



thewine**society**

2009

**ANNUAL REPORT
TO
MEMBERS**

**Annual General Meeting Date
26th November 2009**

66 Bay Street
Ultimo NSW 2007

Australian Wine Consumers' Co-operative Society Limited
Annual Report 2009
Chairman's Report

THE YEAR IN REVIEW

It is with mixed feelings that we report on a year which has seen significant challenges for the Society, together with many varied successes

- Operating deficit before taxation of \$592,023 down 164% (2008: profit of \$918,274 (up 33%))
- Notional surplus of \$2,937,059 (down 39%) (2008:\$4,800,944 (up 6.5%))
- 5,170 (2008: 4,789) new members
- Settlement of Cathedral St with proceeds applied to Bank Loan
- Society labels awarded 2 gold, 5 silver and 18 bronze medals
- Appointment of CEO Daryl MacGraw
- Two new Liquor Licences for our Bay St premises
- Three new websites
- Significant management team restructuring

It is with great disappointment that we report an operating deficit of \$592,023 for 2009 albeit we were still able to provide significant financial and non financial benefits to members as well as continual reinvestment in our Society. The deficit for the year is a direct consequence of the economic downturn with lower sales revenues from both member and customer business.

However, in the 2009 financial year, members still received a total freight subsidy (the excess of cost over freight recovery) of \$1,846,491 mainly via the \$1,200 free freight initiative. I am pleased to report that we still have over 12,000 loyal and rewarded members who qualify for this fabulous initiative.

Also 5,140 Members attended any one of the over 136 events held by our events team. As you would be aware The Society subsidises the cost of both arranging and holding these events and our contribution to that effect this year was \$331,937.

Maintaining and growing the membership base is an important aspect of our ongoing operations and we are pleased to welcome the 5,170 new members who joined the Society during the last year.

Settlement of the sale of Cathedral St for \$2.44m took place early February 2009, and given the pain of the financial markets at that time and the fall in property values generally, we were lucky to get the sale away and settled for the price we received. We made a handsome profit on the sale of this asset and repaid \$2,000,000 on our financing facilities.

On 22 September 2008 we moved into our new head office premises in Ultimo which is a huge step up in profile and location with its great Vintec Tasting Room and beautiful and functional retail store as well as great office space with room for further growth. In the past few weeks we have finally received approval of our application to convert our head office store restricted licence to an unrestricted licence which will help in the development of the store.

Additionally, we successfully set about to free up our liquor licences to enable us to sell to customers direct from our head office.

Members would be aware that subsequent to the end of 2008 financial year our then CEO, John Winstanley, after two and a half successful years with us moved on in his career. After an extensive process the economic downturn proved advantageous and The Society was able to secure the services of Daryl MacGraw as CEO from January 2009. Just to refresh on Daryl's background, former CEO Bluetongue Brewery, Managing Director Hahn Brewery and Sales and Marketing Director Lion Nathan, Daryl has brought to The Society a refreshing view of our business and has realigned our Direction to the brands we own, Wine Society, Wine Society Cellars and CBD Cellars. He has also set about creating some new brands, some you would know such as Riverstones and Kettle Lane, and as members would be aware one we have introduced recently, John Boston, being our own premium beer. I recommend that you review the John Boston website www.johnboston.com.au . Members should stay alert and watch for further great new additions to our portfolio of product. We have also listened to the members who have requested we revisit our single malt whisky offer and are currently trying to source appropriate product taking into consideration price, quality and quantity.

The changes we have made have necessitated some management reshuffling with one redundancy, however we have been able to secure the services of some key new managers that maybe in other times, we would not have been fortunate enough to secure. The feeling of change and vibrancy in Bay St is palpable.

As well as continuing our prime role of serving our members with fine wines, education and events we have pressed on with endeavouring to bed down and grow the corporate business acquired in 2007. In more in recent times your Board has approved the expansion of our business offerings by moving into on-premise distribution which the Board sees will help grow our brands and more importantly fuel the growth of the Society. John Boston whilst available to members via our normal channels is also leading the Wine Society's charge into restaurants, hotels and various other wine and other beverage retailers.

These changes have also brought about some transformation in the way we promote ourselves across our various customer sets. We have stepped up to the challenge of staying relevant to each of the market in which we operate and to assist with this you would have seen www.societycellars.com.au, www.societyauctions.com.au www.youngwinemaker.com.au .

You will recall last year that 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. Whilst we have completed this in terms of logo, website etc, our wine labels have also gone through the microscope and we are sure you will find their contemporary nature both appealing and relevant to The Society.

The Society also held its 8th Young Winemaker Award and Ben Haines from Mitchelton was the recipient of the main award. I look forward to and recommend your attendance at this year's gala event on 20 November and this year's presentation.

We have a policy of where appropriate entering our own wines in various wine shows around the country and are always proud of our wine selections and in particular our own Society label wines. Awarded 2 gold, 5 silver and 18 bronze medals, our Society label always delivers value well above their price point.

I thank you our members for your support throughout the past year and into the future, I am confident that the current financial year will end on a more positive note both for reasons engendered by the improving general economic environment and the significant developments we have made to the business over the past six months.

Robert Whitton
Chairman, Board of Directors
October 2009

Australian Wine Consumers' Co-operative Society Limited
Annual Report 2009
Audit, Risk and Governance Committee Report

The year to 30th June 2009 has been a year of challenge and change, both for your Wine Society and the Australian economy. It was during this year that your Society moved into its new head office in Bay Street Ultimo and appointed a new CEO.

Management and staff are to be commended on the successful transition to our new head office. Naturally there is a hidden cost in such logistical exercises inasmuch as such moves make enormous demands on the time and resources of staff. The new premises should serve your Society's needs well into this century.

Your Board also took the decision to merge the Corporate Governance Committee and the Audit Committee as well as broaden the new Committee's scope to include the recognition and management of risk on an enterprise based level hence the new title.

Risk is something that we have all become more acutely aware of as a result of global volatility. Increased volatility and hence uncertainty effected wine sales with an overall 7.6% decline (seasonally adjusted) in national domestic wine consumption in the 12 months to June 2009 according to the Australian Bureau of Statistics. The Wine Society was not immune from this consumption decline in the same period. Consolidated revenue was down \$3.05m compared to the previous year or almost 6.5%. The decline was evident in the CBD Cellars business which was affected by corporate "belt tightening" and the Society's Co-operative sales which were also down \$2.19m.

Although we did better than the national "average" overall, there is no room for complacency and both the Board and staff of the Wine Society are very focussed on restoring revenue and hence profitability and the concomitant benefits to you, our member shareholders.

For the 2008-2009 year the Wine Society had a net operating loss of \$988,023 compared to an operating surplus before tax of \$918,274 in 2007-2008. Apart from the revenue decline as a factor in this loss, the reported loss is also attributable to asset impairment charges. A total of \$1.138m in impairment charges, on top of the normal depreciation and amortisation charges, were incurred. This, as you will see from the accounts, reflects a write down in the value of customer records and goodwill – an intangible asset.

The effect of the asset impairment charges has resulted in your Society breaching the borrowing covenants with our banker. Accordingly all our existing borrowing facilities are now deemed to be a current liability and we are no longer classifying \$2.0m of our borrowings as a "non current" interest bearing liability, as was the case in 2007-2008.

Our working capital is negative with non current liabilities 1.9 times current assets compared to 1.3 times in 2007-2008. If one excludes the reclassification of \$2.0m of borrowings as "current" the ratio is 1.5 times. The working capital position is being closely monitored by your Board.

From a cash flow perspective your Society had a net outflow of \$169,000 for the 2008-2009 year compared to a net addition of \$221,000 in the previous year.

Last year I reported that the Board was comfortable with a debt to equity ratio of 50%. With retained profits of \$3.96m, following the current year's loss, and members' equity of \$2.34m the debt to equity ratio has increased to 71% after allowing for interest bearing liabilities (loan funds) of \$4.506m. Again this is being closely monitored and the Board is looking at a number of options to redress the position and thereby improve our working capital position and reduce our overall gearing from its current level.

In conclusion I would like to thank the members of the Audit, Risk and Governance Committee being John Love, Terry Stapleton, Iain McKimm and your Society's Chief Financial Officer Ron Corby who also joined the Committee as a member for their unfailing support and commitment.

Geoff Ballard
Chairman, Audit, Risk and Governance Committee
October 2009

Australian Wine Consumers' Co-operative Society Limited
Annual Report 2009
Wine Committee Report

Briefly, the prime purpose of the Wine Committee is to oversee the tasting panels and the wine buying cycle from product planning, assessments, price points and intended use through to sales success, quality assurance and slow moving stocks re-assessment.

We are very fortunate with the membership of the current Wine Committee being Ian Walsh, Greg Melick, Lance Hogan and Ian McKenzie, all of whom are extremely well qualified in wine assessment and have day to day contact with the wine industry and its associated endeavours. Having a committee with such experience arguably gives The Wine Society a clear advantage over all our competitors giving our Members confidence that only appropriate wines are sourced.

This year the tasting panel met 30 times and assessed 2762 wines, of which 1142 passed muster. This represents a fail rate of 59% which is marginally worse than last year and possibly a reflection of the very difficult 2008 vintage where there were so many seriously heat affected vineyards which challenged many winemakers. Also there were 300 fewer wines tasted which is a result of targetting "better" producers and having to taste fewer wines from producers who have consistently underperformed in past years.

As mentioned in last year's report we embarked on a program of introducing "guest" panellists onto the tasting panels and this has been a great success with a number of past Len Evans Tutorials scholars now gracing out tasting bench on a regular basis. We believe this to be a healthy practice to ensure we provide a diversity of styles to our Members.

Another initiative we considered (and have introduced during 2009/10) is to benchmark our portfolio, in tastings set up specifically for the purpose, with the offerings from our competitors, this to ensure that our quality and price are as they should be and also to ensure our range is appropriate.

Of the many classes of wines tasted the Aussie icons, shiraz, riesling and semillon were the strongest with the weakest being pinot noir, merlot and "other" dry reds. We encountered variable quality in sauvignon blanc (and blends thereof), pinot gris, chardonnay and cabernet sauvignon classes with some of the very best and some of the poorer wines coming from these classes. We have in fact encountered considerable difficulty in sourcing sufficient cabernet sauvignon based wines of the required quality and style at the "right" price.

We are continuing to assess and source wines from around the world to add interest to our range. This year, with the New Zealand wine industry facing considerable surpluses, particularly in Sauvignon blanc and to a lesser extent pinot noir, we have a good representation of very good value wines from across the Tasman in our portfolio. Another very good vintage there in 2009 has only served to put further pressure on wine prices which bodes well for our Members.

As we have in the recent past we will continue to offer interesting wines from Argentina, Chile and South Africa as well as from the more traditional European countries France, Spain and Italy.

The range of wines under our own labels continues to expand and as a form of benchmarking we enter many of these into national wine shows with solid results, achieving 2 gold, 5 silver and 18 bronze medals. In addition we submit many of our wines to Winestate Magazine for assessment which has resulted in numerous write-ups.

Another large Australian grape harvest in 2009 has put further considerable pressure on producers with many well known wines on the market at well below their usual price points. The traditional international export markets of the UK and USA have declined due to a number of factors, not the least of which is the so-called Global Financial Crisis, but other factors such as the increasingly strong Aussie Dollar have made many international markets unprofitable and hence unsustainable for many producers. This has led to a veritable flood of less expensive but sound quality wines being introduced onto the domestic market which, while of considerable concern to producers, is good news for consumers. Due to strong wine industry contacts The Wine Society is well placed to source some of these wines which are usually of exceptional value.

Ian McKenzie
Chairman, Wine Committee
October 2009

Australian Wine Consumers' Co-operative Society Limited
Annual Report 2009
Sales and Marketing Committee Report 2009

This committee continued this year to focus on member communications and offerings, enhancing current programs and developing new opportunities.

The Committee comprises two Board members, one of whom is the Chairman, the other the Society Chairman, and the CEO. Its brief is to examine all member benefits and services, promotional techniques and public relations, to provide input, experience and expertise in those areas and to execute agreed solutions. As an advisory committee, the Chairman reports progress to the Board at its monthly meeting.

Member acquisition has been challenging over the past twelve months. Our member-get-member program continues to be a continuous source of new members, so resources have been allocated to pump up this area. It is equally important to focus on retaining loyal members – extensive time and effort has also been allocated to this exercise. Our education and events programs continue to be a rich source of new member recruitment.

The last twelve months has seen many changes in the look and feel of Wine Society member communications, with the aim of creating brand consistency. The key areas of change include member magazine (format, content and layout), E-mails (consistent format) and The Wine Society website (entire revamp of current website design). These changes have certainly provided the Society with consistent, easier to read and to understand, look and feel across all channels.

Retail has become more of a focus this year, with an increasing push on marketing driven retail promotions supported by in-store POS and relevant marketing material. Greater planning will be undertaken to ensure that all of The Wine Society/CBD Cellars retail stores are continuing to offer members (and customers as a whole) a great retail experience every time they visit.

Our Events and Education program has continued to take on a more national focus, with the team visiting most states, capital cities and regional areas. Our flagship event, The Wine Society Young Winemaker of the Year Awards continues to attract much interest with both the industry and the media.

The committee continues to assist the Wine Tasting Panel by monitoring market trends, with a view to selecting wines that are currently popular in the market. We aim to be ahead of the market wherever possible, and by feeding our Trading department relevant information we are able to react to changes in the market and respond better to our members' needs.

Market research has continued to be an important aspect this year. Through ongoing competitive research we have found that our wine range is increasing and improving, our prices are ultra-competitive and our selection of Society Own Label wines are far superior. Other brands introduced this year that are exclusive to the Society include Kettle Lane and Riverstones. Another exciting innovation this year has been the development of the Society's own beer, John Boston.

The Society has expanded its reach with the introduction of a wholesaling arm to distribute Society exclusive wines and beer to restaurants.

Additionally, through both internal member research and external market research, we have found out a lot of valuable information that will guide many of our decisions to further improve member benefits and encourage new members to join the Society.

I believe we are certainly in a great position to power into the future.

Lance Hogan
Chairman, Sales and Marketing Committee
October 2009