



thewine**society**

2008

**Annual Report
To Members**

AGM Meeting Date:

Thursday 20th November, 2008

The Australian Wine Consumers Co-operative Society Limited

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Australian Wine Consumers' Co-operative Society Limited

Annual Report 2008 Chairman's Report

THE YEAR IN REVIEW

It is my pleasure to report on a year which has again seen significant achievements for the Society.

- Operating Surplus before taxation of \$918,274 (up 33%)
- Notional surplus of \$4,800,944 (up 6.5%)
- 4,789 new members
- Sale of Cathedral St
- Relocation of Head Office to Ultimo
- Completion of 3yr strategic plan
- Acquisition of CBD Cellars
- Awarding of the inaugural Dr Gilbert Phillips Scholarship
- Rebranding review undertaken and completed
- Society labels awarded 2 trophies, 5 gold, 7 silver and 26 bronze medals
- Expansion of imported wine range to include Chile, Argentina and South Africa

It is with great satisfaction we are able to report an operating surplus of \$918,274 whilst still providing significant financial and non financial benefits to members as well as continual reinvestment in our Society. This was achieved after incurring significant costs associated with both our Licence relocation and Head Office move to Ultimo.

In the 2008 financial year members received a total freight subsidy (the excess of cost over freight recovery) of \$1,737,426 mainly via the \$1,200 free freight initiative. I am pleased to report that we now have over 12,000 loyal and rewarded members who qualify for this fabulous initiative.

In 2008 5,000 Members attended any one of the over 260 event days held by our events team (that one for each working day). As you would be aware The Society subsidises the cost of both arranging and holding these events and our contribution to the effect this year was \$222,362.



Maintaining and growing the membership base is an important aspect of our ongoing operations and we are pleased to welcome the 4,789 new members who joined the Society last year

After 21 years at Cathedral St, The Society finally moved into its new Head Office in Ultimo on 19th September 2008. Not only does this facility give great accommodation to the well deserving staff but it is centrally located with access from the East, South, West and inner suburbs of Sydney. An 1880's wool store, the building provides a great backdrop for our newly fitted retail store and Vintec Tasting room. Please drop by if you are in Sydney or just visiting, our friendly retail staff are always on hand to provide some helpful wine advice.



Following the confirmation of our liquor licence removal we were also able to secure the sale of Cathedral St for \$2.44m on 1 July 2008. Having cost the Society \$675,000 in 1987, we have made a handsome profit on the sale of this asset and will reinvest this back into providing an increasing array of benefits for members.

As you can see life at The Society has already been hectic, however during the last year the Board and Management have also completed both the acquisition of a business in a new sector of the wine (beverage) industry for us as well as complete a three year plan to take the Society forward.

The acquisition of CBD Cellars was completed early July 2007 and we have been working in transitioning the business within The Society's operations.



The rationale for our purchase is that many of you, our members, work in businesses that would have office beverage deliveries and we would appreciate hearing from you in that regard. As well, many of the CBD customers have staff who are potential members.

The Board and Management combined in a rigorous strategic planning process for two days in May 2008 and the major outcome for members was that we would focus on “Delivering the very best wine experience”. As you would appreciate, this cuts across all aspects of our service delivery to members and if for any reason you believe that we are not “Delivering the very best wine experience” we would like to hear from you.

As part of the 60th birthday celebration we initiated the Dr Gilbert Phillips scholarship which affords a worthy student from Adelaide campus the opportunity to further their wine tutoring by completing a vintage at an international winery of their choice. The inaugural winner was Sam Hambour who will be using his scholarship in a vintage in France to further his practical experience.



The Society also held its 7th Young Winemaker Award and Usher Tinkler from Poole’s Rock was the recipient of the main award.



Organisations with a history such as The Society have that internal challenge of retaining the old whilst remaining fresh and relevant to the changing needs of Society. At the start of 2007 we embarked on a program of reviewing our relevance both to members and the wine drinking community at large and whilst the feedback was mainly positive, to remain fresh and relevant we needed to change the way we looked and communicated.



Our new look has recently been revealed in our regular magazine “in the glass” and we have gone to considerable effort to rebrand and rework our website. I hope you are as impressed with the results as I am and I encourage you to log on and discover the old and new features and some fabulous wines as well.



Finally, what is important to us all, most of all, the wines. We are always proud of our wine selections and in particular our own Society label wines. Awarded 2 trophies, 5 gold, 7 silver and 26 bronze medals, our Society label always delivers value well above their price point. The stand out again is the Tasmanian Riesling with another two trophies bringing its total haul for the six vintages to 6 trophies, 7 gold, 1 silver and 10 bronze medals. For those who have managed to keep prior vintages I am reliably informed the 2005 is looking stunning at present, but, will also keep aging for many years to come.

These wines have also had their labels redesigned and the new look is fresh clean and unmistakably, “Society”.



Whilst we continue to deliver on wine “Made in Australia”, we have also been fortunate enough to source some outstanding wines from Chile, Argentina and South Africa to extend our endorsement to wines from around the globe. These wines provide excellent value for money when compared to their Australian equivalents and members have endorsed their quality through snapping them up quickly when released.



THE ROAD AHEAD

With tighter economic conditions ahead, The Society is well placed to take advantage of opportunities as they arise through the strong management of the organisation in recent years.

With the acquisition and move to a new Head Office complete, our concentration in the coming year will be leveraging the value in the existing assets of the Society whilst increasing our delivery of benefits and services to members (as I write our new website is going live).

How can you help I hear you say??

For those of you with businesses in the CBD of Sydney or Melbourne our CBD Cellars team would love to hear from you at www.cbdcellars.com.au

To all of you who have wine loving friends, get them to logon to www.winesociety.com.au to see what this great Wine Society is all about.

It has been another exciting and rewarding year at the Wine Society and the success we achieved is thanks largely to our thriving and lively member base, supported by my Board, former CEO John Winstanley and his management team and the ever reliable Society staff.

Robert Whitton
Chairman
October 2008

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Audit and Risk Committee Report

The 2008 year continued to consolidate our position with a great operating performance and enhanced financial strength for members.

The Wine Society and its controlled entities again demonstrated a strong performance in its niche markets, increasing sales by over \$8m to \$46.5m, and achieving an operating surplus before tax of \$918,274. The majority of the sales increase came from our new CBD Cellars business and retail stores however Co-operative sales also increased \$1m showing the health of our core business.

To measure the overall operating financial performance of the business your Board has been using a measure called Notional Surplus. Notional Surplus, as highlighted in the table below, is the sum of our EBITDA and returns and reinvestment in the business. It is a little like the operating profit line of a listed entity after deducting dividend payments, but in The Wine Society this is represented as a freight and events subsidy.

	2008	2007	2006
Notional Surplus	\$4,800,607	\$4,507,809	\$4,003,728
Less:			
Freight Subsidy	1,737,426	1,608,984	1,313,309
Events Subsidy	222,362	223,186	165,048
Member Recruitment	966,212	1,579,619	1,598,611
Operating EBITDA	1,874,607	1,096,020	926,760
Less			
Depreciation and Amortisation	484,304	341,328	373,486
Interest Paid	472,029	73,822	-
Operating Surplus before tax reported to members	918,274	680,870	553,274
Increase in Notional surplus	6.5%	12.6%	
Increase in Operating EBITDA	71%	18.2%	
Increase in Operating surplus to members	34.9%	23%	

Our working capital remains strong and whilst our financial reports show a deficiency of some \$2m, this is due to the repayment of \$2m of our business loan, which will be repaid from the proceeds of the sale of Cathedral St. This sale will be settled in January 2009.

The Society has completed the refurbishment of its new premises in Ultimo subsequent to year end utilising part of its remaining undrawn loan facility. Following the sale and settlement of Cathedral Street sale, the net equity position of the group will be \$6.5m in retained profits, Members Capital of \$2.5m and long term loan funds of \$4.5m for a debt to equity ratio of 50%.

The Audit Committee continues its work on ensuring an appropriate link between Performance Objectives and staff rewards and has continued its initiative to implement and review the Business Risk Management Plan.

Again I would like to thank the Society's Chief Financial Officer, Ron Corby, for his efforts this year on the Society's behalf, and also the other members of the Audit Committee; John Love and Rob Whitton.

Geoff Ballard
Chairman, Audit Committee.
October 2008

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Wine Committee Report

The Wine Committee oversees the tasting panel and the wine buying cycle from product planning, assessments, price points, and intended use, through to sales success, quality assurance and slow moving stocks and cellar stocks re-assessment.

As always, sourcing appropriate wines at the appropriate quality and price continues to challenge the Committee and we are indeed fortunate in having a qualified and very experienced winemaker in Ian Walsh, who is also the Society's Trading Manager, as one of its members. The value of having such a person on the Wine Committee is of particular benefit in the increasingly competitive climate of the Australian, and indeed the world, wine industry in all its facets. Ian has made many successful wine purchasing visits to most of our wine producing regions as well as in New Zealand and South Africa. As a winemaker he is able to offer sound advice to ensure some of the bulk wine samples offered are finished and fine tuned to better meet our specifications.

This year the tasting panel convened on 39 occasions and tasted 3066 wines, 1416 of which (46%) passed our exacting standards. This is quite a high pass rate which in no way reflects a relaxation of attitude to quality but rather is the result of a more targeted approach to suppliers culminating in better quality wines being offered to us.

We have also further developed the practice of inviting suitably qualified guest panellists to assist with our assessments which we believe has led to an even more balanced view on wine styles.

Our product portfolio continues to grow and in line with industry trends we have increased the offering of imported wines ranging from "cheap and cheerful" through to some of Europe's finest examples. The increasing importance of Chile and South Africa in the world of wine has not escaped our notice resulting in a trial shipment of one container from Chile which clearly met with members' approval and at the time of writing we have received our first container from South Africa. We are quite sure wines from these two countries will make regular future appearances in our portfolio.

We have also paid very careful attention to the range of less expensive imported wines being offered by some of the large retailers and have regularly included a number of these in our tasting panels. We can assure our members most of these wines rarely meet our quality standards.

We have continued to enter Society labelled wines into a number of Australian wine shows and this year we were very pleased these wines were awarded 2 trophies, 5 gold, 7 silver and 26 bronze medals with the most successful wine being the 2007 Tasmanian Riesling.

We have also had a pleasing amount of positive commentary in publications such as Winestate magazine and other press. Such third party endorsement of our wines is very gratifying and further confirmation of the quality of our Society wines.

The much larger than expected Australian grape harvest for 2008 will put further pressure on grape growers and wine producers which will no doubt result in some very keen product pricing. This can be somewhat of a "two edged sword" for the Society as on the one hand it is likely we will be offered wines at very attractive prices but on the other hand the larger wine producers will be under great pressure to move stocks and will undoubtedly offer the larger retailers some great deals. The Wine Committee's challenge will be, as it has been in the past, to continue to seek out exclusive parcels of good value quality wines for our members. We believe the current range of Society labelled wines represents exactly that and may we commend them to you.

Ian McKenzie
Chairman, Wine Committee
October 2008

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Corporate Governance Committee Report

The Corporate Governance Committee's role is to report to the Board and provide appropriate advice on matter relative to Governance and Best Practise.

The Committee is formally appointed by the Board and its Duties and Responsibilities are as outlined in the Corporate Governance Charter.

The Board has decided that after making allowance for the unique differences between Cooperatives and Investor owned companies, the ten essential corporate governance principle recommended by the Australian Stock Exchange should be used as a guide for our Society.

In its third year of operation the Committee undertook a review of the Board and Director Evaluation Process. Subsequently the Board accepted the Committee's recommendation to seek external professional advice on this important matter.

Ms Julie Garland Mc Lellan has been engaged to assess the Boards' performance and to formulate an Improvement Plan for adoption by the Board in the current term.

As well the Committee also oversaw the completion of a Charter for the Nominations Committee.

I record appreciation to Ron Corby, our Company Secretary, who has given strong support to the Committee and also to my fellow Directors for their thoughtful counsel.

Terry Stapleton
Chairman, Corporate Governance Committee
October 2008