,000	-
Michael Noack	228,841	-	-	110	228,951	-
Cameron Ferguson	-	-	-	-	-	-
Julian Dyer	-	-	-	-	-	-
Flora Sarris	48,000	-	-	(48,000)	-	-
	<b>2,481,827</b>	<b>-</b>	<b>-</b>	<b>36,285,199</b>	<b>38,767,026</b>	<b>-</b>

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

2016	Balance @ 1/7/16 No.	Granted as remuneration No.	Exercised No.	Expired / Cancelled	Bal @ 30/6/17 No.	Bal Vested @ 30/6/17 No.	Vested but Not exercisable No.	Vested and exercisable No.	Options Vested during the year No.
Neil McGuigan	2,652,260	2,000,000	-	(395,257)	4,257,003	-	-	-	-
Michael Noack	736,605	284,000	-	(158,103)	862,502	-	-	-	-
Cameron Ferguson	726,130	284,000	-	(197,628)	812,502	-	-	-	-
Julian Dyer	528,502	284,000	-	-	812,502	-	-	-	-
Flora Sarris	260,904	-	-	(260,904)	-	-	-	-	-
	<b>4,904,401</b>	<b>2,852,000</b>	<b>-</b>	<b>(1,011,892)</b>	<b>6,744,509</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.

Directors' report  
For the financial year ended 30 June 2017

Remuneration report (continued)

Key Management Personnel Remuneration

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

2017	Short-term benefits				Post Employment		Share based payments			Total
	Salary & Fees	Bonus	Other	Non – Monetary <sup>(a)</sup>	Super - annuation	Other	Cash Settled	Equity Settled Options <sup>(b)</sup>	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Non-executive directors</b>										
Richard Davis	107,763	-	-	2,000	10,237	-	-	-	-	120,000
Perry R 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
Peter Perrin <sup>(c)</sup>	18,841	-	-	500	1,790	-	-	-	-	21,131
Jiang Yuan <sup>(d)</sup>	-	-	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>340,303</b>	<b>-</b>	<b>-</b>	<b>8,500</b>	<b>32,328</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>381,131</b>
<b>Executives</b>										
Neil McGuigan	664,963	229,500	-	29,686	35,000	-	-	77,900	-	1,037,049
Michael Noack	361,442	104,856	-	89,115	35,000	-	-	14,330	-	604,743
Julian Dyer	285,831	85,498	-	-	66,510	-	-	13,285	-	451,124
Cameron Ferguson	311,943	93,259	-	26,200	29,634	-	-	13,285	-	474,321
Flora Sarris <sup>(e)</sup>	31,062	-	-	-	2,951	60,065	-	-	-	94,078
<b>Sub-total</b>	<b>1,655,241</b>	<b>513,113</b>	<b>-</b>	<b>145,001</b>	<b>169,095</b>	<b>60,065</b>	<b>-</b>	<b>118,800</b>	<b>-</b>	<b>2,661,315</b>
<b>TOTAL</b>	<b>1,995,544</b>	<b>513,113</b>	<b>-</b>	<b>153,501</b>	<b>201,423</b>	<b>60,065</b>	<b>-</b>	<b>118,800</b>	<b>-</b>	<b>3,042,446</b>

2016	Short-term benefits				Post Employment		Share based payments			Total
	Salary & Fees	Bonus	Other	Non – Monetary <sup>(a)</sup>	Super - annuation	Other	Cash Settled	Equity Settled Options <sup>(b)</sup>	Equity Settled Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Non-executive directors</b>										
Richard Davis	107,763	-	-	2,000	10,237	-	-	-	-	120,000
Perry R 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
<b>Sub-total</b>	<b>321,462</b>	<b>-</b>	<b>-</b>	<b>8,000</b>	<b>30,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>360,000</b>
<b>Executives</b>										
Neil McGuigan	638,780	248,400	-	32,649	35,000	-	-	24,958	-	979,787
Michael Noack	358,689	108,784	-	89,115	35,000	-	-	5,412	-	597,000
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	248,196	83,728	-	1,200	23,579	-	-	-	-	356,703
<b>Sub-total</b>	<b>1,888,168</b>	<b>621,197</b>	<b>-</b>	<b>149,164</b>	<b>197,780</b>	<b>-</b>	<b>-</b>	<b>39,990</b>	<b>-</b>	<b>2,896,299</b>
<b>TOTAL</b>	<b>2,209,630</b>	<b>621,197</b>	<b>-</b>	<b>157,164</b>	<b>228,318</b>	<b>-</b>	<b>-</b>	<b>39,990</b>	<b>-</b>	<b>3,256,299</b>

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

<sup>(b)</sup> Amortisation of share options granted over the vesting period.

<sup>(c)</sup> Appointed 28 March 2017

<sup>(d)</sup> Appointed 7 June 2017

<sup>(e)</sup> Resigned 17 August 2016. Other post employment relates to payment of leave entitlements.

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

Directors' report  
For the financial year ended 30 June 2017

**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 2017:

	30 June 2013 \$ M	30 June 2014 \$ M	30 June 2015 \$ M	30 June 2016 \$M	30 June 2017 \$M
Total Revenue	208.5	214.8	230.9	242.7	226.5
EBIT	24.1	23.8	17.5	3.2	11.3
EBIT (before one off items)	20.8	19.7	16.7	16.4	11.3
Net Profit/(Loss) after tax	7.1	10.5	9.4	(2.2)	4.3
Net Profit/(Loss) after tax before one off items	5.0	7.7	7.1	7.0	4.3

	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Earnings per share - cents	5.3	5.1	4.0	(0.9)	1.8
Dividends declared - cents	2.6	2.2	Nil	1.5	1.0
Market capitalisation - \$ million	63.0	74.3	84.8	131.2	117.1
Enterprise value (debt + equity)	384.0	404.2	373.2	373.9	372.3
Share price at start of year - \$ per share	0.340	0.475	0.320	0.365	0.565
Share price at end of year - \$ per share	0.475	0.320	0.365	0.565	0.425

# Directors' report

## For the financial year ended 30 June 2017

### Remuneration report (continued)

#### Service Agreements of Key Management Personnel

Compensation and other terms of employment for Key Management Personnel (excluding Non-executive Directors) are formalised in service agreements or letters of appointment. Termination benefits disclosed below do not apply in cases of misconduct or other specified circumstances.

#### **Neil McGuigan**

- (i) Term of agreement – no specified term.
- (ii) Compensation includes:
  - a. Base salary, superannuation 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.

#### **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 terminated 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.

#### **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.

# Directors' report

## For the financial year ended 30 June 2017

### 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 17.

### 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 2017 a fully franked dividend of 1.0 cent per share was declared on the 30<sup>th</sup> August 2017 and will be paid on the 10<sup>th</sup> November 2017.

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  
30<sup>th</sup> August 2017



Neil McGuigan  
Chief Executive Officer  
30<sup>th</sup> August 2017



30 August 2017

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

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 30 June 2017, 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 faithfully



DELOITTE TOUCHE TOHMATSU



Jody Burton  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

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

## Report on the Audit of the Financial Report

### *Opinion*

We have audited the financial report of Australian Vintage Ltd (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to directors as at the time of this auditor's report.

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Carrying value of goodwill and property, plant and equipment associated with the bulk wine and processing cash generating unit</i></p> <p>In assessing the recoverable amounts of assets, focus is given to the bulk wine and processing operations, being the cash generating unit (CGU) with the greatest asset allocation of the Group including goodwill of \$37.7 million and the most significant portion of property, plant and equipment (see note 17).</p> <p>Evaluation of the recoverable amount of goodwill and property, plant and equipment requires significant judgement in determining the key assumptions supporting the expected future cash flows of the bulk wine and processing CGU including:</p> <ul style="list-style-type: none"> <li>• processed volume growth</li> <li>• processing margin</li> <li>• discount rate.</li> </ul>	<p>In conjunction with valuation experts our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• obtaining an understanding of the Group's process for assessing the carrying value of goodwill and property, plant and equipment, including obtaining an understanding of key controls associated with the preparation of the valuation models used to assess the CGU and the appropriateness of the model;</li> <li>• agreeing the model inputs to the Board approved budget forecasts;</li> <li>• assessing historical budgeting accuracy;</li> <li>• challenging management's assessment of the forecast processing margin, with reference to external market rates;</li> <li>• assessing forecast processed volume growth and comparing it with processing capacity</li> <li>• challenging the components of the discount rate against independent rates and assessing if the overall rate used is within an acceptable range;</li> <li>• performing sensitivity analysis to the forecast cash flows to quantify the impact of reasonable changes in processing margin, discount rate and processed volume growth, being the factors with the most significant impact on recoverable value; and</li> <li>• assessing the appropriateness of assets and liabilities allocated to the model.</li> </ul> <p>We have also assessed the appropriateness of the disclosures included in note 4 and 17 to the financial statements.</p>
<p><i>Recognition of revenue tax losses</i></p> <p>As disclosed in note 6 the Group has recognised \$46 million of deferred tax assets relating to revenue tax losses as at 30 June 2017.</p> <p>Deferred tax assets are only recognised to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the revenue tax losses to be realised.</p> <p>These benefits are realised by reducing tax payable on future taxable profits.</p> <p>Significant judgement is required to assess whether there will be sufficient future taxable profits to utilise the recognised deferred tax assets.</p>	<p>Our procedures to assess the Group's ability to utilise the revenue tax losses recognised based on the expected future taxable profits included but were not limited to:</p> <ul style="list-style-type: none"> <li>• assessing management's judgements relating to the forecasts of future taxable profit and evaluated the reasonableness of the assumptions underlying the preparation of the forecast, assessing whether the cash flows are consistent with those contained in the models used for impairment analysis;</li> <li>• assessing historical budgeting accuracy; and</li> <li>• applying sensitivity analysis to the forecast taxable profits.</li> </ul> <p>We have also assessed the appropriateness of the disclosures in note 4 and 6 to the financial statements.</p>

## *Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): Board of Directors Report, Chairman's Report, Chief Executive Officer's Report, Company Profile, Corporate Governance Statement and Shareholders' Information which are expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Board of Directors, Chairman's Report, Chief Executive Officer's Report, Company Profile, Corporate Governance Statement and Shareholders' Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

## *Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 8 to 15 of the director's report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Australian Vintage Ltd, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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.



DELOITTE TOUCHE TOHMATSU



Jody Burton  
Partner  
Chartered Accountants  
Adelaide, 30 August 2017

## 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 2 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 38 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  
30<sup>th</sup> August 2017



Neil McGuigan  
Chief Executive Officer  
30<sup>th</sup> August 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

## For the financial year ended 30 June 2017

	Note	Consolidated	
		2017 \$'000	2016 (Restated – Refer note 2.3) \$'000
Revenue	5	226,450	242,686
Cost of sales	5	(170,518)	(177,585)
<b>Gross Profit</b>		<b>55,932</b>	<b>65,101</b>
Fair value of grapes picked		1,394	577
Investment Income	5	97	86
Other gains and losses	5	2,582	(94)
Distribution expenses		(12,981)	(13,709)
Sales and marketing expenses		(28,359)	(28,522)
Administration expenses		(7,613)	(7,207)
Finance costs	5	(5,025)	(5,790)
Gain on sale of other property, plant and equipment		224	157
Vineyard lease exit	5	-	(13,148)
<b>Profit / (Loss) before tax</b>		<b>6,251</b>	<b>(2,549)</b>
Income tax (expense) / benefit	6	(1,948)	354
<b>Net Profit / (Loss) for the year</b>		<b>4,303</b>	<b>(2,195)</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 (loss) / gain on hedging		(302)	1,375
Exchange differences arising on translation of foreign operations		(68)	(48)
<b>Other comprehensive (loss) / income for the year, net of income tax</b>		<b>(370)</b>	<b>1,327</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>3,933</b>	<b>(868)</b>
<b>Earnings Per Share:</b>			
Basic (cents per share)	34	1.8	(0.9)
Diluted (cents per share)	34	1.7	(0.9)

Notes to the financial statements are included on pages 27 to 70

# Consolidated Statement of Financial Position

## As at 30 June 2017

	Note	2017 \$'000	2016 Restated (refer note 2.3) \$'000
<b>Current Assets</b>			
Cash and cash equivalents	41	2,616	6,011
Trade and other receivables	10	40,197	42,789
Inventories	11	141,553	139,055
Other financial assets	12	680	827
Other	13	2,288	1,622
<b>Total Current Assets</b>		<b>187,334</b>	<b>190,304</b>
<b>Non-Current Assets</b>			
Inventories	14	53,046	52,444
Other financial assets	15	396	334
Property, plant and equipment	16	97,308	92,592
Goodwill	17	37,685	37,685
Other intangible assets	18	5,296	5,784
Water Licenses	19	7,554	7,554
Deferred tax assets	6	36,945	38,644
<b>Total Non-Current Assets</b>		<b>238,230</b>	<b>235,037</b>
<b>Total Assets</b>		<b>425,564</b>	<b>425,341</b>
<b>Current Liabilities</b>			
Trade and other payables	21	46,468	43,813
Borrowings	22	551	259
Other financial liabilities	23	194	248
Provisions	24	5,486	5,346
Other	25	-	215
<b>Total Current Liabilities</b>		<b>52,699</b>	<b>49,881</b>
<b>Non-Current Liabilities</b>			
Borrowings	26	84,880	107,131
Other financial liabilities	27	28	309
Provisions	28	1,114	1,520
<b>Total Non-Current Liabilities</b>		<b>86,022</b>	<b>108,960</b>
<b>Total Liabilities</b>		<b>138,721</b>	<b>158,841</b>
<b>Net Assets</b>		<b>286,843</b>	<b>266,500</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Issued capital	31	463,009	443,266
Reserves	32	1,829	2,047
Accumulated losses	33	(177,995)	(178,813)
<b>Total Equity</b>		<b>286,843</b>	<b>266,500</b>

Notes to the financial statements are included on pages 27 to 70.



# Consolidated Statement of Changes in Equity

## For the financial year ended 30 June 2017

	Share capital	Equity - settled employee benefits reserve	Hedging reserve	Foreign currency translation reserve	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	443,266	1,546	348	153	(178,813)	266,500
Profit for the period	-	-	-	-	4,303	4,303
Net gain on interest rate swaps	-	-	334	-	-	334
Net loss on foreign exchange hedges	-	-	(765)	-	-	(765)
Exchange differences arising on translation of foreign operations	-	-	-	(97)	-	(97)
Income tax relating to components of other comprehensive income	-	-	129	29	-	158
<b>Total comprehensive income for the period</b>	-	-	<b>(302)</b>	<b>(68)</b>	<b>4,303</b>	<b>3,933</b>
Share issues	20,020	-	-	-	-	20,020
Share issue costs	(395)	-	-	-	-	(395)
Tax consequences	118	-	-	-	-	118
Dividend paid	-	-	-	-	(3,485)	(3,485)
Recognition of share based payments	-	152	-	-	-	152
<b>Balance at 30 June 2017</b>	<b>463,009</b>	<b>1,698</b>	<b>46</b>	<b>85</b>	<b>(177,995)</b>	<b>286,843</b>
Balance at 1 July 2015	443,266	1,497	(1,027)	201	(151,577)	292,360
Adjustments (refer note 2.3)	-	-	-	-	(25,041)	(25,041)
<b>Balance at 1 July 2015 (restated)</b>	<b>443,266</b>	<b>1,497</b>	<b>(1,027)</b>	<b>201</b>	<b>(176,618)</b>	<b>267,319</b>
Loss for the period	-	-	-	-	(2,195)	(2,195)
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>1,375</b>	<b>(48)</b>	<b>(2,195)</b>	<b>(868)</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>(178,813)</b>	<b>266,500</b>

Notes to the financial statements are included on pages 27 to 70.

# Consolidated Statement of Cash Flows

## For the financial year ended 30 June 2017

	Note	Consolidated	
		2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		249,819	259,277
Termination payment on exit of vineyard lease		-	(4,946)
Other payments to suppliers and employees		(230,000)	(242,777)
<b>Cash generated from operations</b>		<b>19,819</b>	<b>11,554</b>
Interest and other costs of finance paid		(5,838)	(5,108)
Interest and bill discounts received		15	15
<b>Net cash provided by operating activities</b>	41 (d)	<b>13,996</b>	<b>6,461</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(12,073)	(4,148)
Payments for intangibles	18	(16)	(280)
Payments for investments		(119)	-
Proceeds from sale of property, plant & equipment		635	183
<b>Net cash used in investing activities</b>		<b>(11,573)</b>	<b>(4,245)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		5,300	3,000
Proceeds from issue of shares		18,398	-
Share issue costs		(395)	-
Dividends paid		(1,862)	-
Repayment of borrowings		(27,259)	(1,514)
<b>Net cash (used in) / provided by financing activities</b>		<b>(5,818)</b>	<b>1,486</b>
Net (decrease) / increase in cash and cash equivalents		(3,395)	3,702
Cash and cash equivalents at the beginning of the financial year		6,011	2,309
<b>Cash and cash equivalents at the end of the financial year</b>	41	<b>2,616</b>	<b>6,011</b>

Notes to the financial statements are included on pages 27 to 70.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### 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, Asia, North America, Europe and the United Kingdom.

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

#### Registered Office and principal place of business

275 Sir Donald Bradman Drive  
Cowandilla SA 5033  
Tel: (08) 8172 8333

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

#### Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 30<sup>th</sup> August 2017.

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

#### Application of new and revised International Financial Reporting Standards (IFRSs)

##### 2.1 Application of New and Revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Other than AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants and the IFRS Interpretations Committee's clarification on the measurement of deferred tax on indefinite life intangibles assets, the adoption of these standards did not have a significant impact on the consolidated financial statements. Refer to note 2.3 for disclosures of the impact.

##### 2.2 New and revised Australian Accounting Standards in issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective.

#### Standards and Interpretations in Issue Not Yet Adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations 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

#### Impact of New and Revised Requirements

Management is currently assessing the potential impact of the following standards:

##### ***AASB 9 'Financial Instruments' (December 2009), and the relevant amending standards***

AASB 9 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of AASB 9 in the future is not anticipated to have a material impact on amounts reported, based on current transactions, in respect of the Group's financial assets and financial liabilities, but will affect disclosures made in the Group's consolidated financial statements.

##### ***AASB 15 Revenue from Contracts with Customers, 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, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15***

AASB 15 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of AASB 15 in the future will not have a material impact on the amounts reported, based on current transactions, but will affect disclosures made in the Group's consolidated financial statements.

##### ***AASB 16 'Leases'***

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

The accounting model for lessees will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

AASB 16 applies to annual periods beginning on or after 1 January 2019. The directors of the Company anticipate that the application of AASB 16 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of AASB 16 until the Group performs a detailed review.

#### 2.3 Comparative Balances

- (a) Effective from 1 July 2016 the Group has adopted AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*, and the consequential amendments to AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture*.

These amendments distinguish bearer plants (i.e. grape vines), from other biological assets (i.e. grapes). The updated standards consider bearer plants, which are solely used to grow produce over their productive lives, as similar to an item of machinery. Bearer plants are now accounted for under AASB 116. Agricultural produce growing on bearer plants remains within the scope of AASB 141 and continues to be measured at fair value less costs to sell.

Comparative financial information has been restated to reflect the above in accordance with relevant transitional requirements and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The changes reflect:

- Reclassification of the value of bearer plants from Agricultural assets to Property, plant and equipment;
- Depreciation expense in connection with bearer plants; and
- The consequential tax impact of the above

- (b) Deferred tax measurement relating to indefinite life intangible assets

The IFRS Interpretations Committee has issued an agenda decision related to the expected manner of recovery of indefinite life intangible assets. The Committee was asked to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for deferred tax measurement purposes. The Committee indicated that the fact that an entity does not amortise an indefinite life intangible asset does not necessarily mean that the carrying amount will be recovered only through sale and not use. Therefore the Group should determine the expected manner of recovery of the carrying amount of the intangible asset.

Previously the entity measured deferred tax liabilities on the assumption of the tax consequences that would arise solely from the sale of the assets. Under its new policy, the Group considers its expected manner of recovery. The Group has implemented this guidance on a retrospective basis as a change in accounting policy to AASB 112 *Income Taxes*.

The following tables summarize the impact of the adjustments on the comparative financial information

	30 June 2016 \$ 000	Impact of (a) \$ 000	Impact of (b) \$ 000	30 June 2016 Restated \$000
Consolidated statement of profit or loss and other comprehensive income (extract)				
Cost of sales	(181,350)	3,765	-	(177,585)
Fair value of grapes picked	4,206	(3,629)	-	577
Profit before tax	(2,685)	136	-	(2,549)
Income tax benefit	713	(359)	-	354
Net Profit	(1,972)	(223)	-	(2,195)
Earnings per share			-	
- Basic	(0.8)	(0.1)	-	(0.9)
- Diluted	(0.8)	(0.1)	-	(0.9)
Consolidated statement of financial position (extract)				
Inventories (current)	145,218	(6,163)	-	139,055
Property, plant and equipment	81,375	11,217	-	92,592
Biological assets	32,828	(32,828)	-	-
Deferred tax assets	36,134	4,118	(1,608)	38,644
Accumulated losses	153,549	23,656	1,608	178,813

# Notes to the financial statements

## For the financial year ended 30 June 2017

### 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.

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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 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 42 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 42 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 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.

#### 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 3.8 Financial instruments (continued)

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.

#### 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.



# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 3.11 Goodwill

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

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

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

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

#### 3.12 Goods and services tax

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

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

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

#### 3.13 Grape vines and produce extracted from vines

Grape vines are classified as a separate biological asset class in accordance with Australian Accounting Standard AASB 141 "Agriculture". The biological assets are measured on initial recognition and at each reporting date at their fair value less costs to sell unless the market determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In the current financial year and the comparative financial year, the fair values have been estimated by the directors based on discounted cash flow analysis of each vineyard and reference to the current market value of similar assets recently exchanged in the open market. Produce harvested from vines owned by the 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.

#### 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 3.15 Income tax

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

##### Current tax

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

##### Deferred tax

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

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

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

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

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

##### Current and deferred tax for the period

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

##### Tax consolidation

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

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

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

#### 3.16 Intangible assets

##### Brand names and Registered Trademarks

Brand names recognised by the 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 3.17 Inventories

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

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

#### 3.18 Leased assets

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

##### Group as lessor

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

##### Group as lessee

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

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

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

#### 3.19 Non-current assets held for sale

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

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

#### 3.20 Payables

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

#### 3.21 Property, plant and equipment

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

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

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

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

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

- Buildings 50 years
- Vineyard improvements 15-20 years
- Plant and equipment 5-33 years
- Plant and equipment under lease 5-15 years
- Vines 30 years

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

#### 3.22 Provisions

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably. An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

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

#### 3.23 Revenue

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

##### Sale of goods

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

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

##### Vineyard development/management contracts

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

##### Contract Processing

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

##### Interest Revenue

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

##### Rental Income

Rent is accrued on a time basis by reference to the total rent due to the 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### 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.

The following are the critical accounting judgments and key sources of estimation uncertainty that management has made in applying the Group's accounting policies:

#### Impairment of goodwill

The goodwill arising from the acquisition of businesses has been reassessed through the estimation of the value in use of the bulk wine and processing cash generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units based on forecasted volume, processing margin and select a discount rate in order to calculate present value.

Details of the assumptions and sensitivities performed are outlined in Note 17.

#### 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.

#### Impairment of other intangibles

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.

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.

Details of the assumptions and sensitivities performed are outlined in Note 18.

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

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

	Consolidated	
	2017 \$'000	2016 \$'000
<b>(a) Revenue – continuing operations</b>		
Revenue from the sale of goods	222,130	235,880
Revenue from contract processing	521	3,705
Revenue from rendering contract vineyard services	3,799	3,101
<b>Total</b>	<b>226,450</b>	<b>242,686</b>
<b>Investment income</b>		
Rental income	82	71
Interest income	15	15
<b>Total</b>	<b>97</b>	<b>86</b>
<b>Other gains / (losses)</b>		
Wine equalisation tax rebate	500	500
Gain / (loss) on unrealised foreign exchange	1,284	(1,519)
Other rebates	488	773
Other	310	152
<b>Total</b>	<b>2,582</b>	<b>(94)</b>
<b>(b) Profit / (Loss) before income tax</b>		
Profit / (loss) before income tax has been arrived at after crediting / (charging) the following gains and losses:		
Gain on disposal of other property, plant and equipment	224	157
Gain / (Loss) on unrealised foreign exchange	1,284	(1,519)
Loss on vineyard lease exit <sup>(1)</sup>	-	(13,148)
(1) During the year ended 30th June 2016 the Group expensed \$13,148,000 in relation to the termination and exit from the Del Rios vineyard lease. These costs included a termination payment, legal fees, vineyard running costs and other associated costs		
<b>(b) Profit / (Loss) before income tax (continued)</b>		
Profit / (Loss) before income tax has been arrived at after charging the following expenses:		
Cost of sales	170,518	177,585
Operating lease rental expenses (minimum lease payments)	6,533	8,768
Employee benefit expense:		
Share-based payments:		
Equity settled share-based payments	152	49
	152	49
Termination benefits	98	345
Superannuation benefits	2,561	2,580
Other employee benefits (incl. salaries and wages)	33,914	34,721
Total employee benefits expense	36,725	37,695
<b>(c) Depreciation and amortisation expense:</b>		
Depreciation of non-current assets - charged to cost of sales	4,943	4,722
Depreciation of non-current assets - other	2,002	2,134
Amortisation of non-current assets	504	598
<b>Total depreciation and amortisation expense</b>	<b>7,449</b>	<b>7,454</b>

# Notes to the financial statements

## For the financial year ended 30 June 2017

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

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(d) Finance costs:</b>		
Interest on bank overdrafts and loans	4,902	5,582
Interest on obligations under finance lease	22	86
	<u>4,924</u>	<u>5,668</u>
Unwinding of discounts	101	122
<b>Total finance costs</b>	<u><b>5,025</b></u>	<u><b>5,790</b></u>

The weighted average rate on funds borrowed is 4.32% per annum (2016: 4.24% per annum).

### Note 6: Income taxes

#### (a) Income tax recognised in profit or loss

##### Current tax

Current tax (benefit) / expense in respect of the current year

-	-
<u>-</u>	<u>-</u>

##### Deferred tax

Deferred tax expense / (benefit) relating to the current year

1,957 (332)

Adjustments recognised in the current year in relation to the current tax of prior years

(9) (22)

1,948 (354)

Total income tax expense / (benefit) recognised in the current year relating to continuing operations

1,948 (354)

The prima facie income tax expense / (benefit) on pre-tax accounting income/(loss) from operations reconciles to the income tax expense in the financial statements as follows:

Profit / (Loss) from operations

6,251 (2,549)

Income expense / (benefit) expense calculated at 30%

1,875 (765)

Non-deductible expenses

82 433

Adjustments recognised in the current year in relation to tax of prior years

(9) (22)

Total tax expense / (benefit)

1,948 (354)

The tax rate used for the 2017 and 2016 reconciliations above is the corporation tax rate of 30% payable by Australian Corporate entities on taxable profits under Australian tax law.

#### (b) Income tax recognised in other comprehensive income

276 (569)

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 6: Income taxes (continued)

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

**CONSOLIDATED**

Temporary differences 2017	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Gross deferred tax liabilities:</b>					
Inventories	(6,232)	694	-	-	(5,538)
Intangibles	(1,472)	(80)	-	-	(1,552)
Property, plant and equipment	(5,306)	(1,963)	-	-	(7,269)
Other	(34)	5	-	-	(29)
	(13,044)	(1,344)	-	-	(14,388)
<b>Gross deferred tax assets:</b>					
Trade and other receivables	26	(25)	-	-	1
Inventories	118	1,125	-	-	1,243
Trade and other payables	1,309	(163)	-	-	1,146
Provisions	2,651	(223)	-	-	2,428
Tax losses	47,170	(1,161)	-	-	46,009
Other	414	(166)	258	-	506
	51,688	(613)	258	-	51,333
<b>Net deferred tax asset</b>	<b>38,644</b>	<b>(1,957)</b>	<b>258</b>	<b>-</b>	<b>36,945</b>
<b>Temporary differences 2016</b>					
	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Gross deferred tax liabilities:</b>					
Inventories	(5,566)	(666)	-	-	(6,232)
Intangibles	(1,508)	36	-	-	(1,472)
Property, plant and equipment	(4,749)	(557)	-	-	(5,306)
Other	(35)	1	-	-	(34)
	(11,858)	(1,186)	-	-	(13,044)
<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>38,881</b>	<b>332</b>	<b>(569)</b>	<b>-</b>	<b>38,644</b>

There are no unrecognised revenue tax losses relating to the Group. The Group has not recognised \$1,127,615 (2016: \$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.



# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 6: Income taxes (continued)

#### 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 38.

##### 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 of 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	
	2017	2016
	\$	\$
Short-term employee benefits	2,662,158	2,894,991
Post-employment benefits	261,488	228,318
Share based payments	118,800	39,990
Termination benefits	-	-
	3,042,446	3,256,299

### 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 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 (2016 : 4,000,000). These rights and options were priced using a binominal option pricing model.

The table below summarises all performance rights on issue:

	2017 Number	2016 Number
Balance at the beginning of the financial year (i)	6,539,914	2,539,914
Granted during the financial year (ii)	4,000,000	4,000,000
Exercised during the financial year	-	-
Lapsed/cancelled during the financial year (iii)	(1,737,002)	-
Balance at the end of the financial year (iv)	8,802,912	6,539,914

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 8: Executive performance rights and share option plan (continued)

(i) Balance at the Beginning of the Financial Year

2017	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
	6,539,914	-	6,539,914				

(ii) Granted during the Financial Year

2017	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Options issued 23 November 16	2,000,000	-	2,000,000	23/11/16	31/08/19	01/11/21	0.528
Options issued 19 December 16	2,000,000	-	2,000,000	19/12/16	31/08/19	01/11/21	0.528
	4,000,000	-	4,000,000				

The weighted average fair value of the share options granted during the financial year is \$0.528 (2016 : \$0.376). 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 23 November 16	600,000	0.500	0.528	35.00%	1,560	2.96%	2.02%
Options issued 23 November 16	1,400,000	0.500	0.528	35.00%	1,408	2.96%	2.02%
Options issued 19 December 16	600,000	0.505	0.528	35.00%	1,567	2.93%	2.14%
Options issued 19 December 16	1,400,000	0.505	0.528	35.00%	1,415	2.93%	2.14%

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

2017	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	205,602	-	205,602	22/07/13	22/07/17	21/08/17	N/A
Options issued 19 December 16	148,000	-	148,000	19/12/16	31/08/19	01/11/21	0.528
	1,737,002	-	1,737,002				

(iv) Balance at End of Financial Year

2017	No.	Vested No.	Unvested No.	Grant Date	Vesting Date	Expiry Date	Exercise Price \$
Rights issued 22 July 13	950,912	-	950,912	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
Options issued 23 November 16	2,000,000	-	2,000,000	23/11/16	31/08/19	01/11/21	0.528
Options issued 19 December 16	1,852,000	-	1,852,000	19/12/16	31/08/19	01/11/21	0.528
	8,802,912	-	8,802,912				

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 9: Remuneration of auditors

	Consolidated	
	2017	2016
	\$	\$
<b>Auditor of the parent company</b>		
Audit or review of financial report	386,100	377,100
Other services – other audit services	48,448	48,047
Other services – taxation advice	-	9,000
Other services – taxation compliance	37,419	36,864
	<b>471,967</b>	<b>471,011</b>

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

	Consolidated	
	2017	2016
	\$'000	\$'000
<b>Note 10: Current trade and other receivables</b>		
Trade receivables (i)	39,142	41,806
Allowance for doubtful debts	(4)	(22)
	<b>39,138</b>	<b>41,784</b>
Loans to other entities (ii)	-	500
Other receivables	1,059	505
	<b>40,197</b>	<b>42,789</b>

(i) The average credit period on sales of goods and rendering of services is 65 days (2016: 61 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, \$21.6 million (2016: \$23.4 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 \$2.0 million (2016: \$3.0 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

#### Ageing of past due but not impaired

30 – 60 days	1,992	2,911
60 – 90 days	1	57
90 – 120 days	18	14
Total	<b>2,011</b>	<b>2,982</b>
Average age (days)	<b>40</b>	<b>37</b>

#### Movement in the allowance of doubtful debts

Balance at the beginning of the year	(22)	(392)
Impairment (losses) / reversals recognised on receivables	(30)	(447)
Amounts written off as not collectable	48	817
Balance at the end of the year	<b>(4)</b>	<b>(22)</b>

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 (2016 : Nil) 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

	Consolidated	
	2017 \$'000	2016 \$'000
<b>Note 11: Current inventories</b>		
Work in progress - bulk wine	101,779	97,859
Other stores and raw materials	3,939	4,043
Work in progress - other	4,828	6,440
Bottled wine	31,007	30,713
	<b>141,553</b>	<b>139,055</b>

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$170.5 million (2016: \$177.6 million).

### Note 12: Other financial assets

Hedge assets – foreign currency forwards and options	680	827
	<b>680</b>	<b>827</b>

### Note 13: Other current assets

Prepayments	2,288	1,622
	<b>2,288</b>	<b>1,622</b>

### Note 14: Non-current inventories

Work in progress - Bulk wine	51,414	50,828
Bottled wine	1,632	1,616
	<b>53,046</b>	<b>52,444</b>

### Note 15: Other non-current financial assets

Hedge assets – foreign currency forwards and options	-	226
Investments in companies (i)	178	59
Other	218	49
	<b>396</b>	<b>334</b>

(i) Relates to investments in wine related businesses

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 16: Property, plant and equipment

	Consolidated	
	2017 \$'000	2016 \$'000
<b>(a) Vineyard Improvements</b>		
at cost	14,492	14,169
accumulated depreciation	(8,984)	(8,289)
	<b>5,508</b>	<b>5,880</b>
<b>Freehold Land</b>		
at cost	<b>12,868</b>	<b>13,076</b>
<b>Vines</b>		
At cost	33,497	32,828
accumulated depreciation	(22,585)	(21,611)
	<b>10,912</b>	<b>11,217</b>
<b>Buildings</b>		
At cost	18,900	15,904
accumulated depreciation	(5,087)	(4,738)
	<b>13,813</b>	<b>11,166</b>
<b>Plant and equipment under lease</b>		
at cost	6,340	1,369
accumulated amortisation	(262)	(217)
	<b>6,078</b>	<b>1,152</b>
<b>Plant and equipment</b>		
at cost	105,469	119,580
accumulated depreciation	(57,340)	(69,479)
	<b>48,129</b>	<b>50,101</b>
<b>Total Property, Plant and Equipment</b>		
at cost	171,016	176,376
accumulated depreciation and amortisation	(73,708)	(83,784)
	<b>97,308</b>	<b>92,592</b>
<b>(b) Reconciliations</b>		
<b>Vineyard Improvements</b>		
carrying amount at beginning of the financial year	5,880	6,573
additions	329	4
disposals	(1)	-
depreciation	(700)	(697)
<b>at end of year</b>	<b>5,508</b>	<b>5,880</b>
<b>Freehold land</b>		
carrying amount at beginning of the financial year	13,076	13,076
transfers	(208)	-
<b>at end of year</b>	<b>12,868</b>	<b>13,076</b>
<b>Vines</b>		
carrying amount at beginning of the financial year	11,217	12,278
additions	672	-
disposals	(3)	-
depreciation	(974)	(1,061)
<b>at end of year</b>	<b>10,912</b>	<b>11,217</b>
<b>Buildings</b>		
carrying amount at beginning of the financial year	11,165	11,336
transfers	208	-
additions	2,845	183
disposals	(10)	-
depreciation	(395)	(354)
<b>at end of year</b>	<b>13,813</b>	<b>11,165</b>

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 16: Property, plant and equipment (continued)

	Consolidated	
	2017 \$'000	2016 \$'000
<b><i>Plant and equipment under lease</i></b>		
carrying amount at beginning of the financial year	1,152	11,860
additions	5,300	-
transfers	(244)	(10,270)
amortisation	(130)	(438)
<b>at end of year</b>	<b>6,078</b>	<b>1,152</b>
<b><i>Plant and equipment</i></b>		
carrying amount at beginning of the financial year	50,101	40,355
additions	2,927	3,959
transfers	244	10,270
disposals	(397)	(177)
depreciation	(4,746)	(4,306)
<b>at end of year</b>	<b>48,129</b>	<b>50,101</b>

### Note 17: Goodwill

Gross carrying amount:

Balance at beginning of the financial year	44,085	44,085
Balance at end of the financial year	<b>44,085</b>	<b>44,085</b>

#### **Accumulated impairment losses**

Balance at beginning of financial year	6,400	6,400
Balance at end of financial year (i)	<b>6,400</b>	<b>6,400</b>

#### **Net book value**

At the beginning of the financial year	37,685	37,685
At the end of the financial year	<b>37,685</b>	<b>37,685</b>

#### **Allocation of goodwill to cash-generating units**

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

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

- (i) The impairment of goodwill is tested each reporting date and is based on determining the recoverable amount of the bulk wine and processing cash generating unit (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 this CGU 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 5<sup>th</sup> year. In preparing the impairment model, the Group started with the cash flows from the year ended 30 June 2017 and adjusted that base year for the budgets and 5-year plans approved by the Board of Directors.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 17: Goodwill (continued)

The cash flows in the impairment model have been discounted to present value using a discount rate applicable to the 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.

The net present value of the cash flows has been compared to the assets within the CGU which include the goodwill balance above. In the current year, the Group applied a pre-tax discount rate of 12% p.a. (2016: 11.47% p.a.) to account for the risk associated with the assets in the current financial markets.

#### Assumptions

Key assumptions relate to forecast volume growth and processing margin, which have been sensitised and the results are outlined below.

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

- Working capital levels used in future years;
- Pre-tax Discount rate of 12% (2016: 11.47%);
- Terminal Growth Rate of 2.5% (2016: 2.5%).

#### 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.

#### Sensitivity Analysis

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

Cash flow forecasts are based upon our most recent budget and 5-year financial plans approved by the Board. The 5-year plan incorporates assumptions regarding volume growth which are based upon anticipated market demand and past experience.

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

- Volume growth is based upon Board approved budgets and 5-year plan forecasts. The net cash flow can be reduced by \$3.5 million per annum (representing a 25% 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 41% before an impairment is recognised;
- The discount rate can be increased by 3 percentage points (to 14.88%) before an impairment is recognised;
- Reducing the terminal growth rate to 0% does not cause the associated goodwill to be impaired;

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 18: Other intangible assets

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Brand Names and Registered Trademarks:		
Balance at 1 July	4,828	4,828
Disposed during the year	-	-
Balance at 30 June	4,828	4,828
Software:		
Balance at 1 July	956	1,274
Costs incurred during the year	16	280
Amortisation expense	(504)	(598)
Balance at 30 June	468	956
Total other intangible assets	<b>5,296</b>	<b>5,784</b>

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 18: Other intangible assets (continued)

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 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 16.98% p.a. (2016: 16.3% 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% (2016: 2.5%)
- Discount rate of 16.98% (2016: 16.3%)
- Revenue growth rate of 7% (2016: 6%)

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 21.86% before an impairment is recognised.
- A decline of \$0.39 million per annum (representing a 30% 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 19: Water licences

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Permanent water licences – at cost	7,554	7,554
Balance at 1 July	7,554	7,554
Balance at 30 June	<b>7,554</b>	<b>7,554</b>



# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 20: Assets pledged as security

	Consolidated	
	2017 \$'000	2016 \$'000
Inventory	194,599	191,499
Receivables	40,197	42,789
Property, plant and equipment	91,230	91,440
	<b>326,026</b>	<b>325,728</b>

In accordance with the security arrangements of liabilities, as disclosed in notes 22 and 26 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 National Australia Bank, with the exception of assets under finance lease arrangements. The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default. The following assets have been pledged as security:

Assets under finance lease are pledged as security.

### Note 21: Current trade and other payables

Trade payables (i)	31,676	27,192
Goods and services tax payable	2,886	3,115
Value added tax payable	-	764
Other accounts payable and accruals	11,906	12,742
	<b>46,468</b>	<b>43,813</b>

(i) The average credit period on purchase of goods is 38 days (2016: 33 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 22: Current borrowings

Secured, at amortised cost:

Finance lease liabilities (i)	551	259
	<b>551</b>	<b>259</b>

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

### Note 23: Other current financial liabilities

Interest rate swap	194	248
	<b>194</b>	<b>248</b>

### Note 24: Current provisions

Directors retirement benefit (note 29)	149	149
Onerous contracts (note 29)	450	462
Employee entitlements (i)	4,887	4,735
	<b>5,486</b>	<b>5,346</b>

(i) The current provision for employee entitlements includes \$3,743,171 (2016 : \$3,470,753) of annual leave and vested long service leave entitlements.

### Note 25: Other current liabilities

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

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 26: Non-current borrowings

	Consolidated	
	2017 \$'000	2016 \$'000
Secured - at amortised cost:		
Commercial Bills (i)	80,000	107,000
Finance lease liabilities (ii)	4,880	131
	<b>84,880</b>	<b>107,131</b>

(i) Commercial bills with a variable interest rate were issued in 2017. The current weighted average interest rate on the bills is 4.21% (2016: 4.22%). The commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 20).

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

### Note 27: Non-current other financial liabilities

Interest rate swap	28	309
	<b>28</b>	<b>309</b>

### Note 28: Non-current provisions

Employee entitlements	769	784
Onerous contracts (note 29)	345	736
	<b>1,114</b>	<b>1,520</b>

### Note 29: Provisions

	Consolidated			
	2017		2016	
	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)	\$'000 Onerous Contracts (i)	\$'000 Directors Retirement Benefit (ii)
Balance at beginning of year	1,198	149	2,727	149
Reductions arising from payments/other sacrifices of future economic benefits	(501)	-	(1,608)	-
Unwinding of discount and effect of changes in the discount rate	101	-	176	-
Reductions resulting from re-measurement, contract re-negotiation or settlement without cost	(3)	-	(97)	-
<b>Balance at end of year</b>	<b>795</b>	<b>149</b>	<b>1,198</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 30: Employee superannuation plans

The Group made contributions to accumulation style superannuation plans during the year. The total expense recognised in the statement of comprehensive income was \$2,561,000 (2016: \$2,580,000). As at 30 June 2017, contributions of \$153,316 (2016: \$164,121) due in respect of the reporting period had not been paid over to the plans. The amounts were paid in July 2017.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 31: Issued capital

	Consolidated	
	2017 \$'000	2016 \$'000
275,568,321 Fully paid ordinary shares (2016: 232,262,382)	463,009	443,266

	Consolidated			
	2017 Number	2017 \$'000	2016 Number	2016 \$'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 <sup>(1)</sup>	35,939,389	16,536	-	-
Dividend reinvestment plan	7,366,550	3,484	-	-
Share issue costs	-	(395)	-	-
Tax consequence of share issue costs	-	118	-	-
End of financial year	275,568,321	463,009	232,262,382	443,266

(1) Shares issued to Vintage China Funds Gp. Limited which will be released from escrow as follows:

- 11,979,796 on 4<sup>th</sup> November 2017
- 11,979,796 on 4<sup>th</sup> May 2018
- 11,979,797 on 4<sup>th</sup> November 2018

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 granted and on issue are disclosed in Note 8.

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

### Note 32: Reserves

	Consolidated	
	2017 \$'000	2016 \$'000
Employee equity-settled benefits (i)	1,698	1,546
Hedging reserve (ii)	46	348
Foreign currency translation reserve (iii)	85	153
	<b>1,829</b>	<b>2,047</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.
- (ii) 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 33: Accumulated losses

	Consolidated	
	2017 \$'000	2016 \$'000
Balance at beginning of financial year	(178,813)	(176,618)
Net profit / (loss)	4,303	(2,195)
Dividends paid (note 35)	(3,485)	-
<b>End of financial year</b>	<b>(177,995)</b>	<b>(178,813)</b>

### Note 34: Earnings per share

	Consolidated	
	2017 Cents Per share	2016 Cents Per share
Basic earnings per share	1.8	(0.9)
Diluted earnings per share	1.7	(0.9)

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:

	Consolidated	
	2017 \$'000	2016 \$'000
Profit / (Loss) for the year	4,303	(2,195)

  

	2017	2016
	'000	'000
<b>Basic earnings per share</b>		
Weighted average number of ordinary shares used in calculating basic earnings per share	242,577	232,262
<b>Diluted earnings per share</b>		
Weighted average number of ordinary shares used in calculating diluted earnings per share	248,681	235,030

### Note 35: Dividends

	2017		2016	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares:				
Interim dividend – franked to 30%	-	-	-	-
Final dividend – franked to 30%	1.5	3,485	-	-
	1.5	3,485	-	-
Adjusted franking account balance		7,425		8,919

In respect of the financial year ended 30 June 2017, a fully franked dividend of 1.0 cents per share will be paid on the 10<sup>th</sup> November 2017. In respect of the financial year ended 30 June 2016 a fully franked dividend of 1.5 cents per share was paid on the 9<sup>th</sup> November 2016. There are no income tax consequences of unrecognised dividends.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 36: 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 2 to 6 years)
- Plant and equipment (lease terms 1 – 7 years)

The following sets out payments recognised as an expense

	Consolidated	
	2017 \$'000	2016 \$'000
Minimum lease payments	25,122	30,917
The following sets out the commitments to future lease payments relating to operating leases:		
- not longer than 1 year	6,469	6,510
- longer than 1 year and not longer than 5 years	18,511	22,299
- longer than 5 years	142	2,108
	<b>25,122</b>	<b>30,917</b>

#### (b) Finance leases

Finance leases relate to plant and equipment with a lease term of up to 7 years, expiring between 30 June 2017 and 30 June 2024.

	Minimum Future Lease payments Consolidated		Present Value of Minimum Future Lease payments Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
No Later than 1 year	840	280	551	259
Later than 1 year and not later than 5 years	2,820	136	1,935	131
Later than 5 years	3,212	-	2,945	-
Minimum lease payments*	6,872	416	5,431	390
Less future finance changes	(1,441)	(26)	-	-
Present value of minimum lease payments	5,431	390	5,431	390
Current borrowings (note 24)			551	259
Non-Current borrowings (note 28)			4,880	131
			<b>5,431</b>	<b>390</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	
	2017 \$'000	2016 \$'000
Property, Plant and Equipment		
- not longer than 1 year	4,398	26
	<b>4,398</b>	<b>26</b>

### Note 37: Contingent liabilities

Bank guarantees	865	412
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# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 38: Subsidiaries

Name of entity	Country of Incorporation	Ownership of Interest	
		2017 %	2016 %
<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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 38: 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 2017

	Consolidated	
	2017 \$'000	2016 \$'000
Revenue	226,450	242,686
Cost of sales	(170,518)	(177,585)
<b>Gross Profit</b>	<b>55,932</b>	<b>65,101</b>
Fair value of grapes picked	1,394	577
Investment income	97	86
Other gains and losses	2,582	(94)
Distribution expenses	(12,981)	(13,709)
Sales and marketing expenses	(28,359)	(28,522)
Administration expenses	(7,613)	(7,207)
Finance costs	(5,025)	(5,790)
Gain on sale of other property, plant and equipment	224	157
Legal fees on vineyard lease dispute	-	(13,148)
<b>Profit / (Loss) before income tax</b>	<b>6,251</b>	<b>(2,549)</b>
Income tax (benefit) / expense	(1,948)	354
<b>Net Profit / (Loss) for the year</b>	<b>4,303</b>	<b>(2,195)</b>
<b>Other comprehensive (loss) / income net of income tax:</b>		
Net (loss) / gain on hedging	(302)	1,375
Exchange differences arising on translation of foreign operations	(68)	(48)
<b>Other comprehensive (loss) / income for the year, net of income tax</b>	<b>(370)</b>	<b>1,327</b>
<b>Total comprehensive income / (loss) for the year</b>	<b>3,933</b>	<b>(868)</b>

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 38: Subsidiaries (continued)

**Consolidated Statement of Financial Position – Closed Group  
As at 30 June 2017**

	Consolidated	
	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
Cash and cash equivalents	2,602	5,994
Trade and other receivables	40,197	42,789
Inventories	141,553	139,055
Other financial assets	680	827
Other	2,239	1,578
<b>Total Current Assets</b>	<b>187,271</b>	<b>190,243</b>
<b>Non-Current Assets</b>		
Inventories	53,046	52,444
Other financial assets	396	334
Property, plant and equipment	97,308	92,592
Goodwill	37,685	37,685
Other intangible assets	5,296	5,784
Water Licences	7,554	7,554
Deferred tax assets	36,945	38,644
<b>Total Non-Current Assets</b>	<b>238,230</b>	<b>235,037</b>
<b>Total Assets</b>	<b>425,501</b>	<b>425,280</b>
<b>Current Liabilities</b>		
Trade and other payables	46,443	43,792
Borrowings	551	259
Other financial liabilities	194	248
Provisions	5,486	5,346
Other	-	215
Total Current Liabilities	<b>52,674</b>	<b>49,860</b>
<b>Non-Current Liabilities</b>		
Borrowings	84,880	107,131
Other financial liabilities	28	309
Provisions	1,114	1,520
<b>Total Non-Current Liabilities</b>	<b>86,022</b>	<b>108,960</b>
<b>Total Liabilities</b>	<b>138,696</b>	<b>158,820</b>
<b>Net Assets</b>	<b>286,805</b>	<b>266,460</b>
<b>Equity</b>		
Issued capital	462,921	443,178
Reserves	1,851	2,067
Accumulated losses	(177,967)	(178,785)
<b>Total Equity</b>	<b>286,805</b>	<b>266,460</b>



# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 39: Segment information

The Group's reportable segments are as follows:

#### Australasia / 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 fair value of grapes picked.

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 (2016 : Nil).

Segment profit represents the profit earned by each segment without allocation of interest revenue, 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:

#### Segments

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

	Revenue	Revenue	Results	Results
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Australasia / North America packaged	106,005	106,672	6,258	6,249
UK / Europe	88,454	102,506	208	3,500
Cellar door	7,834	8,185	1,456	1,568
Australasia / North America bulk wine and processing	20,358	22,222	(1,075)	447
Vineyards	3,799	3,101	4,414	4,610
<b>Total</b>	<b>226,450</b>	<b>242,686</b>	<b>11,261</b>	<b>16,374</b>
Finance costs – interest paid			(5,025)	(5,790)
Interest received			15	15
Vineyard lease exit			-	(13,148)
<b>Profit / (Loss) before tax</b>			<b>6,251</b>	<b>(2,549)</b>

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 39: Segment information (continued)

#### **Geographical Segments**

	Revenue from customers	
	2017	2016
	\$'000	\$'000
Australia	105,781	112,967
UK / Europe	88,454	102,506
North America	13,342	10,882
Asia	14,371	12,056
Other	4,502	4,275
	<b>226,450</b>	<b>242,686</b>

The group has sales to two major customers (2016: two) who individually account for greater than 10% of annual sales. The total sales for these customers were \$63.4 million (2016: \$66.9 million).

### Note 40: 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 38 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 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 \$1,565 (2016: \$13,963) on normal commercial terms.
  - (b) The Group charged rent to the value of \$8,711 (2016: \$8,625) on normal commercial terms.

#### **Parent entity**

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

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 41: 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	
	2017 \$'000	2016 \$'000
Cash	2,616	6,011
<b>(b) Financing Facilities</b>		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount Used	-	-
Amount Unused	5,000	5,000
	<u>5,000</u>	<u>5,000</u>
Reducing lease facility:		
Amount Used	5,300	-
Amount Unused	-	-
	<u>5,300</u>	<u>-</u>
Unsecured revolving lease facility:		
Amount Used	-	97
Amount Unused	350	253
	<u>350</u>	<u>350</u>
Bank Guarantee/Surrender facility:		
Amount Used	865	412
Amount Unused	1,785	2,238
	<u>2,650</u>	<u>2,650</u>
Corporate purchasing card facility:		
Amount Used	12	18
Amount Unused	488	482
	<u>500</u>	<u>500</u>
Cash advance facility:		
Amount Used	80,000	107,000
Amount Unused	30,000	9,000
	<u>110,000</u>	<u>116,000</u>
Total facility	<u>123,800</u>	<u>124,500</u>

#### (c) Non-cash financing and investing activities

During the current year, the Group entered into the following non-cash investing and finance activities which are not reflected in the statement of cash flows:

- 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 continuous employment, and achievement of set growth rates in earnings per share and total shareholder return over a 4 year period. During the reporting period there were 4,000,000 options issued with a fair value of \$0.095 per option (2016: 4,000,000 with fair value of \$0.06 per option). During the period 1,737,002 options lapsed (2016: Nil).
- The Group issued 3,429,898 shares for \$1,622,000 (2016 : Nil) under it's Dividend Reinvestment Plan.

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 41: Notes to the cash flow statement (continued)

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit / (Loss) from ordinary activities after income tax	4,303	(2,195)
Depreciation and amortisation of non-current assets	7,449	7,454
Profit on sale of non-current assets	(224)	(6)
Share based payments	152	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	2,592	(3,031)
Inventories	(3,100)	142
Other current assets	(666)	3,245
Deferred tax assets	1,699	335
<b>Increase/(decrease) in liabilities</b>		
Current trade and other payables	2,334	2,649
Provisions	(266)	(1,234)
Other	(277)	(280)
<b>Net cash provided by operating activities</b>	<b>13,996</b>	<b>6,461</b>

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: 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 2016.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 22 and 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 31, 32 and 33 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:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Debt (i)	85,431	107,390
Cash and cash equivalents	(2,616)	(6,011)
Net Debt	82,815	101,379
Equity (ii)	286,843	266,500
Net debt to equity ratio	28.9%	38.0%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 22 and 26.

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

(ii) Equity includes all capital and reserves.

#### Significant accounting policies

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

#### (b) Categories of financial instruments

##### Financial assets

Available for sale	178	59
Receivables	40,197	42,789
Cash and cash equivalents	2,616	6,011
Derivative instruments in designated hedge accounting relationships	680	1,053

##### Financial liabilities

Derivative instruments in designated hedge accounting relationships	222	557
Carried at amortised cost	131,899	151,203

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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: Financial instruments (continued)

#### (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 42(e)) and interest rates (refer note 42 (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	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
US dollars	615	-	369	432
GB pounds	6,089	7,274	10,674	17,474
Euro	-	-	593	1,352
Canadian Dollars	-	-	1,468	1,297
New Zealand Dollars	89	-	-	-

#### 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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: Financial instruments (continued)

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	
	2017 \$'000	2016 \$'000
<u>Increase (Deterioration) in foreign exchange rate by 10%</u>		
Profit or loss – GBP Impact	(300)	(588)
Profit or loss – USD Impact	5	(14)
Profit or loss – EURO Impact	(38)	(84)
Profit or loss – CAD Impact	(95)	(83)
Profit or loss – NZD impact	6	-
<u>Decrease (Improvement) in foreign exchange rate by 10%</u>		
Profit or loss – GBP Impact	340	718
Profit or loss – USD Impact	(30)	17
Profit or loss – EURO Impact	47	103
Profit or loss – CAD Impact	116	101
Profit or loss – NZD impact	(7)	-

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 30<sup>th</sup> June 2017) coverage of highly probable sales and 25-50% (25% covered at 30<sup>th</sup> June 2017) 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 2017:

Currency	Exchange rate	Foreign currency FC '000	Contract value AUD \$000	Fair value AUD \$000
<u>Forward Contracts:</u>				
Sell Euros	0.6898	275	399	(11)
Sell Euros	0.67107	250	373	(1)
Sell Euros	0.6656	500	751	(1)
Sell Euros	0.6538	950	1,453	17
Sell Euros	0.6623	750	1,132	(13)
Sell Euros	0.6415	960	1,496	17
Sell Euros	0.6524	500	766	(1)
Sell Euros	0.6941	250	360	(19)
<u>Option Contracts:</u>				
Sell Euros	0.6700-0.5940	700	1,044	19
<u>Forward Contracts:</u>				
Sell GBP	0.5957	1,000	1,679	20
Buy GBP	0.58106	(1,500)	(2,581)	32
Sell GBP	0.58085	1,000	1,722	29
Sell GBP	0.58148	1,000	1,720	27
<u>Option Contracts:</u>				
Sell GB Pounds	0.5100-0.4722	177	346	48
Sell GB Pounds	0.5100-0.4690	177	346	48
Sell GB Pounds	0.5200-0.4865	2,000	3,846	454

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 42: Financial instruments (continued)

Currency	Exchange rate	Foreign currency FC '000	Contract value AUD \$000	Fair value AUD \$000
<u>Forward Contracts:</u>				
Sell Canadian Dollars	0.95554	500	523	24
Sell Canadian Dollars	0.99143	350	353	1
Sell Canadian Dollars	0.99969	300	300	(2)
Sell Canadian Dollars	1.0013	700	699	(7)
Sell Canadian Dollars	1.0014	250	250	(3)
Sell Canadian Dollars	0.99305	350	352	(2)
Sell Canadian Dollars	0.992	350	353	(2)
Sell Canadian Dollars	0.965	500	518	6
<u>Forward Contracts:</u>				
Sell Hong Kong Dollars	5.9764	18	3	-

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 '000	Contract value AUD \$000	Fair value AUD \$000
<u>Forward Contracts:</u>				
Sell Euros	0.6734	250	371	(3)
Sell Euros	0.6608	500	756	5
<u>Option Contracts:</u>				
Sell Euros	0.7000-0.6535	1000	1,530	(25)
Sell Euros	0.6600-0.587	250	426	9
Sell Euros	0.6700-0.594	700	1,178	7
<u>Option Contracts:</u>				
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
<u>Forward Contracts:</u>				
Sell Canadian Dollars	0.95554	500	523	(2)
<u>Option Contracts:</u>				
Sell Canadian Dollars	1.0300-0.9806	2,200	2,243	(70)
<u>Forward Contracts:</u>				
Sell Hong Kong Dollars	5.735	18	3	-
<u>Forward Contracts:</u>				
Sell Swedish Krona	6.300	171	27	-



# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: 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 \$288 thousand profit before tax (2016: a loss of \$1,053 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 contracts	Year end exchange rate		Foreign currency FC '000		Notional value \$ 000		Fair value \$ 000	
	30/06/17	30/06/16	30/06/17	30/06/16	30/06/17	30/06/16	30/06/17	30/06/16
<b>Forward contracts:</b>								
<b>Cash flow hedges</b>								
<b>Sell Euro</b>								
Less than 3 months	0.6728	0.6711	275	750	399	1,128	(11)	3
3 to 6 months			250	-	373	-	(1)	-
6 to 9 months			1,100	-	1,669	-	11	-
9 to 12 months			600	-	896	-	(13)	-
>12 months			2,210	-	3,395	-	4	-
<b>Sell GB Pounds</b>								
Less than 3 months	0.5903	0.5586	3,000	-	5,162	-	87	-
<b>Buy GBP</b>								
Less than 3 months	0.5903	0.5586	1,500	-	2,513	-	20	-
<b>Sell CAD</b>								
More than 3 months	0.9974	0.9653	-	500	-	523	-	(2)
<b>Option Contracts:</b>								
<b>Cash flow hedges</b>								
<b>Sell GB Pounds</b>								
Less than 3 months	0.5903	0.5586	1,353	1,059	2,615	2,250	327	161
3 to 6 months			1,000	3,059	1,923	6,249	223	343
6 to 9 months			-	1,059	-	2,250	-	162
9 to 12 months			-	2,059	-	4,260	-	193
More than 12 months			-	2,353	-	4,861	-	272
<b>Sell EURO</b>								
Less than 3 months	0.6728	0.6711	-	-	-	-	-	-
3 to 6 months			700	500	1,045	765	18	(10)
6 to 9 months			-	500	-	765	-	(14)
9 to 12 months			-	250	-	726	-	9
More than 12 months			-	700	-	1,178	-	7
<b>Sell CAD</b>								
Less than 3 months	0.9974	0.9653	500	600	523	612	21	(14)
3 to 6 months			650	600	653	612	(2)	(19)
6 to 9 months			600	600	609	612	3	(22)
9 to 12 months			250	600	250	612	(3)	(16)
More than 12 month			1,300	-	1,314	-	(4)	-

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: Financial instruments (continued)

#### (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.

#### 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 \$108,000 (2016: increase/decrease by \$159,000). 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 (2016: three) interest rate swap agreements with a notional amount of \$70 million (2016: \$70 million), as follows:

Expiry Date	Currency	Amount	Rate	Pay	Receive
				Rollover Frequency	Rate
4-Sep-17	AUD	\$25,000,000	2.25%	Monthly	AUD-BBR-BBSY
17-Jul-18	AUD	\$20,000,000	1.89%	Monthly	AUD-BBR-BBSY
26-Jul-18	AUD	\$25,000,000	2.29%	Monthly	AUD-BBR-BBSY
		\$70,000,000			

The swaps in place cover 85% (2016: 69%) of the total net debt as at 30 June 2017. It is anticipated that the coverage will be below 70% when the swap expires in September 2017.

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

#### Cash flow hedges

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2017 %	2016 %	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Less than 1 year	2.25	2.13	25,000	20,000	(36)	(44)
1 -2 years	2.11	2.25	45,000	25,000	(186)	(177)
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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: Financial instruments (continued)

#### (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.

#### (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 42 (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:

<b>CONSOLIDATED</b>	<b>Weighted average interest rate</b>	<b>Less than 1 month \$'000</b>	<b>1-3 months \$'000</b>	<b>3 months to 1 year \$'000</b>	<b>1-5 years \$'000</b>	<b>5+ years \$'000</b>
<b>2017</b>						
Non-interest bearing assets	-	9,786	20,130	10,286	-	-
Non-interest bearing liabilities	-	19,367	27,150	145	28	-
Finance Lease liability	5.65	74	149	618	3,524	2,507
Floating interest rate liabilities	3.85	40	80	241	10,120	-
Fixed interest rate liabilities	4.26	248	406	1,421	70,217	-
Fixed interest rate assets	-	-	-	-	-	-
Financial Guarantees	-	-	865	-	-	-
<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	-	-	-

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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 42: Financial instruments (continued)

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

The Group has access to financing facilities of which \$37.6 million were unused at the end of the reporting period (2016: \$17.0 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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

	Less than 1 month \$'000	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
<b>2017</b>					
Net settled:					
Interest rate swaps	-	(36)	(158)	(28)	-
Net settled:					
Forward exchange contracts	76	45	(10)	-	-
Foreign currency options	96	454	19	-	-
	172	463	(149)	(28)	-
<b>2016</b>					
Net settled:					
Interest rate swaps	-	-	(248)	(309)	-
Net settled:					
Forward exchange contracts	-	-	1	-	-
Foreign currency options	52	257	517	226	-
	52	257	270	(83)	-

#### (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).

Notes to the financial statements  
For the financial year ended 30 June 2017

Note 42: Financial instruments (continued)

(i) Fair value of financial instruments (continued)

	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 2017	-	680	-	680
Derivative financial assets – 30 June 2016	-	1,053	-	1,053
<b>Financial liabilities designated in cash flow hedges</b>				
Derivative financial liabilities – 30 June 2017	-	222	-	222
Derivative financial liabilities – 30 June 2016	-	557	-	557

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

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

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ Financial liabilities	Fair value as at 30/6/17 \$ 000	Fair value as at 30/6/16 \$ 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 \$111	Assets \$1	Level 2	(1)	N/A	N/A
B) Foreign currency options	Assets \$569	Assets \$1,052	Level 2	(1)	N/A	N/A
C) Interest rate Swaps	Liabilities \$222	Liabilities \$557	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.

# Notes to the financial statements

## For the financial year ended 30 June 2017

### Note 43: Events after the reporting period

In respect of the financial year ended 30 June 2017, a fully franked dividend of 1.0 cents per share was declared on the 30<sup>th</sup> August 2017 and will be paid on the 10<sup>th</sup> November 2017.

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 44: Parent Entity Disclosures

44.1 Financial Position	Consolidated	
	2017 \$'000	2016 \$'000
<b>Assets</b>		
Current assets	185,611	189,636
Non-current assets	257,457	260,001
Total assets	443,068	449,637
<b>Liabilities</b>		
Current liabilities	47,653	43,075
Non-current liabilities	154,813	180,369
Total liabilities	202,466	223,444
<b>Net Assets</b>	<b>240,602</b>	<b>226,193</b>
<b>Equity</b>		
Issued Capital	463,009	443,266
Accumulated Losses	(224,074)	(218,890)
<b>Reserves</b>		
Equity settled employee benefits	1,698	1,546
Hedging	46	348
Foreign currency translation	(77)	(77)
Total reserves	1,667	1,817
<b>Total equity</b>	<b>240,602</b>	<b>226,193</b>

44.2 Financial Performance	Consolidated	
	Year ended 30 June 2017 \$'000	Year ended 30 June 2016 \$'000
<b>Profit / (Loss) for the year</b>		
Other comprehensive income/(Loss)	(2,324)	(1,387)
Total comprehensive income	(302)	1,376
	(2,626)	(11)

44.3 Guarantees entered into by parent entity	Consolidated	
	2017 \$'000	2016 \$'000
Guarantee provided under the deed of cross guarantee (i)	5,022	5,754

(i) The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 38.

44.4 Contingent liabilities of the parent entity		
Bank Guarantees	865	412

44.5 Capital Commitments of the parent entity		
<b>Plant and Equipment</b>		
Not longer than 1 year	4,398	26