Attention: Ms Maureen Weeks
Secretary
Rural and Regional Affairs and Transport References Committee

Dear Ms Weeks

Thank you for the opportunity to provide further information to the Inquiry into the Wine Industry, as requested in your letter of 20 July 2005.

Retail Wine Price Break-up

The attached graphic indicates the approximate cost/margin components of a bottle of wine.

Approximately half of the final price of the wine is accounted for by government taxation (GST + WET, 24%) and the retailer's margin (23%).

Grape costs are included in Cost of Goods Sold (23%) and represent approximately 5.7% or $0.84 of the $15.00 final price. This equates to an average of about $900/tonne for the grapes that are used in a $15 bottle of wine.

I have attached a copy of the most recent WFA Deloitte Benchmarking Study, which will give more detail.

Dispute Resolution

There is a reference in the Hansard that indicates that wineries have not adopted dispute resolution clauses, as recommended by the Wine Industry Relations Committee (WIRC). This is in fact inaccurate. For example, the Hardy Wine Company has dispute resolution clauses in all its cool area contracts, and over half of its warm inland area grape supply. McGuigan Simeon has clauses in all of its contracts, and these were used effectively by growers in 2005 to dispute the price offered. Orlando Wyndham also has a dispute resolution clause which has been used in all contracts since 2003. I have enclosed a confidential copy of the Orlando Wyndham clause for your internal reference.

Future Hearings

On a final note, I would like to request the opportunity to appear before the Committee again if further hearings are held. I believe a false impression of the creation of the oversupply has been given, and would like the opportunity to present to redress this view.

Yours sincerely

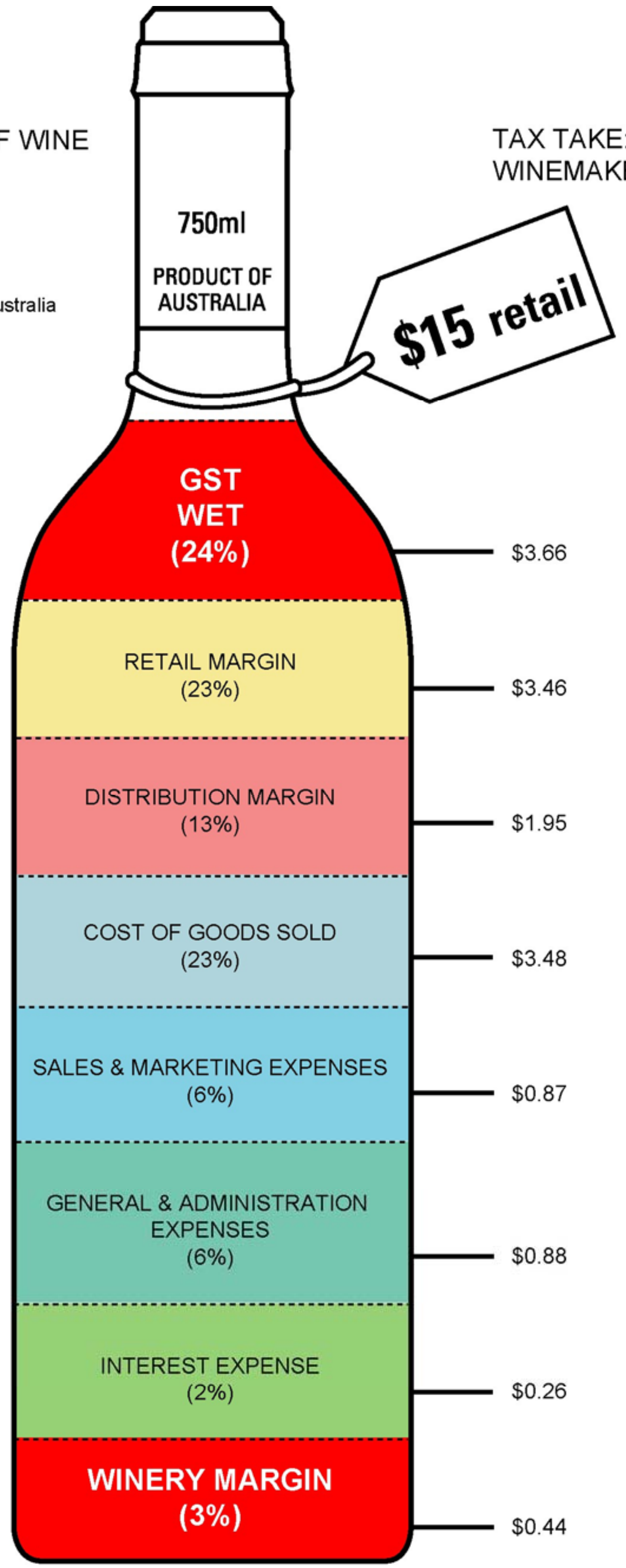
Stephen Strachan
Chief Executive

Stephen Strachan
Chief Executive
Winemakers' Federation of Australia
National Wine Centre, Hackney Road, Adelaide SA 5000
or PO Box 2414, Kent Town SA 5071
Phone: +61 8 8222 9255
Fax: +61 8 8222 9250
Email: ceo@wfa.org.au
Internet: www.wfa.org.au

THE AVERAGE BOTTLE OF WINE
(as a percentage of the
final retail selling price)

Sources: Deloitte Touche Tomatsu
ACIL Tasman Pty Ltd
Winemakers' Federation of Australia

TAX TAKE: 24%
WINEMAKER NET RETURN: 3%

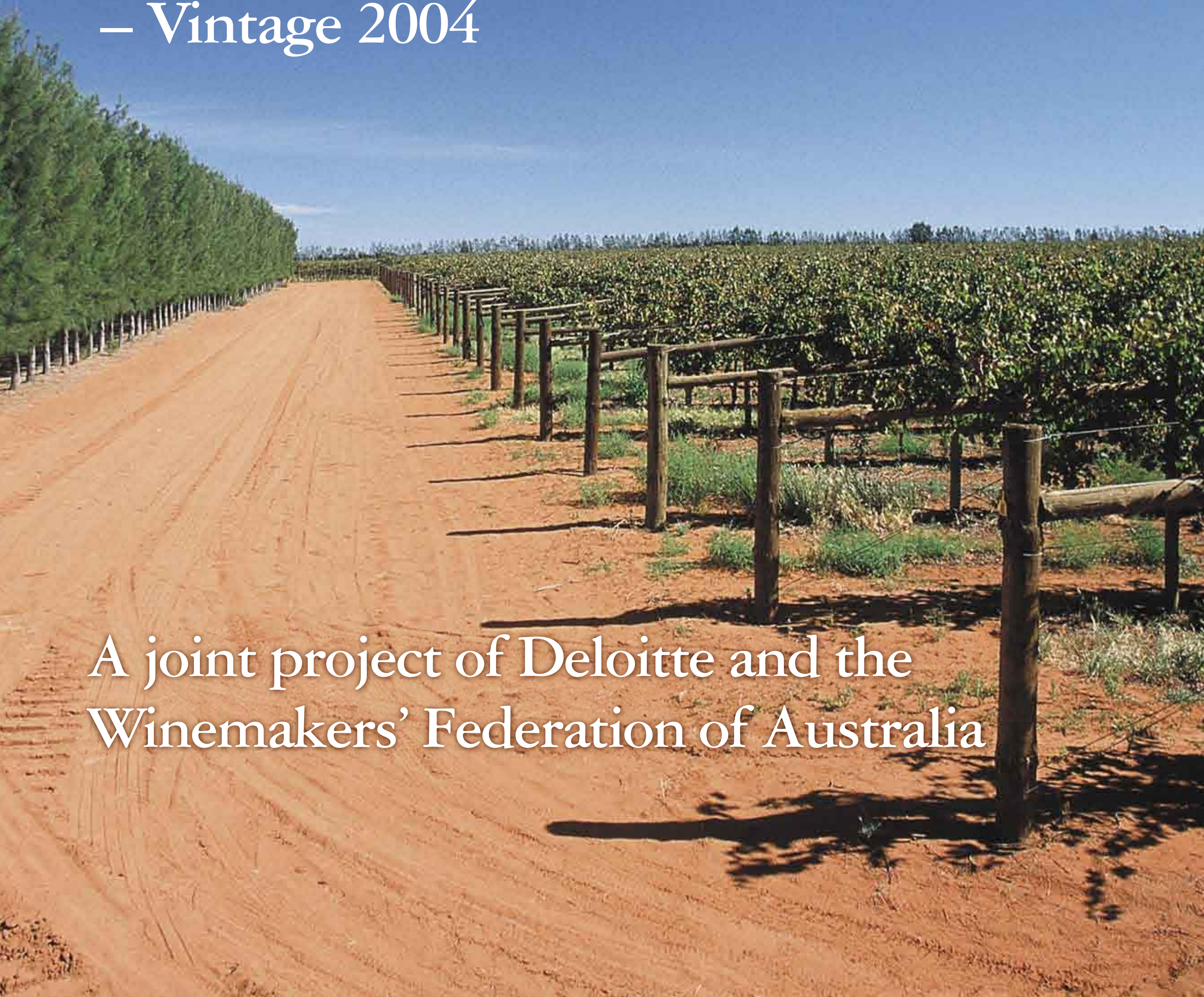


Deloitte.

wfa Winemakers' Federation of Australia

Annual Financial Benchmarking Survey for Australian Wine Industry

– Vintage 2004



A joint project of Deloitte and the Winemakers' Federation of Australia

The Annual Financial Benchmarking Survey

In partnership with the Winemakers' Federation of Australia, Deloitte conducts an annual financial benchmarking survey, which provides the Wine Industry with data on which to benchmark performance.

We have conducted surveys and prepared benchmarking reports for six consecutive years, conducting analysis of year on year trends.

The results assist winemakers to make more informed decisions about their relative strengths and weaknesses compared with others in the industry. The survey also provides winemakers with an insight into the relative efficiency and financial performance of their business – information which is vital for those looking to attract venture capital, expand and sustain growth.

Regional report

This year marks the second year that a separate regional report has been produced to compare the aggregate results from Barossa Valley (SA), Mt Lofty Ranges (SA), Hunter Valley (NSW) and Fleurieu Peninsula (SA).

This report is expected to be available in August.

Time series

For the first time, a separate time series report will be produced, analysing the trends of the Annual Financial Benchmarking Survey from 2001 to 2004.

This report is expected to be available in August.

To request either report, please contact:

Nick Stevens – Director, Assurance and Advisory

nstevens@deloitte.com.au

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Executive summary

Welcome to the sixth annual financial benchmarking survey of the Australian Wine Industry. The survey is conducted by Deloitte in conjunction with the Winemakers' Federation of Australia. It examines the financial performance of wineries located across Australia for the 2004 financial year.

Deloitte perspective

The general economic situation for the Australian Wine Industry was again tough, with another record vintage in 2004 contributing to the supply and demand pressures. The survey confirms the 'macro' position with a large proportion of surveyed wineries incurring losses or earning less than acceptable returns.

The industry continues to face challenges from multiple fronts, including:

- high Australian dollar exchange rate
- production surpluses in many export markets
- continued consolidation of retail outlets in both domestic and international markets
- consolidation of major corporations in the alcoholic beverage sector

The Australian Wine Industry will need to respond to each of these challenges. Individual wine companies will seek their own unique responses to strive towards being a long-term profitable performer.

The responses to these challenges will be many and varied, but ultimately in a tough market, mandatory business basics such as efficient management of costs, diligent attention to cash flows, brand/product positioning and a focus on continued product quality improvement will be paramount.

Survey results

While some wineries generated excellent results, the survey results indicate that many wineries are struggling to generate returns with almost one in two wineries reporting a loss in 2004. Profitability has trended down since the 2002 survey and a number of wineries across all segments have reported operating losses.

The survey provides the Australian Wine Industry with key financial performance measures, which we hope will assist wine enterprises with strategies to survive, prosper and achieve best practice.

We hope the results of the survey continue to assist wineries better understand their relative financial position and identify opportunities for future profit growth.

Survey methodology

The survey was conducted between November 2004 and May 2005.

Invitations to participate in the survey were sent via post and e-mail to approximately 1,700 wine enterprises across Australia, of which seventy-six agreed to participate. Participants could choose to submit their feedback on-line or by hard copy.

Participation in the benchmarking study increased by 12%, compared to that of the previous year.

The seventy six survey respondents represent over 90% of the revenues of the Australian Wine Industry. Due to very large concentration of wine enterprises in the $0 - $1m revenue segment, many of whom did not respond, the survey results from this segment may not be representative.

Winery segments

Given the significant variation in the size of the participating wineries, the responding organisations have been categorised by revenue to facilitate meaningful comparison of results.

Categories, based on annual revenue, are:

- $0 – $1m
- $1m – $5m
- $5m – $10m
- $10m – $20m
- $20m+.

Where available, we have compared the survey results with those of Australian publicly listed wine companies.

We trust wineries will find the results of the survey informative, and hope it assists them in benchmarking their strengths and weaknesses.

The 2004 Survey
Profitability summary

Winery size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+	Listed
Net case sales revenue	63.6%	74.6%	74.3%	77.2%	94.3%	97.1%
Add						
Bulk wine sales	4.1%	6.3%	6.4%	20.1%	1.9%	0.2%
Grape sales	1.0%	3.4%	2.8%	0.2%	0.2%	1.3%
Other revenue	31.3%	15.7%	16.5%	2.5%	3.6%	1.4%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of goods sold	50.3%	54.3%	62.0%	75.6%	65.2%	64.2%
Gross margin	**49.7%**	**45.7%**	**38.0%**	**24.4%**	**34.8%**	**35.8%**
Less						
Selling costs	21.0%	14.0%	14.6%	14.5%	12.1%	11.3%
General & administration costs	24.2%	22.3%	19.1%	18.3%	11.9%	8.2%
Earnings before interest & tax	**4.5%**	**9.4%**	**4.3%**	**-8.4%**	**10.8%**	**16.3%**
Add: Interest income	0.3%	1.0%	-0.5%	0.2%	0.1%	2.0%
Less: Interest expense	-2.6%	-4.7%	-7.1%	-3.8%	-1.2%	-4.1%
Add: Other non-operating income	-1.9%	1.9%	0.1%	3.6%	0.6%	0.2%
Less: Inventory write-downs	0.0%	0.4%	-1.0%	-0.3%	0.0%	-0.1%
Earnings before tax	**0.3%**	**8.0%**	**-4.2%**	**-8.7%**	**10.3%**	**14.2%**

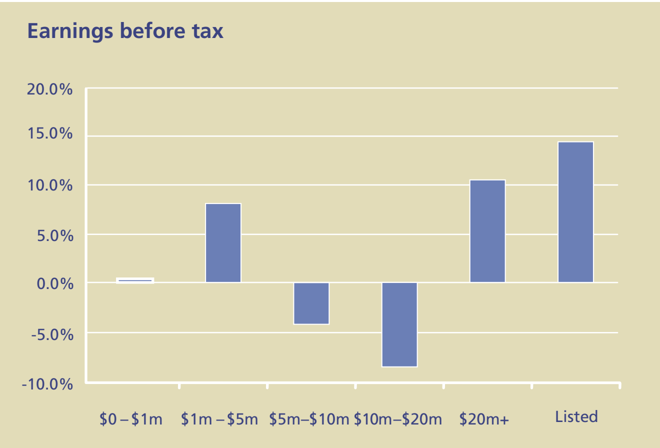
Note: amounts in the above table represent relative percentages of total revenue.

General observations

Across all revenue categories, there were a number of wineries that recorded a loss for the 2004 financial year. In fact, almost half of the wineries surveyed with less than $5m of revenue generated a loss before tax for the 2003/04 financial year.

All wineries below $10m of revenue managed to increase their average gross margin from 2003 levels.

Deloitte believes the losses generated by a significant number of wineries in 2003 and 2004 cannot be sustained and continuing poor financial results will cause many wineries to pursue alternate strategies in order to return to acceptable profitability levels. Some wineries may choose to merge to achieve cost and/or distribution efficiencies, while others may be forced to exit the market.



Note: Amounts in the above graph represent relative percentages of total revenue.

$0 – $1m category

The small wineries generated almost break-even results after reporting average profitability of 6.3% in 2003. There was a mixture of strong and poor performing wineries in this category, with 33% of the participants returning a loss for the 2004 financial year.

$1 – $5m category

There has been a marked turnaround in the profitability of wineries in $1m – $5m bracket generating Earnings Before Tax (EBT) of 8% of revenue, after returning average losses of 7.9% in 2003. This was driven by an increase in gross margin from 41% in 2003 to 46% in 2004.

$5m – $10m category

This group of wineries has performed poorly with an average loss before tax of 4.2% of revenue. While gross margins were up 5% on 2003, wineries in this group more than doubled their selling costs. General and administrative costs were also significantly higher.

A return of only 3.8% in 2003 and average losses in 2004 indicates that this market segment is becoming increasingly more competitive.

$10m – $20m category

Wineries in the $10m – $20m revenue range are also struggling, with average losses of 8.7% of revenue. The gross margin in this category is the lowest of all of the categories at 24.4% as these wineries compete with the larger wineries in most markets but do not have similar scale efficiencies in terms of production costs. Winery overhead costs are as high as $1.50 per litre compared with 25c to 30c per litre for Australia's largest wineries. These wineries cannot sell all their wine as branded product and are forced to sell 20% of their wine as bulk in a depressed bulk wine market.

$20m+ category

Wineries with sales in excess of $20m have generated EBT of 10.3%, well behind that of 2003 (15.3%). This was driven by a 10% fall in average gross margin. Our market research in this area indicates that wineries in this category face downward margin pressure in both the domestic and export markets.

Listed category

The listed wineries have returned to normalised profit levels and have performed the strongest with EBT of 14.3% of revenue. While gross margin has fallen by 3%, there has been a 10% reduction in general and administrative costs. Deloitte expects this is caused by the well documented staff and winery rationalisation programs undertaken by the large listed wine companies to deliver stronger earnings.

Key financial ratios

Winery size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+	Listed
Revenues and expenses per case						
Revenue per case	**$168.74**	**$96.36**	**$110.74**	**$64.15**	**$51.99**	**N/A**
Gross margin per case	$65.43	$41.64	$56.69	$30.34	$21.43	N/A
Profit per case	$15.86	$3.35	$2.75	-$0.51	$3.71	N/A
Advertising spend per case	$13.17	$3.62	$4.24	$3.67	$2.98	N/A
Overhead per case	$19.02	$5.58	$9.91	$10.83	$2.64	N/A
Packaging cost per case	$41.85	$24.13	$27.08	$17.38	$9.88	N/A
Solvency ratios						
Current ratio	338%	320%	215%	348%	238%	220%
Debt to equity ratio	68%	62%	74%	68%	46%	93%
Debt to total tangible assets	34%	39%	37%	43%	33%	43%
Efficiency ratios						
Inventory turnover	1.45	0.65	0.90	1.10	0.88	0.76
Fixed asset turnover	2.60	2.17	2.43	0.95	2.57	1.18
Asset turnover	0.75	0.45	0.54	0.44	0.68	0.37
Profitability ratios						
EBIT margin (average)	4.5%	9.4%	4.3%	-8.4%	10.8%	16.3%
EBIT margin (range)	**-34.4% to 29 %**	**-27.8% to 34%**	**-110.6 to 18.6%**	**-51.5% to 12.5%**	**-249.7% to 29%**	**-16.1% to 33.1%**
EBIT to assets (average)	7.9%	3.8%	-0.6%	-8.9%	6.8%	3.0%
EBIT to assets (range)	**-10.8% to 36.6%**	**-6.3% to 14.6%**	**-107.4% to 14.4%**	**-23.7% to 5.2%**	**-23% to 22.4%**	**-4.2% to 11.3%**
EBT to equity (average)	8.0%	10.5%	-4.7%	2.7%	16.8%	16.9%
EBT to equity (range)	**-36.2% to 204.5%**	**-51.2% to 66.2%**	**5.3% to 45.7%**	**-77.5% to 10%**	**-269.8% to 55.2%**	**-20.6% to 18.1%**
EBT to net case sales (average)	5.0%	10.7%	-14.0%	-19.8%	12.0%	13.0%
EBT to net case sales (range)	**-44.5% to 110.7%**	**-47.9% to 56.2%**	**-41.6% to 67.6%**	**-80.7% to 13.7%**	**-7.3% to 29.5%**	**-46.3% to 36.4%**

Revenue per case

This ratio provides an indication of portfolio mix of wineries within each wine category. The average $0 – $1m winery generates sales revenue per case of more than double that of larger wineries. The ratio falls as wineries increase in size, as larger wineries have a sales mix biased towards high volume products.

Gross margin per case

This is reflective of the percentage gross margin, as explored in the profitability section of this report. Gross margin per case for larger wineries is half that of smaller wineries. Larger wineries generate a lower gross margin due to their higher sales volumes.

Profit per case

This ratio is consistent with the profit to revenue percentage and highlights the very small profit levels per case for all but the small wineries. The wine market has evolved to become increasingly more volume driven than price driven.

Advertising spend per case

Consistent with last year's survey, the data indicates the economies of scale achieved when revenues exceed $1m. However, once this size is achieved, advertising spend per case does not change significantly.

Overhead per case and packaging cost per case

A significant portion of overhead is fixed in the Australian Wine Industry. As wineries grow, they achieve a lower overhead rate per case through economies of scale at the winery site. This is evidenced by the large variation in overhead and packaging costs per case, which reflects the size of each winery's production facility.

Current ratio

All wineries have a high current ratio as the wine sector is forced to hold high levels of inventories and generally has high current receivables and low current debt. This has a significant impact on cash flow and the need for debt, as compared with other industries.

The survey requires wineries to include all inventory as a current asset for benchmarking purposes.

Debt to equity

This ratio suggests that all but the listed wineries have proportionate debt to equity levels. Listed wineries are able to attract a higher proportion of debt.

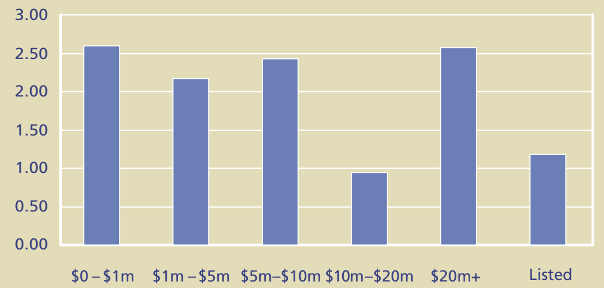
Debt to total tangible assets

This ratio tends to fluctuate around the 40% level, equivalent to most lenders' preferred loan to security ratio.

Inventory turnover

This ratio has changed from 2003 and now represents: Cost Of Goods Sold/Inventory. It measures the approximate number of times inventory is 'turned-over' in a year. Wineries in the $0 – $1m category have a higher inventory turnover ratio as their small quantities of stock generally allow them to sell their produce within a shorter period of time.

Fixed asset turnover



While fixed asset turnover in the Wine Industry is particularly low, the ratio has increased from 2003, indicating that wineries are becoming smarter in terms of the use of their assets. Deloitte expects many wineries have realised that they need not own all assets to enjoy the benefits of these assets and have entered into operating lease agreements.

Profitability ratios

EBIT Margin – as mentioned, there are a number of wineries with disappointing profit performance across all categories. The worst performing of these wineries reported a loss before interest and tax of 80% of revenue.

Deloitte perspective

Return on assets or EBIT/assets increases as a winery grows through better utilisation of fixed assets.

The EBT to equity ratio indicates that the larger wineries have a stronger focus on return on equity.

The EBT to net case sales ratio is an indicator of profitability. Case sales form a significant proportion of most wineries' profitable sales, particularly given the low, and often negative, returns on bulk wine sales.

Statement of financial performance

Winery size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+	Listed
Revenue and gross margin						
Gross case sales	51.2%	62.5%	67.6%	73.2%	97.3%	96.6%
Plus cellar door sales	12.6%	12.4%	9.0%	4.0%	1.6%	0.7%
Less						
Returns and cash discounts	-0.2%	-0.3%	-2.3%	0.0%	-4.6%	-0.2%
Net case sales revenue	**63.6%**	**74.6%**	**74.3%**	**77.2%**	**94.3%**	**97.1%**
Plus other operating revenue						
Bulk wine sales	4.1%	6.3%	6.4%	20.1%	1.9%	0.2%
Grape sales	1.0%	3.4%	2.8%	0.2%	0.2%	1.3%
Merchandising revenue	0.2%	0.5%	0.6%	0.1%	0.0%	0.0%
Restaurant revenue	1.5%	0.9%	3.6%	0.0%	0.3%	0.0%
Contract winemaking revenue	19.7%	9.6%	4.3%	2.1%	0.0%	0.1%
Accommodation revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other revenue	9.9%	4.7%	8.0%	0.3%	3.3%	1.3%
Total revenue (%)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less cost of goods sold						
Grapes	16.8%	19.2%	13.2%	29.5%	24.0%	n/a
Bulk wine	5.2%	2.2%	5.9%	10.9%	15.7%	n/a
Barrel amortisation/oak chips	2.0%	1.2%	2.7%	1.4%	0.8%	n/a
Packaging	10.4%	11.3%	14.2%	9.6%	14.5%	n/a
Direct and indirect labour	9.6%	6.2%	6.3%	3.0%	5.7%	n/a
Overheads	7.9%	10.3%	13.0%	5.3%	7.9%	n/a
Stock movement	-5.9%	-4.5%	-3.7%	12.0%	-9.5%	n/a
Other	4.3%	8.4%	10.4%	3.9%	6.1%	n/a
Total cost of goods sold	**50.3%**	**54.3%**	**62.0%**	**75.6%**	**65.2%**	**64.2%**
Gross margin (%)	**49.7%**	**45.7%**	**38.0%**	**24.4%**	**34.8%**	**35.8%**
Gross margin - range	**14% to 89%**	**20% to 83%**	**22% to 58%**	**28% to 57%**	**27% to 56%**	**29% to 49%**
Sales and marketing expenses						
Compensation sales expenses						
Sales and marketing salaries	12.6%	6.0%	2.9%	7.9%	6.1%	6.2%
Cellar door salaries	1.9%	2.1%	1.7%	0.3%	0.3%	0.0%
Other sales expenses:						
Advertising	3.4%	3.5%	2.8%	4.8%	3.7%	5.0%
Travel and entertainment	1.6%	1.3%	0.7%	0.8%	0.5%	0.0%
Other	1.5%	1.1%	6.5%	0.7%	1.5%	0.1%
Total other sales expenses	**6.5%**	**5.9%**	**10.0%**	**6.3%**	**5.7%**	**5.1%**
Total sales and marketing expenses (%)	**21.0%**	**14.0%**	**14.6%**	**14.5%**	**12.1%**	**11.3%**
General & administration expenses						
Finance/accounting/legal/professional	3.0%	3.6%	3.5%	4.2%	3.5%	1.5%
Distribution	1.6%	2.8%	0.9%	3.7%	3.0%	2.3%
Other general and administration expenses	14.8%	12.7%	12.1%	9.0%	5.1%	4.2%
Occupancy/utilities	4.8%	3.2%	2.6%	1.4%	0.3%	0.2%
Total general & administration expenses (%)	**24.2%**	**22.3%**	**19.1%**	**18.3%**	**11.9%**	**8.2%**
EBIT	**4.5%**	**9.4%**	**4.3%**	**-8.4%**	**10.8%**	**16.3%**
Interest expense	-2.6%	-4.7%	-7.1%	-3.8%	-1.2%	-4.1%
Interest income	0.3%	1.0%	-0.5%	0.2%	0.1%	2.0%
Other non-operating income	-1.9%	1.9%	0.1%	3.6%	0.6%	0.2%
Foreign exchange gain/ loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inventory write-downs	0.0%	0.4%	-1.0%	-0.3%	0.0%	-0.1%
Income (loss) before tax (%)	**0.3%**	**8.0%**	**-4.2%**	**-8.7%**	**10.3%**	**14.2%**
Income (loss) before tax (range)	**-12% to 22%**	**-7% to 43%**	**-28% to 23%**	**-53% to 8%**	**-9% to 30%**	**-33% to 29%**
Proportion of loss making wines	**33.3%**	**40.0%**	**44.4%**	**40.0%**	**42.9%**	**55.6%**

Note: amounts in the above table represent relative percentages of total revenue.

Statement of financial position

Winery Size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+	Listed
Assets						
Current assets						
Cash	2.7%	1.4%	0.7%	0.5%	1.3%	1.2%
Receivables	19.5%	8.9%	9.8%	14.6%	13.4%	14.3%
Inventories	12.6%	34.4%	33.7%	38.8%	49.6%	34.3%
Other current assets	0.4%	0.2%	0.6%	0.2%	1.7%	3.0%
Total current assets (%)	**35.2%**	**44.9%**	**44.8%**	**54.1%**	**66.0%**	**52.8%**
Non current assets						
Land	34.7%	11.1%	7.8%	3.9%	8.6%	5.9%
Vineyards	2.8%	8.8%	10.8%	4.4%	4.8%	6.8%
Buildings and improvements	5.9%	10.8%	17.2%	2.8%	3.5%	1.5%
Plant and equipment	19.4%	13.0%	18.1%	11.7%	13.1%	15.0%
Total net fixed assets	**62.8%**	**43.7%**	**53.9%**	**22.8%**	**30.0%**	**29.2%**
Intangible assets	2.0%	8.7%	0.4%	8.6%	1.5%	14.2%
Investments and other assets	0.0%	2.7%	0.9%	14.5%	2.5%	3.8%
Total assets (%)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Liabilities and equity						
Current liabilities						
Notes payable and bank debt	3.2%	7.0%	12.6%	3.1%	12.6%	5.9%
Provisions	2.0%	1.8%	2.1%	2.3%	5.9%	2.4%
Trade payables and accruals	5.4%	10.8%	7.3%	13.6%	15.0%	9.9%
Total current liabilities (%)	**10.6%**	**19.6%**	**22.0%**	**19.0%**	**33.5%**	**18.2%**
Non current liabilities						
Long term debt	15.6%	30.7%	22.9%	32.5%	18.5%	24.0%
Non-current provisions	0.0%	0.0%	2.2%	0.1%	1.9%	0.8%
Deferred tax liabilities	2.7%	0.1%	0.0%	2.8%	1.8%	2.0%
Other long term liabilities	10.6%	3.1%	2.8%	0.0%	5.7%	1.6%
Total liabilities (%)	**39.5%**	**53.5%**	**49.9%**	**54.4%**	**61.4%**	**46.6%**
Equity	60.5%	46.5%	50.1%	45.6%	38.6%	53.4%
Total liabilities and equity (%)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

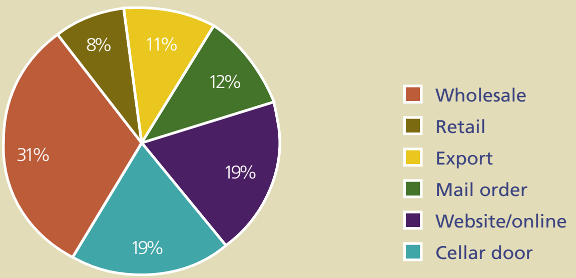
Note: amounts in the above table represent relative percentages of total assets.

Commentary

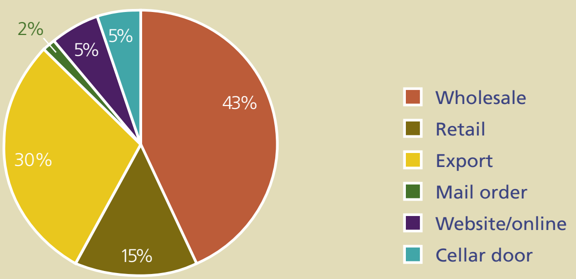
- small wineries ($0 – $1m) have a very high concentration of receivables and fixed assets and a lower inventory balance as wine is sold soon after release
- wineries including the $1m – $5m category through to the $20m+ category have higher weightings towards inventory
- despite the significant write-downs of intangibles in the past two years, listed wineries still have the highest intangibles balance.

Distribution channels
(percentage of cases sold)

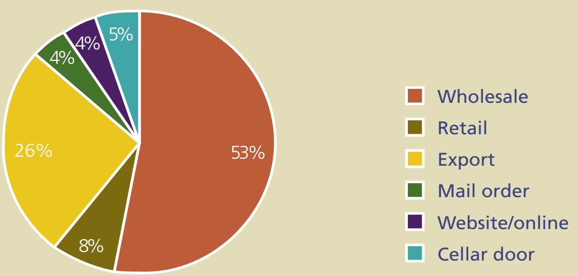
Primary distribution channels $0 – $1m



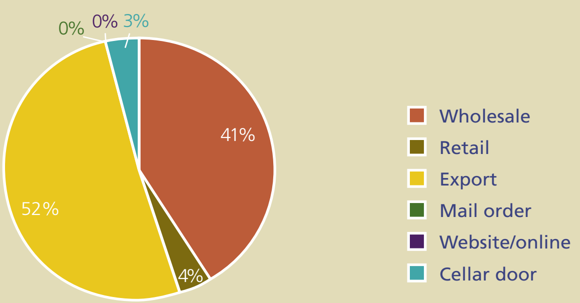
Primary distribution channels $1m – $5m



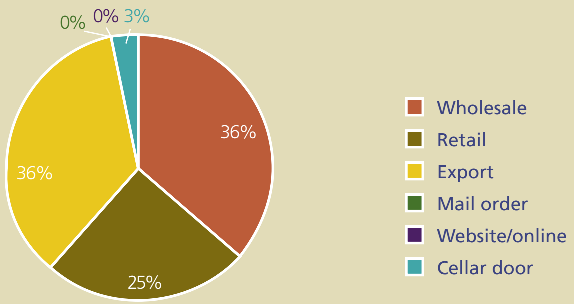
Primary distribution channels $5m – $10m



Primary distribution channels $10m – $20m



Primary distribution channels $20m+



Export
The export market is significant for all participating wineries and ranges from 11% for $0 – $1m wineries, to 52% for $10m – $20m wineries. This highlights that export plays a key role in achieving sales growth.

Cellar door
As expected, small wineries ($0 – $1m) sell the highest proportion of their sales through cellar door. However, this ratio has dropped from 36% in 2003 for small wineries to 19% this year. For larger wineries, the cellar door is a small sales channel, but is still considered important for brand promotion.

Mail order
This channel is only of significance to Australian wineries with less than $1m of revenue.

Website/online
While several respondents in the $0 – $1m category are selling product predominantly on-line, the survey results indicate that this sales channel is not a major distribution channel for most Australian wineries.

Retail
Sales through the retail channel are more difficult for small wineries as they either have insufficient supply or the margins received are too low. Deloitte's opinion is that, given the recent consolidation of the retail sector, only the larger wineries with revenue in excess of $20m will use the retail sales channel as a major distribution channel.

Wholesale (distributor)
This continues to be a significant sales channel for all wineries.

Production

Winery size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+
Crush (tonnes)					
Owned grapes	28%	35%	44%	12%	35%
Purchased grapes	26%	50%	45%	74%	63%
Contract processed	46%	15%	11%	14%	2%
	100%	100%	100%	100%	100%
Grape and bulk wine supply					
Cost of grapes per tonne	$1,544	$1,291	$1,336	$1,134	$1,116
Cost of bulk wine per litre	$3.85	$3.59	$2.54	$2.45	$1.53
Crush, ferment, cellar and outsourced bottle costs					
Labour cost per hour	$21.58	$29.79	$26.73	$23.48	$24.83
Outsourced bottling cost per case	$15.63	$12.10	$8.69	$9.52	$7.92

In the 2003 survey, wineries in the $0 – $1m and $1m – $5m categories crushed two thirds of their intake from their own vineyards. This compares significantly to the 2004 results where wineries in the $0 – $1m category are crushing approximately 52% (28%/54%) of their intake from owned vineyards and wineries in the $1m – $5m category are crushing approximately 42% (35%/85%) of their intake from owned vineyards.

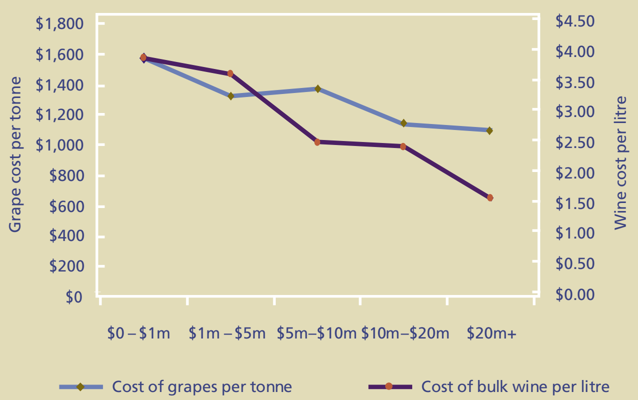
Deloitte perspective

Smaller wineries are acting as contract processors as they tend to not have sufficient grapes to fully utilise their production facilities.

Larger wineries tend to own premium/strategic vineyards and purchase a higher proportion of grapes.

This follows the trend of other larger Australian wineries that have sold vineyards and sourced fruit from other suppliers. This change could be a possible factor in the improved financial performance of wineries in these categories.

Cost of grapes and wine



The cost of grapes per tonne is low for large wineries. The larger wineries are generally able to negotiate more competitive prices through stronger bargaining power and they also tend to purchase a higher proportion of fruit destined for their cask and popular premium wine products.

The bulk wine cost per litre is generally lower for large wineries as they acquire a higher proportion of commercial wine.

Labour and bottling costs

Labour cost per hour ranges from $21.58 to $29.79 across the categories, a spread of 18%. Production labour costs vary depending on the proportion of casual labour utilised by each winery.

Outsourced bottling costs also range from $15.63 per case for small wineries, decreasing to $7.92 per case for large wineries. This indicates how much cost to wineries can vary depending on the volumes involved and the level of throughput. Small bottling runs are usually more expensive than larger runs.

Inventory

Winery size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+
Inventory (litres)					
Red					
Maturing in oak/wood	25,244	201,003	319,714	918,272	1,328,161
Bottles/packaged	7,822	105,931	204,072	420,541	1,479,031
Other	-	-	-	-	-
Bulk wine	5,437	184,688	904,602	3,399,525	12,932,125
Total litres	**38,503**	**491,622**	**1,428,388**	**4,738,338**	**15,739,317**
White					
Maturing in oak/wood	5,147	13,091	39,758	21,590	333,591
Bottles/packaged	6,552	51,863	99,325	151,047	1,216,097
Other	1,728	-	-	-	-
Bulk wine	5,458	126,266	367,010	1,578,986	7,343,108
Total litres	**18,885**	**191,220**	**506,093**	**1,751,623**	**8,892,796**
Other					
Maturing in oak/wood	510	127,408	13,288	-	1,266,670
Bottles/packaged	512	17,417	3,815	-	168,106
Other	-	1,820	-	-	114,805
Bulk wine	-	118,580	8,036	-	2,409,990
Total litres	**1,022**	**265,225**	**25,139**	**-**	**3,959,571**

'Other' represents fortified wine and champagne base.

Red wine, which is generally matured for a longer period than white wine, makes up the majority of inventory for all wineries.

Smaller wineries hold a higher proportion of red wine in barrel. Over 60% of red wine is held in barrel for the $0 – $1m category, but less than 10% for the $20m+ category.

Sales of wine
(domestic/Australian only)

Winery size (2004 revenue in $ millions)

	$0 – $1m	$1m – $5m	$5m – $10m	$10m – $20m	$20m+
<$7 bottle	0%	2%	6%	10%	9%
$7 – $10 bottle	1%	1%	8%	34%	36%
$10 – $15 bottle	14%	14%	26%	19%	24%
$15 – $20 bottle	27%	51%	24%	19%	15%
$20 – $50 bottle	58%	31%	34%	18%	13%
$50+ bottle	0%	1%	2%	0%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

As expected, the larger participating wineries with revenues in excess of $20m focus their attentions on the commercial wines and sell most of their wine in Australia in the $7 – $10 and $10 – $15 price brackets.

The $20 – $50 price bracket is significant for all wineries, especially the $0 – $1m category. Deloitte's view is that the high proportion of sales through this category in Australia would not be consistent with international sales or worldwide wine sales, but does indicate the Australian public's acceptance of a premium price for a premium product.

While the quality of wine which sells for more than $50 a bottle is not disputed, the survey highlights that actual sales of these wines are a very small portion of total Australian wine sales.

Conclusion

Intensified competition, high levels of production of wine and increased consolidation within the retail sector are some of the factors that have presented financial challenges for the Australian Wine Industry over the past 12 months as evidenced in the 2004 Annual Financial Benchmarking Survey.

The profitability of all wineries – from small to large – has decreased since 2002, with a significant number of wineries recording a loss for the 2004 financial year.

Current estimates of the 2005 vintage suggest pressure for the industry's supply position is likely to continue.

Wineries are rethinking their growth strategies in order to survive a difficult period ahead, and to remain competitive and profitable.

We hope the information contained in this report helps wineries to benchmark their strengths and weaknesses, and to identify opportunities for development.

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About Deloitte's Wine Industry Group

The Wine Industry Group is composed of professionals from Deloitte member firms who have a wealth of experience in working with winemakers to facilitate growth and profitability.

The Wine Industry Group works in multi-disciplinary teams to provide a complete range of professional services and advice, including strategic and management consulting, accounting, taxation and R&D advice, and industry analysis.

In Australia, the Wine Industry Group is concentrated in Adelaide. This team is supported by an extensive national and international network of expertise and knowledge.

About the Winemakers' Federation of Australia

The Winemakers' Federation of Australia Incorporated (WFA) is the national peak body for the Wine Industry, with voluntary membership representing more than 95% of the wine produced in Australia.

WFA tackles a wide range of issues facing the Australian Wine Industry and delivers highly relevant services to secure an environment in which the industry can grow and succeed.

WFA represents the industry's interests on national and international issues including taxation, trade access, vine health, education and training, research and development, environment, health/social responsibility, wine tourism, technical, packaging, industry outlook and political relations.

Where opportunities and threats to the industry are identified, WFA responds with a vigorous and highly professional series of activities and uses its well developed network, reaching all spheres of information and influence, to remedy the situation on behalf of the industry.

Survey methodology

The survey was conducted between November 2004 and May 2005.

Invitations to participate in the survey were sent via post and e-mail to approximately 1,700 wine enterprises across Australia, of which seventy-six agreed to participate. Participants could choose to submit their feedback on-line or by hard copy.

Participation in the benchmarking study increased by 12%, compared to that of the previous year.

The seventy six survey respondents represent over 90% of the revenues of the Australian Wine Industry. Due to very large concentration of wine enterprises in the $0 – $1m revenue segment, many of whom did not respond, the survey results from this segment may not be representative. Care must be taken when analysing the state of the industry based on the information reported in this survey.

You can contact the following
people within

Deloitte's Wine Industry Group

Nick Stevens – Account Director
Assurance and Advisory, Adelaide
Phone +61 (0) 8 8407 7177
e-mail nstevens@deloitte.com.au

Stephen Harvey – Partner
Assurance and Advisory, Adelaide
Phone +61 (0) 8 8407 7204
e-mail stharvey@deloitte.com.au

Dennis Goldner – Partner
Tax Services, Melbourne
Phone +61 (0) 3 9208 7276
e-mail dgoldner@deloitte.com.au

Adam Thompson – Partner
Growth Solutions, Sydney
Phone +61 (0) 2 9322 7697
e-mail athompson@deloitte.com.au

Stephen Holdstock – Partner
Growth Solutions, Parramatta
Phone +61 (0) 2 9840 7367
e-mail sholdstock@deloitte.com.au

Luke Martino – Partner
Growth Solutions, Perth
Phone +61 (0) 8 9365 7138
e-mail lumartino@deloitte.com.au

Tim Maddock – Partner
Growth Solutions, Hobart
Phone +61 (0) 3 6237 7065
e-mail tmaddock@deloitte.com.au

Rod Whitehead – Partner
Growth Solutions, Launceston
Phone +61 (0) 3 6337 7061
e-mail rwhitehead@deloitte.com.au

You can contact the following
person within

Winemakers' Federation of Australia

Doug Young
Policy Director
Winemakers' Federation of Australia
Phone +61 (0) 8 8222 9255
e-mail doug@wfa.org.au

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