



AUSTRALIAN VINTAGE LTD

## 2014 ANNUAL REPORT



...to create great quality wines and brands  
that our consumers know and love...



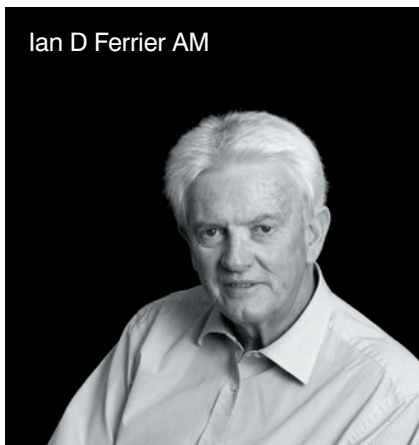
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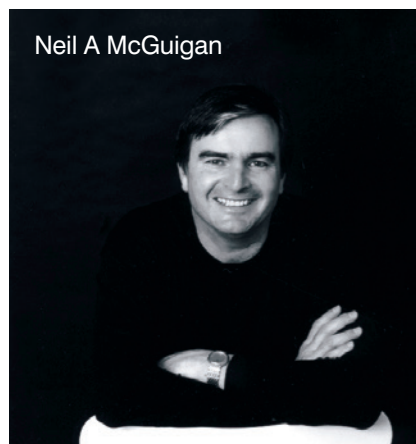
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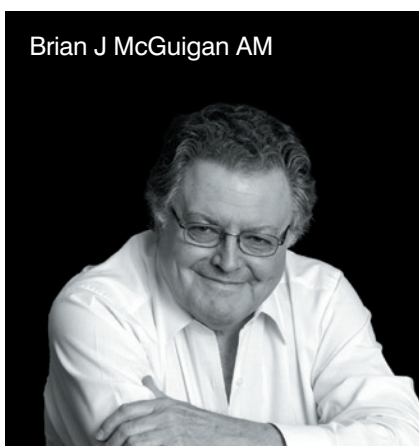
Ian D Ferrier AM



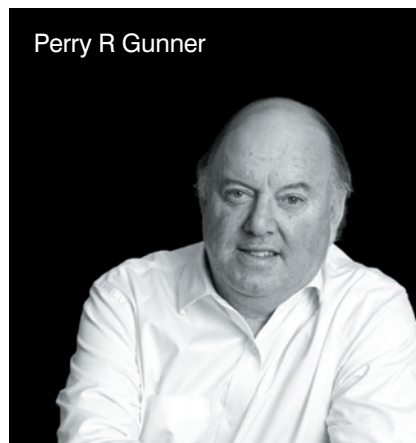
Neil A McGuigan



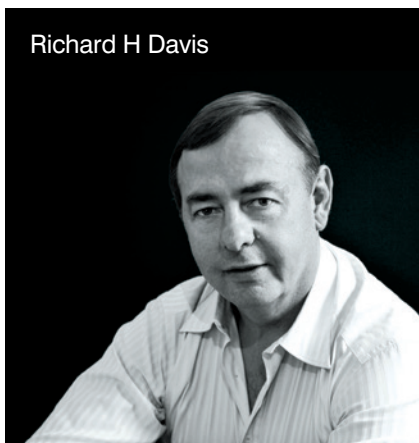
Brian J McGuigan AM



Perry R Gunner



Richard H Davis





### Dear shareholder

I am pleased to report that Australian Vintage both grew net profit and reduced debt in the year ending 30 June 2014. This represents a strong result in context of the continuing industry challenges and economic headwinds which are outside our control.

The Directors announced a fully franked dividend of 2.2 cents per share payable on 19 November

2014. This is the fourth consecutive year in which a dividend has been paid and demonstrates that the Board continues to have faith in the Company's ability to continue to perform well under current trading conditions.

### A good result

In the year ended 30 June 2014, the Company's net profit after tax rose to \$10.5 million, representing a 49% increase over the 2013 result. Revenue was up 3% to \$214.8 million.

The business continues to focus on reducing its cost base while running its core assets hard, and at the same time improving the reputation and value of its brands and wines.

In July this year the Company announced the sale of the underutilised Yaldara winery for \$15.5 million. This represents another important step in giving effect to the Company's strategy to be the lowest cost premium wine maker.

Our brands have continued to grow in both the domestic and overseas markets. This growth is on the back of a number of international awards recognising the ability of the Company to consistently deliver outstanding quality wines. Sales of the McGuigan brand grew in the domestic market by 25%, following on from 21% growth in the previous financial year.

The 2014 vintage was down 19% from last year to 124,000 tonnes, which has resulted in a reduction in our 2014 processing margin and a reduction in the income we generate from our owned vineyards. The low vintage has also resulted in our cost per litre being higher, which will create some short term challenges.

### Sales and Distribution

In August the Company announced that it had signed a long term strategic China wide distribution agreement with COFCO Wine and Spirits. This agreement will see the Company, through its core brand, McGuigan Wines, become the strategic partner for Australian wine within the COFCO Wine and Spirits business. This exciting development provides the Company a distribution footprint in China and also gives the Company a significant platform from which to build its brand equity in this important and emerging market. COFCO has one of the best distribution footprints in China, and the creation of its imported wine division will enable our full portfolio of McGuigan wines to reach consumers across the entire Chinese market.

During the year we have increased our presence in the UK/Europe segment by expanding our customer base to include all major super markets and major banner groups in the independent channel. The benefits of this expanded base are expected to improve the performance of this segment in 2014/15.

Our emphasis of growing branded business and growing export has resulted in increased sales and contribution in the Australian, Asian, New Zealand and North American markets.

The Company's commitment to its mission – *to create great quality wines and brands that our consumers know and love* was again demonstrated during the year with the Company continuing to win major international wine industry awards. These awards are on the back of being named International Winemaker of the Year three times at the International Wine and Spirits Competition.

### Financial Position

In October 2013 the company successfully completed a capital raising for \$40m (net) with good institutional and retail support. As a result, our gearing (net debt to equity) has decreased from 59% as at 30 June 2013 to a comfortable 39% as at 30 June 2014.

In August 2014 we concluded negotiations with our banker resulting in a new 3 year borrowing facility. This confirms the banks continuing confidence in our business.

### Global Markets

World wine production has increased by 9% in 2013 while consumption has stabilised.

With 27,900 million litres of wine produced in 2013, global wine production is up to levels which existed in 2006. Spain produced a record 4,000 million litres, up from 3,250 million litres in 2012; Italy produced 4,500 million litres, up from 4,380 million litres in 2012. Overall, the 2013 global production was in excess of requirements. This compares to 2012 when global production was the smallest since 1975. <sup>(1)</sup>

Whilst there will continue to be periods when global wine production will exceed consumption, the Company believes that the long term trend is likely to be a more balanced global production and consumption.

(1) Source : International Organisation of Vine and Wine

### Outlook

The wine industry continues to face challenges with markets and margins under pressure. The Company continues to respond to these challenges with ongoing cost control, creating new distribution partners and increasing branded sales. We remain focused on improving our business in an environment which remains challenging. I have confidence that our branded business will continue to grow particularly in the Asia region as a result of our new distribution partnership with COFCO.

While the UK market remains challenging particularly as a result of the recently strengthened Australian dollar against the British Pound and the continuing fierce competition between the major supermarkets, the increased awareness of the company's major brands in this market should provide for some growth in 2015.

Based on normal vintage conditions, expected sales (based on historical patterns) and forecasts for the GBP and the Euro, we expect our 2015 profit to be slightly above the 2014 result.

On behalf of the Board and shareholders I would like to thank Neil McGuigan, his management team and all of the staff of Australian Vintage who continue to meet the challenges with commitment, innovation and effort.

The Company is considering board succession and the appointment of new directors. This process has commenced.

I thank my fellow directors for their contribution during the year.

Finally I would like to thank all of our shareholders for your ongoing support.

Ian Ferrier AM Chairman





Dear fellow shareholders,

Once again it has been another difficult year for the Australian wine industry but I am happy to report that AVL's performance is still in positive territory, and more importantly, a significant improvement on last year. Our strategy of driving our branded business continues to pay dividends with both the McGuigan and Tempus Two brands experiencing double digit growth for financial year 2014. Our brands continue to excel at wine shows and competitions – domestically and internationally – with standout awards being received across the varietal portfolio of Semillon, Chardonnay, Sauvignon Blanc and Shiraz.

The UK / European sector has proven challenging for all wine companies this financial year, but despite this, the McGuigan brand is now the sixth largest wine brand in the UK (up one place from seventh last year) and has maintained its number one global wine brand positioning in Ireland.

### Other achievements include:

- Global McGuigan brand sales grew 11% in FY14.
- Global Tempus Two brand sales grew 12% in FY14.

### McGuigan Awards

- Runner up White Winemaker of the Year at the International Wine Challenge in London – 2014.
- Hunter Valley and Australian Semillon Trophy – Bin 9000 Semillon 2007 – International Wine Challenge 2014.
- International Trophy for Best White Single Varietal under £15 – Shortlist Semillon 2007 – Decanter World Wine Awards 2014.
- Best Semillon Trophy – McGuigan Bin 9000 Semillon 2007 – International Wine and Spirit Competition 2013.
- Best Syrah Trophy – Handmade Shiraz 2010 – Hong Kong International Wine and Spirit Competition 2013.
- 5\* Winery – James Halliday Australian Wine Companion 2014. Total of 9 wines scoring over 93 points including: Bin 9000 Semillon 2013 (93 points), The Shortlist Riesling 2013 (94 points), Farms Shiraz 2011 (94 points), Shortlist Shiraz 2011 (94 points).

### Nepenthe Awards

- Trophy – Best Sauvignon Blanc in show – Nepenthe Petraea Sauvignon Blanc 2013 – Royal Queensland Wine Show 2014.
- Trophy – Altitude Pinot Noir 2012 – Hong Kong International Wine and Spirit Competition 2013.
- 5\* Winery – James Halliday Australian Wine Companion 2014. Total of 8 wines scoring over 90 points including: Altitude Chardonnay 2012 (94 points), Pinnacle Ithaca Chardonnay 2012 (95 points), Pinnacle Petraea Sauvignon Blanc 2012 (95 points).

### Tempus Two

- Trophy – Zenith Semillon 2005 – Hong Kong International Wine and Spirit Competition 2013.
- Sweet International Trophy – Pewter Botrytis Semillon 2009 – Decanter Asia Wine Awards 2013.
- 5\* Winery – James Halliday Australian Wine Companion 2014. Total of 4 wines scoring over 91 points including: Pewter Semillon 2013 (94 points), Pewter Cabernet Sauvignon 2012 (91 points), Uno Shiraz 2011 (96 points).

At the recent 2014 Cowra Wine Show, Australian Vintage Ltd received a number of wonderful accolades culminating in receiving the most successful exhibitor of show – the most prestigious and highly coveted award of the show. This was a great win for the business and demonstrates that across our three major brands, and a wide varietal spectrum, our company is outperforming the vast majority of our competitors.

On the back of this success, and to show strong leadership in our winemaking, our company has also embarked on a strategic program of identifying vineyard sites and selecting appropriate varieties that will challenge the status quo. A number of these sites are already part of our vineyard portfolio, and we are seeking more sites and partnerships that will produce the wines of the future.

The endless pursuit of quality in winemaking has created an atmosphere of excellence in our business across every endeavour. From viticulture, production, sales, marketing, cellar door and on-premise through to our wine clubs, our staff are focussed on over-delivering to our customers and consumers.

Our business has not lost sight of the importance of engaging our customers around the world, and continues to embrace consumer demands and deliver wines that fulfil the market opportunities. Innovation and consumer engagement is also highlighted by our promotional programmes carried out throughout the world – including, but not limited to:

### McGuigan

- 'Win an Alfa Romeo' national independent sales promotion.
- Sponsorship of the St George Illawarra Dragons NRL team, increasing brand awareness and sales.
- Promotion of UK Masterchef John Torode association through Tesco, Sainsbury and Morrisons in the UK.
- Exclusive 'Win a Jeep' promotion conducted nationally in BWS.
- Launched new look McGuigan website with full e-commerce capabilities.
- Released McGuigan \$150 super premium Cabernet Shiraz 'The Philosophy'.
- Black Label packaging refresh.
- Upcoming launch of 'new look' Bin Series.

### Tempus Two

- Sponsorship of Mercedes Benz Fashion Week Australia (MBFWA) as the Official Wine Partner, increasing nationwide brand awareness.
- Leveraging of MBFWA sponsorship to partner with Australian design duo, Aje, for both media and consumer events.
- Sponsorship of Portsea Polo and Victorian Polo Club to raise brand awareness in Victoria
- Sponsorship of Time Out Bar & Restaurant Awards to drive distribution in the On Premise in Sydney and Melbourne
- Pewter Hero Store campaign to engage 25 top independent retailers and increase sales of Pewter Series
- Nationwide Varietal Glassware promotion (buy two bottles of Tempus Two and receive a Twin Pack of stemless wine glasses)
- Launch of an on premise exclusive range, the Silver Series.
- Upcoming launch of Tempus Two Brut Rose, a sparkling rose wine

### Nepenthe

- Sponsorship of the AAMI Kooyong Classic tennis in Melbourne
- Participation at Noosa Food & Wine Festival, one of Australia's largest food & wine festivals
- Association with well-known Australian chef and TV personality Lyndey Milan, resulting in the inclusion of Nepenthe in an episode of 'Lyndey Milan's Baking Secrets' TV series.

Australian Vintage focus on producing quality wine and engaging with the consumers through accessible promotional activities has resulted in AVL improving its profit in FY14 in a difficult climate.

- Net profit of \$10.5 million, 49% higher than last year.
- Total sales up 3% branded sales growth in Australasia / North America offset by reduced bulk wine.

Our strategies for the business have not changed from last year and your board have been very clear that the focus must remain on the following key strategic areas:

- Growing and strengthening our distribution channels in the China / Asia region, UK and Canada.
- Building sales and profitability of our core brands both domestically and internationally.
- Reviewing and decreasing our cost base.
- Creating appropriate new products for developing and emerging markets.

The wine business is still very tough, and until a significant drop in the dollar occurs, an appropriate return on capital employed will be difficult.

As a business, AVL has the same challenge. However, we have worked very hard on our cost base and our branded business. As long as we remain true to our strategy, be patient and focus on branded sales, I am very confident that AVL will be in an excellent position to capitalise on new global opportunities as they present themselves. We have a number of exciting initiatives and I am cautiously enthusiastic about the future of our company.



Neil McGuigan Chief Executive Officer

Australian Vintage is a leading Australian wine company. With a fully integrated wine business model, the breadth of our capabilities extends to vineyards, boutique and large volume wine production, packaging, marketing and distribution.

As one of the largest vineyard owners and managers in Australia, Australian Vintage prides itself on producing outstanding and innovative wines for wine lovers the world over. This is reflected in our commitment to quality grape and wine production, the strength of our dynamic and award-winning wine brands, and the passion of the people behind them.

Today Australian Vintage is at the forefront of the Australian wine industry. Crushing approximately 10% of total Australian annual production, our vineyards and grape supply capacity extends through some of Australia's most captivating and diverse wine regions including the Hunter and Barossa Valleys; the Murray-Darling, Langhorne Creek and Limestone Coast regions; as well as Griffith and the Adelaide Hills.

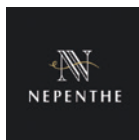
Our dynamic and award-winning wine brands are recognised and enjoyed across the globe. Over the past twelve months we continued our international awards success at the world's most prestigious wine competitions, with McGuigan Wines announced White Winemaker of the Year at the International Wine Challenge 2013 for the third time in five years, whilst the 9 Gold, 16 Silver and 27 Bronze medals received at the same competition in 2014 saw McGuigan Wines once again nominated for White Winemaker of the Year. The equally prestigious Decanter World Wine Awards 2014 continued the success with McGuigan The Shortlist Semillon 2007 awarded the International Trophy White Single Varietal <£15 for the 'best single varietal white wine in the world', whilst the momentum continued at the Cowra Wine Show 2014 where the same wine took out the Best Semillon of Show trophy. At the same show the recently released McGuigan, The Shortlist Montepulciano 2013, beat out all challengers to win the Best Dry Red Other Varieties of Show trophy. At the Sydney Royal Wine Show 2014 the McGuigan Bin 9000 Semillon 2007 was awarded the David Clarke Memorial Perpetual Trophy for Best Semillon of Show.

Cool climate Adelaide Hills winery Nepenthe also excelled, with the Nepenthe Petrea Sauvignon Blanc 2013 taking home the coveted Best Sauvignon Blanc of Show at the Royal Queensland Food & Wine Show 2014 whilst also winning the Best Red Wine of Show trophy at the Hong Kong IWSC for Nepenthe Altitude Pinot Noir 2012. Tempus Two enjoyed stand out success on the domestic and international show circuits, and along with McGuigan Wines and Nepenthe received break through ratings from the James Halliday Australian Wine Companion 2015 with a host of wines from across the three brands being rated at 90+ points including Tempus Two Uno Shiraz 2011 which was awarded a stellar 96 points.

Diversity in winemaking techniques and regionality allows our viticulture and winemaking teams to be leaders in innovation and in the creation of a wide range of wine styles and varietals. Our wines are designed to reflect the tastes of wine lovers everywhere thanks to the individuality, personality, passion and commitment of our brands and the people behind them.

Our core branded portfolio has continued to outperform the market both domestically and in key export countries.

Quality, consistency and value – along with ongoing and sustained international awards – have resulted in our brands enjoying excellent growth globally.



MIRANDA  
WINES

PASSION POP







### Our wine brands

#### McGuigan Wines

The McGuigan name is synonymous with Australian winemaking. Four generations of the McGuigan family have made wine their life demonstrating a deep commitment and passion for Australian wine. This energy, drive and uncompromising dedication to craft the finest Australian wines is reflected in McGuigan Wines international success, having been crowned International Winemaker of the Year at the prestigious International Wine & Spirits Competition (IWSC) in London for the third time in 2012. Having already been recognised as the 'world' best winemaker' by the IWSC in both 2009 and 2011, McGuigan Wines became one of only two wineries world-wide to have won the award three times in the competitions 44 year history.

The success continued at the equally prestigious International Wine Challenge (IWC) in London with McGuigan Wines awarded White Winemaker of the Year for the third time in 2013, having also won in 2009 and 2012. Quality, consistency, value and innovation are the hallmark of the McGuigan brand. Our award-winning pedigree is second to none, and our premium winemaking credentials are without rival. Continued and sustained success on the international stage across all major global wine competitions has vindicated our philosophy of making 'the wine the hero.' The McGuigan spirit and dedication to modern Australian winemaking drives our brand today – when it comes to making wine we have a different point of view, a different mindset. We are entirely focused on the continuing evolution of the Australian wine style, delivering wines that not only excite, but over deliver on quality at every price point.

#### Tempus Two

Tempus Two's roots are firmly planted in one of Australia's oldest wine regions, the Hunter Valley, and one of Australia's best known wine families, the McGuigan family. Our award winning, architecturally designed Cellar Door is set among the rolling green vineyards of Pokolbin, in the heart of the Hunter Valley and reflects the Tempus Two spirit to blend the essence of tradition with the magic of innovation.

Tempus Two is fashion, and fashion is about balance and harmony. This is reflected in everything we do. Our labels and bottles – whilst different and non-conventional - are in balance and harmony. Our winemakers explore new varietals, borrow techniques from the old world and implement in a new world fashion, resulting in wines with style and substance. The company we keep reflects our mantra – we're aligned with like-minded fashionable brands including Aje, Mercedes Benz Fashion Week and the Portsea Polo season. Innovation, elegance and finesse are the hallmarks of the Tempus Two brand.

#### Nepenthe

Nepenthe is situated in the cool climate, high altitude and picturesque Adelaide Hills region in South Australia. Our hand-crafted, premium and award-winning cult wines are built on the strength of varietal faithfulness and subtle regional nuances. Passionate winemaking, innovative grape varieties and careful vineyard management ensure that Nepenthe's exciting and elegant range of wines are the benchmark for the region. No more evident is this benchmark that in our fantastic achievement of being awarded Australia's 'best Sauvignon Blanc over \$16' at the revered Decanter World Wine Awards in London in 2012, the second time in four years we've been awarded this highly coveted trophy. Our mantra is simple - Nepenthe is the Adelaide Hills.

#### Miranda

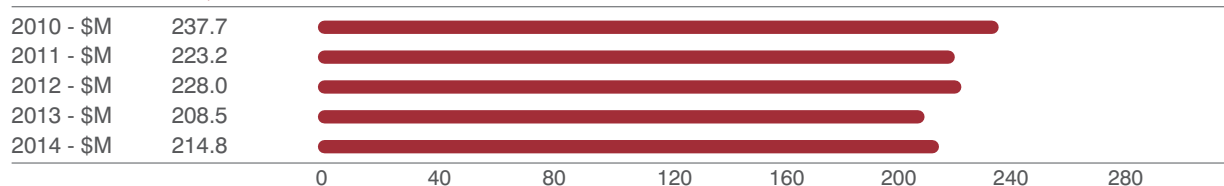
Miranda Wines was founded in 1938, when Francesco Miranda arrived in Australia from Naples, Italy. With him came a passion and desire to build a winemaking empire that led him to the fertile soils of the Riverina in regional NSW. Over 70 years later Miranda is still at the forefront of the Australian wine industry, driving innovation and new product development. No more so than with the introduction of the Miranda Summer Light low alcohol range which is leading the charge in the 'health and wellbeing' category in both the Australian and UK markets, delivering full flavoured wines with lightness and texture, but with noticeably reduced levels of alcohol.

#### Passion Pop

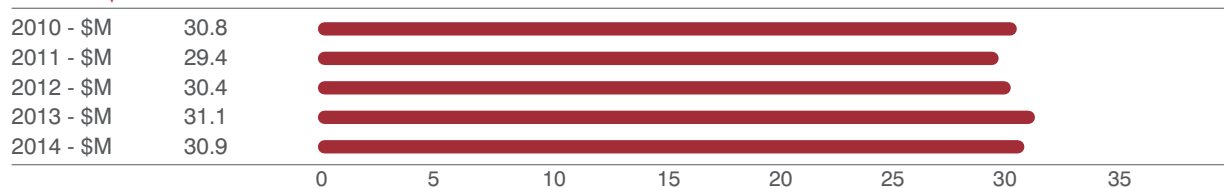
Passion Pop has led the flavoured sparkling category for over 30 years. A true market leader, this iconic brand is synonymous with Australia retro-culture. Passion Pop continues to lead the market in flavoured sparkling wine product under \$7.99 and is a fun, evocative brand that sits firmly in the 'Gen Y' space.

## 8 | COMPANY PROFILE

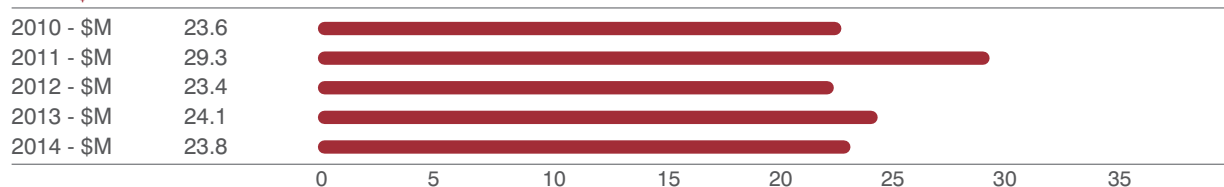
### TOTAL REVENUE - \$M



### EBITDA - \$M



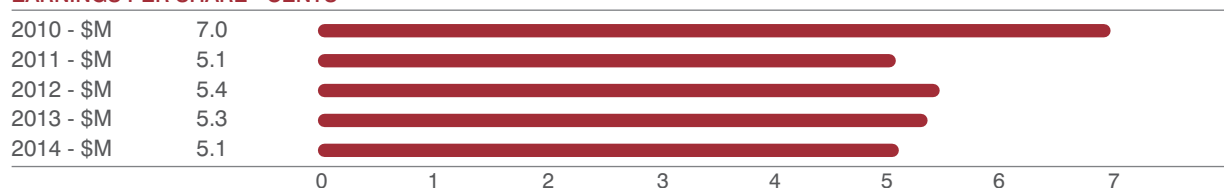
### EBIT - \$M



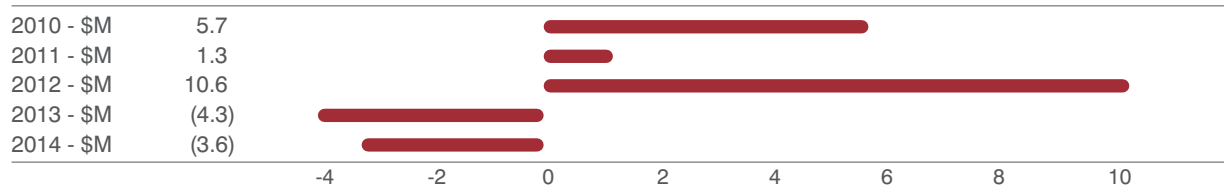
### NET PROFIT - \$M



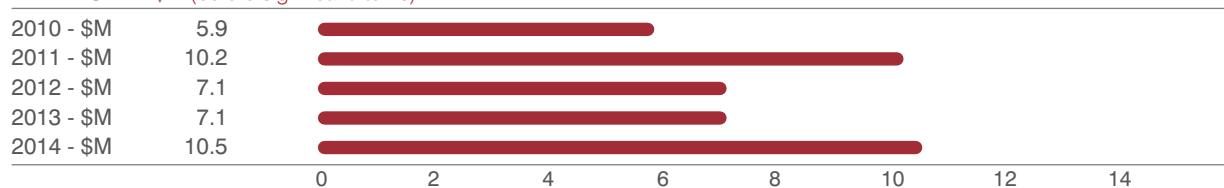
### EARNINGS PER SHARE - CENTS



### CASH FLOW FROM OPERATING ACTIVITIES



### NET PROFIT - \$M (before significant items)



Note : EBITDA and EBIT are before significant items.

The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices of the Company which the Directors, Management and Employees of the Company are required to follow.

As at the date of this report, the Company's corporate governance practices have, in the opinion of the Board, complied with the second edition of the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council.

Each of the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council ("ASX Principles") are referred to consecutively below and the information provided under each Principle is done so in accordance with recommendations made by the ASX Corporate Governance Council.

### Introduction

Corporate Governance is the system or process by which a company is directed or controlled. It is concerned with the manner in which the Directors ensure that an organisation's systems and processes are properly controlled and functioning effectively and that management is complying with the policies and directives of the Board. Corporate Governance structures provide a controlled process for risks taken by a company to be subjected to accountability and control systems commensurate with the risks involved.

#### *ASX Principle 1: Lay Solid Foundations for Management and Oversight*

### Board of Directors

Board information contained in this Corporate Governance Statement and the Board Charter can be found at [www.australianvintage.com.au](http://www.australianvintage.com.au).

Responsibility for the overall direction and management of the Company, the Company's corporate governance and the internal workings, including establishing goals for management and monitoring the attainment of these goals, of the Company will rest with its board of Directors (the "Board")

#### The primary responsibilities of the Board include:

- The establishment of the long-term goals of the Company and strategic plans to achieve those goals;
- Ensuring that the Company has implemented adequate systems of internal controls and codes of conduct together with appropriate monitoring of compliance activities;
- Provision of strategic guidance for the Company and oversight of management of the Company including ensuring that systems are in place to facilitate the effective management of the principal risks of the Company;
- Appointing and overseeing the Chief Executive Officer and ratifying the appointments of the Chief Financial Officer and the Company Secretary;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a monthly basis; and
- Establishment of proper succession plans for management of the Company.

A further detailed list of Board responsibilities can be found in the Board Charter available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

#### *ASX Principle 2: Structure the Board to Add Value*

### Composition and Criteria of Board Membership

The Company's aim in determining Board membership is to create a balanced and informed Board to assist the Company in making decisions relating to all corporate matters. New Directors are nominated by existing Board Members through the delegated functions of the Remuneration and Nomination Committee and invited to become members on the basis of a majority vote of Directors. Consideration is given to Director's experience and qualifications with a view to ensuring effectiveness and an appropriate balance of skills.

The Board is to comprise a majority of non-executive Directors where the Chairman of the Board is also a non-executive, independent Director and hence not the Chief Executive Officer (Managing Director). Non-executive Directors are appointed for an indefinite time on terms and conditions voted on from time to time. With the exception of the Chairman all non-executive Directors are appointed on the same terms and conditions. No Director, other than the Chief Executive Officer (Managing Director), shall hold office for any longer than three years without submitting themselves for re-election.

Members of the Board have been brought together to provide a blend of qualifications, skills and experience required for managing a Company operating in the wine industry. The skills, experience, expertise and period in office of each Director is detailed in this Annual Report.

Details of the members of the Remuneration and Nomination Committee, attendance at meetings by members and its function are provided below under ASX Principle 8: "Remunerate Responsibly and Fairly".

### Board Independence:

The Board currently consists of:

Ian D Ferrier	Chairman	Independent, Non-Executive
Neil A McGuigan	Chief Executive Officer	Non-Independent, Executive
Richard H Davis		Independent, Non-Executive
Perry R Gunner		Independent, Non-Executive
Brian J McGuigan		Independent, Non-Executive

The terms of office held by each Director are detailed in the Director's Report enclosed in this Annual Report.

The Board has adopted the definition of independence set out in the ASX Principles.

There are several tests that are applied in determining the independence of each Director. An independent Director must:

- Not be a substantial shareholder of the Company (or be associated with a substantial shareholder of the Company);
- Not have been employed in an executive capacity within the Company (or a member of the Company's group) in the last three years;
- Not have acted as a material professional adviser or consultant, or a material supplier, customer or contractor to the Company within the last three years.
- Not have a material contractual relationship with the Company (other than his or her relationship as Director of the Company). A material financial relationship between the Company and another entity that a Director is associated with or employed by is based by the Company on a 5% materiality level.
- Be free from any interest or business which could be perceived as having a material affect on the Company, or the best interests of the Company.

Having regard to the criteria above, the Board generally considers a Director to be independent if he or she is not a member of management and is free of any interest and any other business relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Each Director's independence is assessed by the Board on an individual basis, having regard to the materiality guidelines detailed above and focussing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to promptly disclose to the Board their interests in contracts, family ties and cross-directorships which may be relevant in considering their independence.

Each non-executive Director was considered to be free of any relationship that could possibly interfere with the Director acting in the best interests of the Company.



## Board and Executive Performance Evaluation

The Board undertakes a peer assessment review of the performance of the Chief Executive Officer each year. Numerous performance indicators have been developed to assist in the assessment. The Board also conducts an annual review of Board performance in accordance with the Company's Board Performance Measurement policy, which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

The Chief Executive Officer reviews performance of key executives continuously on an informal basis (by assessing achievements against budgets and other goals and key performance indicators) and at least twice in each year on a formal basis with a face-to-face performance review.

## Relationship with Management

The Company's management has authority to implement all other aspects of the management of the Company which are not reserved to the Board or Board committees (including the implementation of Board strategies). The management of the Company is conducted by the Chief Executive Officer. The Chief Executive Officer is accountable to the Board for all authority delegated to executive management. The roles of Chairman and Chief Executive Officer are separate.

The division of responsibilities between the Board and management is set out in the Board Charter available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

## Independent Professional Advice

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfill their duties and responsibilities as a Director of the Company.

## Committees

The Board has established three separate committees of Directors, namely the Audit Committee, the Remuneration and Nomination Committee and the Occupational Health and Safety and Environment Committee. Each committee has a dedicated Terms of Reference and Committee Charter.

The Audit Committee and its function are described below under ASX Principle 4: "Safeguard Integrity of Financial Reporting".

The Occupational Health and Safety and Environment Committee and its function are described below under ASX Principle 7: "Recognise and Manage Risk".

The Remuneration and Nomination Committee and its function are described below under ASX Principle 8: "Remunerate Fairly and Responsibly".

The Audit Committee and Remuneration and Nomination Committee Charters can be viewed at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

### *ASX Principle 3: Promote Ethical and Responsible Decision Making*

## Ethics and Code of Conduct

The Board and management ensure that the business processes of the Company are at all times conducted according to sound ethical and legal principles. The Board has established a formal Ethics and General Conduct Code. Compliance with the Code is mandatory for each Director and key executive of the Company.

The Code has been established to define the practices necessary to maintain confidence in the Company's integrity and comply with the Company's legal obligations and other obligations to legitimate stakeholders. The Code deals with numerous issues including confidentiality, conflicts of interest, compliance with the law, fair dealing, unethical behaviour, corporate fiduciary duties, care and diligence as well as the reporting requirements and action to be taken in the event of failure to comply with the Code.

The Company has also implemented a confidentiality policy relating to matters including amongst others the non-disclosure of business affairs, trade secrets and customer information. This policy is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Continuous Disclosure and Policies and Procedures".



## Workplace Diversity

At Australian Vintage we recognise that an inclusive culture which embraces diversity is integral to our continuing success. The Company is committed to diversity in the workplace and has implemented a group-wide Diversity Policy which is available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

In accordance with its Diversity Policy, the Board has adopted measurable objectives for achieving gender diversity. All levels of management are required under the Company's Diversity Policy to monitor and report annually to the Remuneration and Nomination Committee of the Board on the progress and effectiveness of these objectives.

The following diversity objectives were adopted for FY14:

- Female representation among Non- Executive Directors on the Board will be at least 20%;
- Female representation among senior management will be at least 20%; and
- Engagement of female employees at all other levels will be in line with national benchmarks.

The following outcomes were achieved against those objectives for the reporting period:

- The proportion of female employees in the company increased by 3% (from 32% to 35%);
- The percentage improvement in female representation at Board and senior management level was not achieved. The proposed objectives for FY15 have been developed to maximize the opportunity for these objectives to be achieved in conjunction with supporting internal mechanisms, planned actions and initiatives.

In relation to the constitution of the Board the Company has a number of initiatives in place to meet its strategic imperative of ensuring the Company has a diverse Board and to achieve its measurable objective regarding Board diversity. These include:

- ensuring a diverse range of qualified candidates is considered for Board appointments;
- evolving a Board skills matrix and using the matrix to identify any gaps in the experience, skills and background, including gender and diversity generally, of Directors on the Board;
- participating in programs to assist in the development of a broader pool of skilled and experienced Board candidates;
- including diversity as a regular agenda item for Committee meetings; and
- reporting on the use of professional intermediaries (such as external search firms) to identify and assess qualified candidates.

The Board will continue to review its structure and membership to ensure that it meets operational requirements and will endeavour to progress Board diversity in the future.

Similar initiatives are in place to meet the objective of a diverse management team.

The objectives for diversity for FY15 are as follows:

- Appoint at least one suitably qualified female as a Non-Executive Director on the Board; and
- Maintain the employment of female employees at other levels (including Senior Management) in line with national benchmarks.

The following tables show the proportional representation of men and women at various levels within the Company's workforce as at 30 June 2014.

### Workforce Gender Profile

	MALES	FEMALES
Non-Executive Directors	100%	0%
Senior Executives	87.5%	12.5%
Other	65%	35%



## Directors, Officers and Executives Trading in Company Shares

The Company has implemented a share trading policy as set out in the Corporate Governance Statement available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under “Corporate Governance”.

The policy requires that Directors, Officers, Executives and their associates neither buy nor sell shares when they possess inside information or engage in short term selling of Company shares. Directors and Officers are to notify the Board in advance of any intended material transactions involving the Company's shares.

In addition, Directors, Officers and Executives (and their associates) are not permitted to trade in Company shares except within one month of and commencing one trading day after the:

- release of the annual financial reports;
- release of the half yearly financial reports; and
- Annual General Meeting.

All Company Corporate Governance charters, policies and procedures are publicly available. This information can be located on the Australian Vintage Limited website at [www.australianvintage.com.au](http://www.australianvintage.com.au) under “Corporate Governance”.

See also discussion below under ASX Principle 5: “Shareholders and Continuous Disclosure”.

### *ASX Principle 4: Safeguard Integrity in Financial Reporting*

## Audit Committee (incorporating Corporate Governance)

The Audit Committee consists of three independent non-executive Directors. The current members of the Audit Committee are:

- Richard H Davis (Chairman)
- Ian D Ferrier
- Brian J McGuigan

Details of the qualifications of Audit Committee members and their attendance at committee meetings throughout the financial year are detailed in the Directors' Report enclosed in this Annual Report.

The nomination and review of existing audit arrangements is undertaken by the Audit Committee. The Audit Committee addresses issues surrounding the integrity of financial information presented to the Board and shareholders, including the review of external auditor engagements and internal financial reporting policies and controls.

The Audit Committee is responsible for reviewing the consistency of the Company's internal accounting policies on a year-to-year basis as well as their compliance with relevant accounting standards and legislation.

The Audit Committee also advises the Board and makes recommendations in relation to policy and procedures and application of principles of Corporate Governance. The Committee addresses issues of proper Corporate Governance procedures and practices in order to ensure that the Company maintains the highest integrity and best practice with respect to such matters.

The Audit Committee generally invites the Chief Financial Officer and (on suitable occasions) external auditors to attend Audit Committee meetings.

The Audit Committee or its Chairperson meets formally with the Board at least twice a year to discuss the relationship with external auditors, the Company's financial reporting and any other matters of relevance called upon by the Board or the Chairperson of the Audit Committee for discussion.

The Chairperson of the Audit Committee, who is not the Chair of the Board, attends the Annual General Meeting of the Company in order to respond to any questions which may be raised by shareholders in relation to accounting/financial management, information, control or the contents of any financial reports.

The Chief Financial Officer and Chief Executive Officer state in writing to the Board that the Company's financial reports present a true and fair value in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The integrity of the reports are founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects.

The Company's external auditor attends the Annual General Meeting of the Company and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the Audit Report.

The Audit Committee's Terms of Reference and Charter can be viewed at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

*ASX Principle 5: Make Timely and Balanced Disclosure; and*

*ASX Principle 6: Respect the Rights of Shareholders*

### Shareholders and Continuous Disclosure

The Board has primary responsibility to the shareholders as owners of the Company. Shareholders also play a key direct role in the Company's Governance by electing the Directors of the Company at the Annual General Meeting.

Shareholders and the market generally receive information from the Company through distribution of the Annual Report, the Half Yearly Report, the Chairman's and Chief Executive Officer's addresses to the Annual General Meeting, the provision of information on the Company's website and through the release of announcements from time to time in compliance with the Company's responsibilities to make continuous disclosure under the Australian Securities Exchange Listing Rules and the Corporations Act 2001 (the "Act"). Shareholders and other stakeholders are also encouraged to contact the Company directly regarding any enquiries they may have. The Company has implemented and complied with a Continuous Disclosure Policy and a Communications with Shareholders and other Stakeholders Strategy, both of which are available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

These policies and strategies establish procedures to ensure that the Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. When the Company makes an announcement the announcement is released to the ASX and the Company Secretary is responsible for communications with the ASX. All material information released to the ASX is published on the Company's website at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Company Announcements". This includes ASX announcements, annual reports, notices of meetings, media releases etc. The policies set out the type of information which requires disclosure as well as the internal policies governing the method and timing of disclosure.

In addition, the Company's external auditor attends the Annual General Meeting of the Company and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the Audit Report.

*ASX Principle 7: Recognise and Manage Risk*

### Risk Management

The Board identifies and discusses areas of significant business risk. The Board ensures, together with management, that processes are in place to manage those risks and reviews those arrangements at monthly Board meetings.

These systems require management to be responsible for identifying and managing the Company's material business risks, which include financial and non-financial risks, such as environmental and investment risks.

The Board and management ensure that appropriate insurance programmes for the Company are also in place to provide insurance cover in areas of the business assessed as appropriate for cover having regard to all of the relevant circumstances.

Comprehensive practices are established such that:

- Capital expenditure and revenue commitments above a certain size require prior Board approval;
- Financial exposures are controlled, including the use of derivatives;
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations; and
- Business transactions are properly authorised and executed.

All reports to the Board on strategic and operational issues incorporate an assessment by management of the associated risks, which ensures that the Board is in a position to make fully-informed business judgements on these issues. In addition, the Board receives dedicated risk management updates which address the material business risks facing the Company and the systems and policies in place to manage those risks.

In addition to these periodic updates, the Board and management give ongoing consideration to the effectiveness of the Company's risk management and internal compliance and controls systems, and whether there is scope for further improvement of these systems.

In accordance with section 295A of the Act, the Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls are founded on a sound system of risk management and internal control and that the system has been assessed and found to be operating efficiently and effectively in all material respects in relation to financial reporting risks.

Formal risk analysis and management of material risks to the Company's operations include formal HACCP Australian Food Safety Accreditation Programmes on vineyards and at wineries and bottling plants and the implementation of an OH & S, environment and audit committee as described in this report. These committees separately deal with specific areas of 'risk' to the Company's business.

## Occupational Health and Safety and Environment Committee

The Occupational Health and Safety and Environment Committee ("OH&S Committee") consists of two non-executive Directors. The current members of the OH&S Committee are:

- **Perry R Gunner (Chairman)**
- **Brian J McGuigan**

The occupational health and safety related duties of the OH&S Committee include:

- Establishment and supervision of broad policies on matters of occupational health and safety including ensuring documented management systems are established;
- Establish occupational health and safety responsibilities for employees and all levels of management;
- Evaluate the Company's occupational health and safety performance on a regular basis; and
- Protection of workplace safety to the greatest extent including ensuring that all relevant legislation is complied with.

The environmental related duties of the OH&S Committee include:

- Establishment and supervision of broad policies on matters of environmental compliance and protection of the environment generally;
- Keep up-to-date with the environmental issues facing the Company and the industry generally; and
- Establishment of management responsibility for environmental matters and evaluation of the Company's environmental performance and progress.

The OH&S Committee generally invites the Chief Executive Officer, Group Production Manager and National Vineyard Manager to its meetings.

## Internal control framework

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

The Board has instigated the following internal control framework:

- **Financial reporting** – Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.
- **Continuous disclosure** – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the ASX and post them on the Company's web site. The Board of Directors and the Chief Financial Officer/Company Secretary are responsible for all communications with the ASX.

- **Quality and integrity of personnel** – Formal appraisals are conducted at least annually for all employees.
- **Operating units control** – The Chief Executive Officer and Chief Financial Officer ensure compliance with financial controls and procedures including information systems controls detailed in procedures manuals.
- **Investment appraisal** – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

#### *ASX Principle 8: Remunerate Fairly and Responsibly*

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of three independent non-executive Directors. The current members of the Remuneration and Nomination Committee are:

- **Perry R Gunner (Chairman)**
- **Ian D Ferrier**
- **Richard H Davis**

The attendance of committee members at each committee meeting during the financial year are detailed in the Directors' Report enclosed in this Annual Report.

The procedure for establishing and reviewing remuneration for senior executives and non-executive members of the Board is undertaken by the Remuneration and Nomination Committee. The shareholders in general meeting approve the aggregate remuneration for non-executive Directors.

Particulars concerning Directors' and Executives' remuneration and the Company's performance rights and option plan are set out in notes to the financial statements and the Remuneration Report.

The criteria for selection of Board Members are determined by, and the recommendation of Board Members is carried out by, the Remuneration and Nomination Committee. Consideration is given to the Director's experience and qualifications with a view to ensuring effectiveness and an appropriate balance of skills. A regular review of the structure, size and composition of the Board is also to be undertaken by the Remuneration and Nomination Committee as well as recommendations as to Board succession plans.

The Company has developed a Remuneration Policy which describes the Company's remuneration policies and the rationale behind them. Non executive directors will be paid in cash in line with a resolution passed at the company's Annual General Meeting dated 25th November 2009. Executives are paid primarily by cash salary (but also, in some cases as to part, with performance rights and options). The Company's Remuneration Policy is reviewed annually by the Remuneration and Nomination Committee.

In determining Executive remuneration, regard is had to the Executive's level of responsibility, skills, experience, reputation, efforts and results and the ability to retain executives having regard to the competitive nature of hiring key staff.

For further details on the roles and responsibilities of the Remuneration and Nomination Committee see the Committee's Charter and terms of reference available at [www.australianvintage.com.au](http://www.australianvintage.com.au) under "Corporate Governance".

For more information on the Company's remuneration, see the Remuneration Report within this Annual Report.

The Company issued performance rights and/or options pursuant to the AVG Performance Rights and Option Plan ("Plan") which received approval of shareholders of the company at the Annual General Meeting on 28 November 2012.

For further information regarding Executive remuneration through options see the Remuneration Report in this Annual Report at [www.australianvintage.com.au](http://www.australianvintage.com.au).

### Third Edition – ASX Principles

Following a comprehensive review of the ASX Principles in 2012/13, the ASX Corporate Governance Council issued the third edition of the ASX Principles on 27 March 2014 which are stated as reflecting global developments in corporate governance since the second edition was published.

The third edition of the ASX Principles take effect for an entity's first full financial year commencing on or after 1 July 2014. Accordingly, as a company with a 30 June balance date, the Company will be required to measure its corporate governance practices against the recommendations in the third edition commencing with the financial year ending 30 June 2015.

The Company is currently undertaking a full review of its corporate governance systems and policies and will make the changes it believes are necessary in the context of the third edition.



## 17 | SHAREHOLDERS' INFORMATION

The shareholders' information set out below was applicable at 15th September, 2014.

### Shareholders

#### Distribution of Shareholders

Analysis of shareholders of fully paid ordinary shares by size of holding:-

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS
1 – 1,000	1,723
1,001 – 5,000	2,145
5,001 – 10,000	545
10,001 – 100,000	905
100,001 +	159
	5,477

The percentage of the total holding of the twenty largest holders of Ordinary Shares was 68.85%.

### Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Law are:-

NAME	ORDINARY SHARES (AS PER LAST SUBSTANTIAL HOLDER NOTICE)
Allan Gray Investment Management	45,059,587
Maple Brown Abbott Limited	18,000,000
Renaissance Smaller Companies Pty Ltd	13,839,095

## Twenty largest shareholders

The names of the twenty largest shareholders or Ordinary Shares are as follows:-

SHARES HELD	NUMBER OF ORDINARY SHARES HELD	% OF LISTED SHARES
1 J P MORGAN NOMINEES AUSTRALIA LIMITED	34,975,784	15.06
2 CITICORP NOMINEES PTY LIMITED	28,864,905	12.43
3 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,654,054	11.91
4 RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (MBA ACCOUNT)	18,000,000	7.75
5 NATIONAL NOMINEES LIMITED	12,532,890	5.40
6 RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (BK TRUST ACCOUNT)	8,562,701	3.69
7 SECVEST CAPITAL PTY LTD	5,250,000	2.26
8 SANDHURST TRUSTEES LTD	4,507,479	1.94
9 SECVEST CAPITAL PTY LIMITED	3,790,000	1.63
10 MR ZHIWEI LIN	2,258,687	0.97
11 LUJETA PTY LTD	2,000,000	0.86
12 MR BRIAN FREDERICK DITCHFIELD	1,830,020	0.79
13 RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (PI SELECT ACCOUNT)	1,638,743	0.71
14 GARRETT SMYTHE LIMITED	1,601,394	0.69
15 127 VICTORIA PTY LTD	1,500,000	0.65
16 WAUCHOPE & KILGOUR PTY LTD	1,150,000	0.50
17 SUNRISE VINEYARDS PTY LTD	1,010,000	0.43
18 MR TREVOR GREGORY BURKE	1,006,823	0.43
19 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED (GSCO ECA ACCOUNT)	921,600	0.40
20 MS HONGYU ZHAO	852,733	0.37
<b>Totals: Top 20 Holders of Fully Paid Ordinary Shares</b>	<b>159,907,813</b>	<b>68.85</b>
<b>Total Number of Shares</b>	<b>232,262,382</b>	

The Directors of Australian Vintage Ltd submit herewith the annual financial report for the financial year ended 30 June 2014. 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:

#### **Ian D Ferrier AM, CA, Age 74**

(Chairman, Non-Executive) Director since 20 November 1991

Fellow of The Institute of Chartered Accountants in Australia and Chairman of BRI Ferrier. In this capacity, he has gained extensive experience in the management and administration of both private and public companies at all levels. He is presently Chairman of Goodman Management Limited, Director of Reckon Limited and Energy One Limited and formerly Chairman of InvoCare Limited.

#### **Neil A McGuigan, Age 56**

(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 27 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.

#### **Brian J McGuigan AM, Age 72**

(Non-Executive) Executive Director from 20 November 1991 to 31 December 2007

Non-Executive Director from 1 January 2008

Over 45 years' experience in the wine industry. Formerly Managing Director of Wyndham Estate Wines Ltd then of Australian Vintage Ltd. He is currently on the Membership Committee of the Winemakers Federation of Australia, a Director of Hunter Wine Country Private Irrigation District as well as the Chairman and Director of a number of private companies.

#### **Perry R Gunner, B. Ag. Sc, Grad. Dip, Bus. Admin, Age 67**

(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 Ltd. Chairman of Freedom Nutritional Products Ltd and Deputy Chairman of A2 Corporation Ltd (N.Z.). Chairman of the Occupational Health and Safety Committee and Remuneration Committee.

#### **Richard H Davis, B. Ec, Age 58**

(Non-Executive, Chairman of the Audit Committee) 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. Chairman of the Audit Committee.

## 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
Ian D Ferrier	InvoCare Limited	2001 to 2014
	Goodman Management Limited	Since 2003
	Reckon Limited	Since 2004
	Energy One Limited	Since 2007
Perry R Gunner	ABB Grain Limited / Viterra Inc.	2004 to 2012
	Freedom Nutritional Products Limited	Since 2003
	A2 Corporation Ltd (N.Z.)	Since 2010
Richard H Davis	InvoCare Limited	Since 2012
	Monash IVF Group Limited	Since 2014

## 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 2014, a final fully franked dividend of 2.2 cents per share out of current year profits was declared on 27th August 2014 and will be paid on 19th November 2014.

In respect of the financial year ended 30 June 2013, a final fully franked dividend of 2.6 cents per share out of current year profits was declared on 23rd August 2013 and was paid on 18th November 2013.



## Review of operations and future developments

The group reported a net profit of \$10.5 million. Whilst the growth in Net Profit is very pleasing, the low vintage was a major challenge as it negatively impacted our processing margins and the income we generate from our vineyards.

It was another difficult year for the Australian wine industry with the UK / European sector proving challenging for all wine companies. Despite this, the McGuigan brand is now the sixth largest wine brand in the UK (up one place from seventh last year) and has maintained its number one global wine brand positioning in Ireland.

Our strategy of driving our branded business continues to pay dividends with both the McGuigan and Tempus Two brands experiencing double digit growth for financial year 2014.

- Global McGuigan brand sales grew 11% in FY14.
- Global Tempus Two brand sales grew 12% in FY14.

Our brands continue to excel at wine shows and competitions – domestically and internationally – with standout awards being received across the varietal portfolio of Semillon, Chardonnay, Sauvignon Blanc and Shiraz. Our company is outperforming the vast majority of our competitors.

On the back of this success, and to show strong leadership in our winemaking, our company has also embarked on a strategic program of identifying vineyard sites and selecting appropriate varieties that will challenge the status quo. A number of these sites are already part of our vineyard portfolio, and we are seeking more sites and partnerships that will produce the wines of the future.

The endless pursuit of quality in winemaking has created an atmosphere of excellence in our business across every endeavour. From viticulture, production, sales, marketing, cellar door and on-premise through to our wine clubs, our staff are focussed on over-delivering to our customers and consumers.

Our business has not lost sight of the importance of engaging our customers around the world, and continues to embrace consumer demands and deliver wines that fulfil the market opportunities. Innovation and consumer engagement is also highlighted by our promotional programmes carried out throughout the world.

The focus on producing quality wine and engaging with the consumers through accessible promotional activities has resulted in AVL improving its profit in FY14 in a difficult climate.

The recently signed distribution agreement with COFCO Wine and Spirits Co Ltd will see AVL, through its core brand, McGuigan Wines, become the strategic partner for Australian wine within the COFCO Wine and Spirits business. This exciting development will give AVL a distribution footprint in China which will provide a platform to grow sales across the whole McGuigan portfolio. This co-operation will allow AVL to truly build its brand equity in this exciting market.

## Segment Results

Overall our revenue for the year was up 3% to \$214.8 million due mainly to increased branded sales in Australia, New Zealand, Asia and North America, offset by reduced bulk wine sales and contract processing.

### Australasia / North America Packaged

Australasia / North America packaged sales were up 11% to \$88.9 million with an increase in our bottled sales of 15% and an increase of 2% in our low margin cask sales. Sales of our McGuigan brand increased by 25% in FY14, following on from 21% growth in the previous financial year.

The segment provided a contribution of \$8.0M compared to \$5.2 million in the prior period on the back of the increased branded sales and a 15% increase in contribution from the Asian division. Asia still remains less than 10% of our business but is growing. Within the Australasia / North America packaged segment every division recorded increased sales.

### UK / Europe

UK / Europe packaged and bulk sales were down by 1.4% on last year. Whilst Bottled sales were in line with last year, private label sales declined by 56% as we continue to focus on branded sales. The improved sales mix of our branded sales together with favourable exchange rate movements over the 12 months have resulted in total contribution being 17% up on last year. In terms of contribution, bottled contribution increased by 97% or \$2.9 million and bulk wine contribution declined by \$2.3 million.



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

#### Other

Cellar Door contribution increased by \$0.5 million or 71%. The increase was due to improved sales mix, tighter cost control and real focus on consumer engagement.

Australasia / North America bulk and processing sales were down by 8% due to reduced contract processing and reduced profitable bulk wine sales to the United States. The contribution from this division was down \$4.6 million due to reduced bulk wine sales and reduced margin from contract processing.

The vineyard segment contribution was \$0.2 million below last year. SGARA was down \$0.5million on last year.

#### EBIT and Net Profit

EBIT was \$23.8 million compared to \$24.1 million in the previous year.

The 1% decline was due to the reduced contribution from bulk sales to North America and the lower margin from contract processing (total negative impact was \$4.6 million). Offsetting this was the significantly improved contribution from the Australasia / North America Packaged (\$2.7 million), UK / Europe (\$0.6 million) and the Cellar Door (\$0.5 million) segments. The vineyard segment was down \$0.2m due to the impact of the poor vintage on SGARA (down \$0.5 million).

Net profit improved by \$3.5 million due mainly to lower finance costs.

#### Financial Position

Net debt was \$111.8 million compared to \$142.1million at June 13 on the back of the successful capital raising in 2013 which resulted in gearing of 39% compared to 59% 12 months ago. This is in line with our forecast gearing that was provided to the market at the time of the capital raising.

Our bank facility has been extended out to October 2017. This is the first time that we have been able to secure a three year facility. This shows that our banker has confidence in our future.

Operating cash flow was negative \$3.6 million compared to negative \$4.3 million for the previous corresponding period. Our working capital has increased by \$17.8 million over the last 12 months. We remain very comfortable about our stock position.

#### Outlook

##### Industry

Global industry conditions remain challenging particularly as a result of big vintages in Europe. Weakening AUD against GBP, USD and EURO are expected to improve margins. A weakening AUD could also create profitable opportunities at different price points.

Competition remains fierce across the Australian and overseas markets.

##### Company

The business continues to focus on its 3 core strategies of growing branded business, growing export and maintaining low cost position.

The wine business is still very tough, and until a significant drop in the dollar occurs, an appropriate return on capital employed will be difficult.

During the last 12 months we have achieved a successful \$39.5 million (net) capital raising with good institutional and retail support, continued to grow our key brands and have recently announced the sale of the Yaldara winery for \$15.5 million.

As long as we remain true to our strategy, be patient and focus on branded sales, we are very confident that AVL will be in an excellent position to capitalise on new global opportunities as they present themselves. We have a number of exciting initiatives and are cautiously enthusiastic about the future of our company, in particular:

- The Australasian / North American segment performance is encouraging with stronger than expected demand and growth.
- The recent signing of the distribution agreement with COFCO will give us confidence in growing the Asian market.
- The recently extended bank facility to October 2017 confirms the banks confidence in our business.

## Review of operations and future developments (continued)

Like any other wine company, we are subject to agricultural risks such as the low 2014 vintage. At this early stage and subject to normal 2015 vineyard yields and forecast FX, we expect our 2015 profit to be slightly above the 2014 result. We will further update the market on our 2015 profit forecast at our Annual General Meeting in November 2014.

## 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 15 Board Meetings, 3 Audit Committee Meetings, 1 Occupational Health and Safety Meeting and 1 Remuneration Committee meetings.

BOARD DIRECTORS'	AUDIT MEETINGS ATTENDED	COMMITTEE MEETINGS ATTENDED	OH&S COMMITTEE MEETINGS ATTENDED	REMUNERATION COMMITTEE MEETINGS ATTENDED
Ian D Ferrier	15	3	-	1
Neil A McGuigan	15	3	1	1
Brian J McGuigan	15	3	1	1
Perry R Gunner	9	-	1	1
Richard H Davis	15	3	-	1
<b>Total Meetings Held</b>	<b>15</b>	<b>3</b>	<b>1</b>	<b>1</b>

## 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
Ian D Ferrier	1,040,256	-
Neil A McGuigan	370,000	652,260
Brian J McGuigan	487,272	-
Perry R Gunner	517,712	-
Richard H Davis	110,000	-

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	1,383,400	Ordinary	*	12 September 2016
Australian Vintage Ltd	1,156,514	Ordinary	*	22 August 2017
	<b>2,539,914</b>			

\* Performance Rights entitle the owner to an issue of shares at the vesting date subject to certain performance criteria.

## Remuneration Report

### Directors and Key Management Personnel Details

The Directors of Australian Vintage Ltd during the year were:

- Ian D Ferrier (Chairman, Non-Executive)
- Neil A McGuigan (Chief Executive Officer)
- Brian J McGuigan (Non-Executive)
- Perry R Gunner (Non-Executive)
- Richard H Davis (Non-Executive)

The Key Management Personnel of Australian Vintage Ltd during the year were:

- Michael H Noack (Company Secretary & Chief Financial Officer)
- Flora Sarris (General Counsel)
- Cameron Ferguson (General Manager – Sales and Marketing, Australasia / North America)
- Julian Dyer (General Manager – UK / Europe)

The named persons held their current position for the whole of the financial year, except as noted.

### Remuneration Committee and Director Compensation

The Remuneration Committee reviews the compensation of Directors and makes recommendations to Shareholders which must be approved at an Annual General Meeting. Currently, Shareholders have approved Directors remuneration for their ordinary services as Directors up to \$350,000 per annum.

### Remuneration Committee and Key Management Personnel Compensation

The Remuneration Committee reviews the compensation packages of all key management personnel on an annual basis and makes recommendations to the board. Compensation packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

The Key Management Personnel compensation packages have three components:

#### 1. Base Compensation

This component is not performance linked and generally consists of salary, motor vehicle, wine and post-employment superannuation entitlement (where applicable). The base amount is reviewed annually by the Remuneration Committee. 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 payments take into account the extent to which specific operating targets set at the start of the financial year have been achieved. The operational targets consist of a number of key performance indicators (KPI's) covering both financial and non-financial measures of performance, the primary measure being the performance against profit targets. Short term incentive payments are normally made by way of a cash bonus.

Objectives and performance indicators are determined annually by the Chief Executive Officer (CEO) following consultation with each employee.

## Remuneration Report (continued)

### 2. Short Term Incentives (continued)

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, individual performance is assessed against the set objectives and performance indicators by the CEO. The objectives and performance indicators relate to specific duties and Company performance.

Non-executive Directors receive remuneration in cash.

The Board reviews the level of fees from time to time, and sets individual non-executive Directors fees based on the levels of fees for comparable listed companies in the appropriate parts of the world.

All key management personnel, senior management and the Chief Executive Officer are entitled to a bonus on the achievement of pre-determined key performance criteria.

Bonuses and performance rights are the only parts of remuneration which are performance related.

The table below shows the maximum entitled bonus for the current financial year and following financial year:

	2014 MINIMUM BONUS \$	2014 MAXIMUM BONUS \$	2014 % OF MAXIMUM GRANTED	2015 MINIMUM BONUS \$	2015 MAXIMUM BONUS \$
Neil McGuigan	0	300,000	67.00%	0	300,000
Michael Noack	0	119,636	92.50%	0	122,627
Cameron Ferguson	0	104,321	90.00%	0	106,929
Julian Dyer	0	64,843	65.15%	0	69,382
Flora Sarris	0	91,053	90.00%	0	94,250

### 3. Long Term Incentives

#### Performance Rights and Option Plan:

Established in August 2012, this long term incentive is provided as a right to an issue of shares. This right is subject to the achievement of set growth rates in earnings per share over a 4 year period up until the vesting date. The plan is available to senior management as approved by the Board.

#### Key Management Personnel and employee share option and performance rights plans

For the purpose of the disclosure 'Key Management Personnel' is 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.

During and since the end of the financial year under the Performance Rights and Option Plan, 909,091 (2013 : 745,310) share performance rights were granted to the five highest remunerated members of 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 options under either of the above Plans.

## Remuneration Report (continued)

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 are entitled to exercise the following performance rights:

KEY MANAGEMENT PERSONNEL	NUMBER OF RIGHTS GRANTED	EXERCISE PRICE	GRANT DATE	EXPIRY DATE
Neil McGuigan	395,257	N/A	12 August 2012	12 September 2016
	257,003	N/A	22 July 2013	22 August 2017
Michael Noack	158,103	N/A	12 August 2012	12 September 2016
	128,502	N/A	22 July 2013	22 August 2017
Cameron Ferguson	197,628	N/A	12 August 2012	12 September 2016
	128,502	N/A	22 July 2013	22 August 2017
Julian Dyer	-	-	-	-
	128,502	N/A	22 July 2013	22 August 2017
Flora Saris	158,103	N/A	12 August 2012	12 September 2016
	102,801	N/A	22 July 2013	22 August 2017
<b>TOTAL</b>	<b>1,654,401</b>			

As at the date of this report, the Board is considering the issue of further performance rights.

The table below summarises all performance rights on issue to key management personnel:

	2014 NUMBER	2013 NUMBER
Balance at the beginning of the financial year (i)	745,310	-
Granted during the financial year (ii)	909,091	745,310
Exercised during the financial year (ii)	-	-
Lapsed/cancelled during the financial year (iii)	-	-
Balance at the end of the financial year (iv)	1,654,401	745,310

### (i) Balance at the beginning of the financial year

2014 PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(1) Issued 15 August 2012	745,310	-	745,310	15/08/12	15/08/16	15/09/16	N/A
	<b>745,310</b>	<b>-</b>	<b>745,310</b>				

### 2013

Nil

### (ii) Granted / Exercised during the Financial Year

PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(2) Issued 22 July 2013	909,091	-	909,091	22/07/13	22/07/17	21/08/17	N/A
	<b>909,091</b>	<b>-</b>	<b>909,091</b>				

### (iii) Lapsed / cancelled during the Financial Year

Nil



## Remuneration Report (continued)

### (iv) Balance at End of Financial Year

2014 PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(1) Issued 15 August 2012	745,310	-	745,310	15/08/12	15/08/16	15/09/16	N/A
(2) Issued 22 July 2013	909,091	-	909,091	22/07/13	22/07/17	21/08/17	N/A
	<b>1,654,401</b>	<b>-</b>	<b>1,654,401</b>				

2013 PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(1) Issued 15 August 2012	745,310	-	745,310	15/08/12	15/08/16	15/09/16	N/A
	<b>745,310</b>	<b>-</b>	<b>745,310</b>				

### Value of performance rights issued to directors and senior management

KEY MANAGEMENT PERSONNEL	RIGHTS GRANTED – VALUE AT GRANT DATE \$	RIGHTS EXERCISED – VALUE AT EXERCISE DATE \$	OPTIONS LAPSED – VALUE AT TIME OF LAPSE \$	FAIR VALUE OF RIGHTS GRANTED, EXERCISED & LAPSED \$	VALUATION OF RIGHTS INCLUDED IN REMUNERATION FOR THE YEAR \$	TOTAL REMUNERATION THAT CONSISTS OF OPTIONS \$
Neil McGuigan	98,766	-	-	-	-	-
Mike Noack	49,383	-	-	-	-	-
Cameron Ferguson	49,383	-	-	-	-	-
Julian Dyer	49,383	-	-	-	-	-
Flora Saris	39,506	-	-	-	-	-
<b>TOTAL</b>	<b>286,421</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 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 2014:

	30 JUNE 2010 \$ M	30 JUNE 2011 \$ M	30 JUNE 2012 \$ M	30 JUNE 2013 \$ M	30 JUNE 2014 \$ M
Total Revenue (excluding sale of assets)	237.7	223.2	228.0	208.5	214.8
EBIT	23.6	29.4	23.4	24.1	23.8
Net Profit / (Loss)	9.0	6.6	7.1	7.1	10.5

	30 JUNE 2010	30 JUNE 2011	30 JUNE 2012	30 JUNE 2013	30 JUNE 2014
Earnings per share - cents	7.0	5.1	5.4	5.3	5.1
Dividends declared - cents *	-	2.5	2.6	2.6	2.2
Share price at start of year - \$ per share	0.15	0.20	0.27	0.34	0.475
Share price at end of year - \$ per share	0.20	0.27	0.34	0.475	0.32

There were no shares repurchased in the current year. No shares or interests were issued during or since the end of the financial year as a result of the exercise of an option.

### Key management personnel options granted, exercised or lapsed

There were no options granted or exercised during the year.

## Remuneration Report (continued)

## Directors' and Executives' Remuneration

The following table discloses the remuneration of the Directors and Executives of the Company:

2014	SHORT-TERM BENEFITS				POST EMPLOYMENT		SHARE BASED PAYMENTS			TOTAL
	Salary & Fees \$	Bonus \$	Other \$	Non - Monetary <sup>(c)</sup> \$	Super - annuation \$	Other \$	Cash Settled \$	Equity Settled Options \$	Equity Settled Shares \$	\$
<b>Non-Executive directors</b>										
Ian D Ferrier	100,000	-	-	2,000	9,000	-	-	-	-	111,000
Brian J McGuigan	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Perry R Gunner	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Richard Davis	60,000	-	-	2,000	5,400	-	-	-	-	67,400
<b>Executive directors</b>										
Neil McGuigan	633,894	201,000	-	32,649	25,000	-	-	-	-	892,543
<b>Executives</b>										
Michael Noack	352,010	110,664	-	87,142	25,000	-	-	-	-	574,816
Cameron Ferguson	297,396	93,889	-	26,200	27,509	-	-	-	-	444,994
Flora Sarris	264,777	81,974	-	1,200	24,492	-	-	-	-	372,443
Julian Dyer	262,303	41,865	-	-	57,885	-	-	-	-	362,053
<b>TOTAL</b>	<b>2,090,380</b>	<b>529,392</b>	<b>-</b>	<b>155,191</b>	<b>185,086</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,960,049</b>

2013	SHORT-TERM BENEFITS				POST EMPLOYMENT		SHARE BASED PAYMENTS			TOTAL
	Salary & Fees \$	Bonus \$	Other \$	Non - Monetary <sup>(c)</sup> \$	Super - annuation \$	Other \$	Cash Settled \$	Equity Settled Options \$	Equity Settled Shares \$	\$
<b>Non-Executive directors</b>										
Ian D Ferrier	100,000	-	-	2,000	9,000	-	-	-	-	111,000
Brian J McGuigan	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Perry R Gunner	60,000	-	-	2,000	5,400	-	-	-	-	67,400
Richard Davis	60,000	-	-	2,000	5,400	-	-	-	-	67,400
<b>Executive directors</b>										
Neil McGuigan	599,339	108,375	-	28,042	25,503	-	-	23,002	-	784,261
<b>Executives</b>										
Michael Noack	347,346	74,227	-	85,857	25,000	-	-	9,201	-	541,631
Cameron Ferguson	290,084	81,985	-	26,200	26,108	-	-	11,501	-	435,878
Flora Sarris	270,551	76,651	-	1,200	24,350	-	-	9,201	-	381,953
Julian Dyer (a)	190,901	34,269	-	-	39,927	-	-	-	-	265,097
Paul Schaafsma (b)	57,527	-	-	-	26,813	34,172	-	-	-	118,512
<b>TOTAL</b>	<b>2,035,748</b>	<b>375,507</b>	<b>-</b>	<b>149,299</b>	<b>192,901</b>	<b>34,172</b>	<b>-</b>	<b>52,905</b>	<b>-</b>	<b>2,840,532</b>

(a) Appointed 3rd September 2012.

(b) Resigned 21st August 2012.

(c) Non-monetary items include provision of motor vehicle, insurance, wine, rent, travel, health benefits and applicable fringe benefits tax.

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



## Remuneration Report (continued)

### Senior management details

The senior managers of the Company and Group are:

- Neil McGuigan
- Michael Noack
- Flora Saris
- Cameron Ferguson
- Julian Dyer

### Service Agreements of Key Management Personnel

Compensation and other terms of employment for directors and executives 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, 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 equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (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).

#### 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 equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (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.

#### 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 equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Mr Ferguson's employment is terminated by the company, the company must pay Mr Ferguson the equivalent of one year's base remuneration (including motor vehicle allowance).

## Remuneration Report (continued)

### Flora Sarris

- (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 commercial and occupational health and safety targets.
  - c. Long term incentive – entitlement to equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) If Ms Sarris's employment is terminated by the company, the company must pay Ms Sarris the equivalent of one year's total remuneration.

### 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 equity under the Performance Rights and Options Plan subject to meeting growth rates in earnings per share over a 4 year period.
- (iii) Upon termination Company may restrain employee from working for a Business in Competition / Company customer for a period of up to 6 months. Company will pay Base Salary for period in which restraint is enforced.

## 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.

## Auditor's independence declaration

The Auditor's independence declaration is included on page 32.

## 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 Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## Subsequent events

On the 24th July 2014, the company signed a binding heads of agreement with 1847 (SA) Pty Ltd (1847) for the sale of its Yaldara Winery and Yaldara brand for \$15.5M. Settlement which is subject to 1847 obtaining a liquor licence for the winery, is expected to occur in November or December 2014.

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



Ian D Ferrier AM  
Chairman  
29th August 2014



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

29 August 2014

Dear Board Members

Re: 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 ended 30 June 2014, 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

A stylized, cursive signature of "Deloitte Touche Tohmatsu" in black ink.

DELOITTE TOUCHE TOHMATSU

A stylized, cursive signature of "Stephen Harvey" in black ink.

Stephen Harvey  
Partner  
Chartered Accountants





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

### Report on the Financial Report

We have audited the accompanying financial report of Australian Vintage Ltd, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 34 to 84.

### Directors' Responsibility 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 Note 3, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Australian Vintage Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- (a) the financial report of Australian Vintage Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 30 of the directors' report for the year ended 30 June 2014. 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.

### Opinion

In our opinion the Remuneration Report of Australian Vintage Ltd for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

DELOITTE TOUCHE TOHMATSU

Stephen Harvey  
Partner  
Chartered Accountants  
Adelaide, 29 August 2014

## 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 3 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 39 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



Ian D Ferrier AM  
Chairman  
29th August 2014





2014

# FINANCIAL REPORT

For the year ended 30 June 2014

## 36 | CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	NOTE	CONSOLIDATED	
		2014 \$'000	2013 \$'000
Revenue	5	214,753	208,549
Cost of sales	5	(155,745)	(151,380)
<b>Gross Profit</b>		<b>59,008</b>	<b>57,169</b>
Fair value of grapes picked during the financial year less estimated costs to sell		2,713	3,171
Investment income	5	532	403
Other gains and losses	5	2,002	917
Distribution expenses		(11,977)	(10,856)
Gain on provision for onerous contracts		4,106	4,223
Sales and marketing expenses		(24,984)	(23,646)
Administration expenses		(7,154)	(6,531)
Loss on foreign exchange		-	(459)
Finance costs	5	(9,139)	(13,910)
<b>Profit before tax</b>		<b>15,107</b>	<b>10,481</b>
Income tax expense	6	(4,563)	(3,411)
<b>Profit for the year</b>		<b>10,544</b>	<b>7,070</b>
<b>Other comprehensive loss net of income tax:</b>			
<i>Items that may be subsequently classified to the profit or loss:</i>			
Profit / (Loss) on interest rate swaps		491	1,453
Valuation of foreign exchange hedges		(257)	(1,571)
<i>Items that may be subsequently classified to the profit or loss:</i>			
Exchange differences arising on translation of foreign operations		73	45
Income tax relating to components of other comprehensive income		(92)	21
<b>Other comprehensive income / (loss) for the year, net of income tax</b>		<b>215</b>	<b>(52)</b>
<b>Total comprehensive income for the year</b>		<b>10,759</b>	<b>7,018</b>
<b>Earnings Per Share:</b>			
Basic (cents per share)	35	5.1	5.3
Diluted (cents per share)	35	5.1	5.3

Notes to the financial statements are included on pages 40 to 84.



AS AT 30 JUNE 2014

	NOTE	CONSOLIDATED	
		2014 \$'000	2013 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	42	4,202	995
Trade and other receivables	10	41,698	35,613
Inventories	11	168,142	151,376
Current tax assets	6	49	79
Other	12	3,851	3,637
<b>Total Current Assets</b>		<b>217,942</b>	<b>191,700</b>
<b>Non-Current Assets</b>			
Inventories	13	23,736	20,858
Other financial assets	14	59	59
Biological assets	15	33,184	33,184
Property, plant and equipment	16	90,058	93,171
Goodwill	17	37,685	37,685
Other intangible assets	18	7,744	7,405
Water Licences	19	7,554	7,467
Deferred tax assets	6	52,100	52,288
Other	20	435	-
<b>Total Non-Current Assets</b>		<b>252,555</b>	<b>252,117</b>
<b>Total Assets</b>		<b>470,497</b>	<b>443,817</b>
<b>Current Liabilities</b>			
Trade and other payables	22	40,996	33,019
Borrowings	23	3,606	2,305
Other financial liabilities	24	1,101	1,559
Provisions	25	5,579	6,061
Other	26	535	48
<b>Total Current Liabilities</b>		<b>51,817</b>	<b>42,992</b>
<b>Non-Current Liabilities</b>			
Borrowings	27	112,349	140,748
Deferred tax liabilities	6	14,491	10,773
Other financial liabilities	28	112	430
Provisions	29	3,491	7,975
<b>Total Non-Current Liabilities</b>		<b>130,443</b>	<b>159,926</b>
<b>Total Liabilities</b>		<b>182,260</b>	<b>202,918</b>
<b>Net Assets</b>		<b>288,237</b>	<b>240,899</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Issued capital	32	443,266	403,155
Reserves	33	804	670
Accumulated losses	34	(155,833)	(162,926)
<b>Total Equity</b>		<b>288,237</b>	<b>240,899</b>

Notes to the financial statements are included on pages 40 to 84.

## 38 | CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	SHARE CAPITAL \$'000	EQUITY - SETTLED EMPLOYEE BENEFITS RESERVE \$'000	HEDGING RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	ACCUMULATED LOSSES \$'000	TOTAL \$'000
Balance at 1 July 2013	403,155	1,578	(948)	40	(162,926)	240,899
Profit for the period	-	-	-	-	10,544	10,544
Profit on interest rate swaps	-	-	491	-	-	491
Valuation of foreign exchange hedges	-	-	(257)	-	-	(257)
Exchange differences arising on translation of foreign operations	-	-	-	73	-	73
Income tax relating to components of other comprehensive income	-	-	(70)	(22)	-	(92)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>164</b>	<b>51</b>	<b>10,544</b>	<b>10,759</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividend paid	-	-	-	-	(3,451)	(3,451)
Recognition of share based payments	-	(81)	-	-	-	(81)
Issue of shares	40,111	-	-	-	-	40,111
<b>Balance at 30 June 2014</b>	<b>443,266</b>	<b>1,497</b>	<b>(784)</b>	<b>91</b>	<b>(155,833)</b>	<b>288,237</b>
Balance at 1 July 2012	402,792	1,497	(865)	9	(166,564)	236,869
Profit for the period	-	-	-	-	7,070	7,070
Loss on interest rate swaps	-	-	1,453	-	-	1,453
Valuation of foreign exchange hedges	-	-	(1,571)	-	-	(1,571)
Exchange differences arising on translation of foreign operations	-	-	-	45	-	45
Income tax relating to components of other comprehensive income	-	-	35	(14)	-	21
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(83)</b>	<b>31</b>	<b>7,070</b>	<b>7,018</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividend paid	-	-	-	-	(3,432)	(3,432)
Recognition of share based payments	-	81	-	-	-	81
Issue of shares	363	-	-	-	-	363
<b>Balance at 30 June 2013</b>	<b>403,155</b>	<b>1,578</b>	<b>(948)</b>	<b>40</b>	<b>(162,926)</b>	<b>240,899</b>

Notes to the financial statements are included on pages 40 to 84.

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	NOTE	CONSOLIDATED	
		2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		220,898	223,481
Payments to suppliers and employees		(216,593)	(217,164)
<b>Cash generated from operations</b>		<b>4,305</b>	<b>6,317</b>
Interest and other costs of finance paid		(8,388)	(10,935)
Interest and bill discounts received		447	284
<b>Net cash provided by / (used in) operating activities</b>	42 (d)	<b>(3,636)</b>	<b>(4,334)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(3,069)	(3,473)
Payments for intangibles	18	(374)	(136)
Payment for water licences	19	(87)	(751)
Proceeds from sale of property, plant & equipment		184	1,316
<b>Net cash provided by / (used in) investing activities</b>		<b>(3,346)</b>	<b>(3,044)</b>
<b>Cash flows from financing activities</b>			
Loan payment received		1,843	188
Dividends paid		(3,451)	(3,069)
Net proceeds from share issues		39,383	-
Proceeds from borrowings		-	13,700
Repayment of borrowings		(27,586)	(2,683)
<b>Net cash provided by / (used in) financing activities</b>		<b>10,189</b>	<b>8,136</b>
Net increase / (decrease) in cash and cash equivalents		3,207	758
Cash and cash equivalents at the beginning of the financial year		995	237
<b>Cash and cash equivalents at the end of the financial year</b>	42	<b>4,202</b>	<b>995</b>

Notes to the financial statements are included on pages 40 to 84.



## 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 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 29th August 2014.

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

### 2.1 Adoption of new and revised Accounting Standards

In the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2013.

STANDARD / INTERPRETATION	REQUIREMENTS	EFFECT ON FINANCIAL STATEMENTS
<i>AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'</i>	This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'.	As a result the Group only discloses the key management personnel compensation in total and for each of the categories.  Individual key management personnel information is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013.
<i>AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'</i>	The Group has applied the amendments to AASB 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.	The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments does not have any material impact on the consolidated financial statements.
<i>AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'</i>	The Annual Improvements to AASBs 2009 - 2011 have made a number of amendments to AASBs. The amendments that are relevant to the Group are the amendments to AASB 101 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented.	The adoption of this amending standard does not have any material impact on the consolidated financial statements.
<i>AASB 2012-9 'Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039'</i>	This standard makes amendment to AASB 1048 'Interpretation of Standards' following the withdrawal of Australian Interpretation 1039 'Substantive Enactment of Major Tax Bills in Australia'.	The adoption of this amending standard does not have any material impact on the consolidated financial statements.

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

## 2.1 Adoption of new and revised Accounting Standards (continued)

STANDARD / INTERPRETATION	REQUIREMENTS	EFFECT ON FINANCIAL STATEMENTS
<i>AASB CF 2013-1 'Amendments to the Australian Conceptual Framework' and AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' (Part A Conceptual Framework)</i>	<p>This amendment has incorporated IASB's Chapters 1 and 3 Conceptual Framework for Financial Reporting as an Appendix to the Australian Framework for the Preparation and Presentation of Financial Statements.</p> <p>As a result the Australian Conceptual Framework now supersedes the objective and the qualitative characteristics of financial statements, as well as the guidance previously available in Statement of Accounting Concepts SAC 2 'Objective of General Purpose Financial Reporting'.</p>	The adoption of this amending standard does not have any material impact on the consolidated financial statements.
<i>New and revised Standards on consolidation, joint arrangements, associates and disclosures</i>	<p>In August 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising:</p> <ul style="list-style-type: none"> <li>• AASB 10 'Consolidated Financial Statements'</li> <li>• AASB 11 'Joint Arrangements'</li> <li>• AASB 12 'Disclosure of Interests in Other Entities'</li> <li>• AASB 127 'Separate Financial Statements'</li> <li>• AASB 128 'Investments in Associates and Joint Ventures'.</li> </ul> <p>Subsequent to the issue of these standards, amendments to AASB 10, AASB11 and AASB 12 were issued to clarify certain transitional guidance on first-time application.</p>	The adoption of this amending standard does not have any material impact on the consolidated financial statements.
<i>AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'</i>	<p>AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements.</p> <p>AASB 13 includes extensive disclosure requirements and requires prospective application from 1 July 2013.</p>	<p>The Group has applied AASB 13 for the first time in the current year.</p> <p>In accordance with the transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2013 comparative period.</p> <p>Other than the additional disclosures, the application of AASB 13 does not have any material impact on the amounts recognised in the consolidated financial statements.</p>
<i>AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'</i>	This standard amends AASB 10 and various Australian Accounting Standards to revise the transition guidance on the initial application of those Standards. This standard also clarifies the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.	The adoption of this amending standard does not have any material impact on the consolidated financial statements.
<i>AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'</i>	<p>AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets.</p> <p>In addition, AASB 119 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.</p>	<p>In the current year, the Group has applied AASB 119 (as revised in 2011) 'Employee Benefits' and the related consequential amendments for the first time.</p> <p>The adoption of this amending standard does not have any material impact on the consolidated financial statements</p>

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

## 2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below 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 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
INT 21 'Levies'	1 January 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' - Part A: 'Annual Improvements 2010–2012 and 2011–2013 Cycles' - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)' - Part C: 'Materiality'	1 July 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part D: 'Consequential Amendments arising from AASB 14'	1 January 2016	30 June 2017
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	1 January 2015	30 June 2016
AASB 14 'Regulatory Deferral Accounts'	1 January 2016	30 June 2017

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

STANDARD / INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	30 June 2017
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	30 June 2017
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016	30 June 2017
IFRS 9 'Financial Instruments'	1 January 2018	30 June 2019

## Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

## 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 2, 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 2 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.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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.

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

### 3.3.1 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### 3.4 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted for retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed at the acquisition date – and is subject to a maximum of one year.

### 3.5 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.

### 3.6 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.

### 3.7 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 foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 43 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.



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

### 3.7 Derivative financial instruments (continued)

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

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, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

Hedges of foreign exchange risk on firm commitments 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.

Note 43 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.

### 3.8 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.

### 3.9 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.



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

### 3.9 Financial instruments (continued)

#### 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.

#### 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.

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.

### 3.10 Financial instruments issued by the company

#### 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.



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

**3.10 Financial instruments issued by the company (continued)****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.

**3.11 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 3.7);
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 3.7); 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.

**3.12 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.

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

#### 3.13 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.

#### 3.14 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 Company 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.

#### 3.15 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.

#### 3.16 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.



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

### 3.16 Income tax (continued)

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 company/ 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.

### 3.17 Intangible assets

#### Brand names and Registered Trademarks

Brand names recognised by the company 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 3.15.

#### 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.

#### 3.17.1 Intangible assets acquired in a business combination

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.

### 3.18 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.

### 3.19 Investments in associates

An associate is an entity over which the Group has significant influence. The results and assets and liabilities of associates are incorporated into the financial statements under the equity method of accounting.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

### 3.20 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.

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

### 3.20 Leased assets (continued)

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 3.5.

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.

### 3.21 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.

### 3.22 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.

### 3.23 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 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  |

### 3.24 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.



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

### 3.25 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 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 fees earned.

#### 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 Company for the reporting period.

### 3.26 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.

### 3.27 Trade credits

Trade credits are recorded at the net present value of expected future usage. The Company reviews the recoverable amount of the trade credits at each reporting date and any shortfall against carrying value is charged to profit and loss.

### 3.28 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.

Water allocations with temporary rights are expensed in the year of purchase.

## 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.

### 4.1 Critical judgements in applying accounting policies

The following are the critical judgments that management has made in applying the Group's accounting policies:

#### Inventories

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less cost to sell. The key assumptions require the use of management judgment. These key assumptions are the variables affecting the estimated costs to sell and the expected selling price.

The write down is based on assuming a selling price of the wine either through packaged goods or as bulk wine. Should the key assumptions applied in the estimation of revenue from the sale of the inventory when sold vary the ultimate realisable value may differ from that recorded at balance date.

#### Income tax losses

The company 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 company will have sufficient taxable income in the foreseeable future and against which the deferred tax assets can be recovered.

The assessment of whether there will be sufficient taxable income 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.

#### Onerous Contracts

The Company is party to a variety of grape supply agreements including vineyard lease agreements; grower grape supply agreements; and management of vineyard agreements. The agreements provide for the Company to acquire grapes at various prices some of which exceed market values.

The agreements in the current market have become onerous. The Company is attempting to mitigate the losses associated with the agreements.

Each contract has been reviewed and it has been determined that there is an unavoidable cost of meeting the obligations under the grape supply agreements that exceeds the forecast economic benefits (the onerous amount).

The provision for the onerous contracts has been brought to account using the best estimate of the onerous amount.

There are a number of future events the Company expects will affect the amount required to settle the contracts and these events are reflected in the amount of the provisions where there is sufficient objective evidence that they will occur.

The onerous contracts provision has been adjusted to the present value (at 8.5% discount rate – 2013 : 8.5%) of the expenditures expected to be required to settle the onerous obligations.

### 4.2 Key sources of estimation uncertainty

#### Impairment of goodwill and other intangibles

The goodwill arising from the acquisition of businesses has been reassessed through the estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculations require the Group to estimate the future cash flows expected to arise from the cash generating unit and select a risk adjusted discount rate in order to calculate present value.

A discounted cash flow analysis was performed on the cash generating units associated with the goodwill balances, using a pre-tax discount rate of 13.42% (2013 : 13.12%), which indicated that the valuation of assets (including goodwill), based upon discounted cash flows, was higher than the carrying value.

The carrying value 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 and a pre-tax discount rate of 19.0% (2013 : 19.5%) (branded wine business).

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.

#### Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that the useful lives of certain items of equipment should be shortened, due to developments in technology.

#### Revaluation of biological assets

The Company reviewed the long term value of vineyards and adopted the net present values of the cash flows as a Directors' Valuation for the period ended 30 June 2014.

In determining the fair value of the biological assets, the forecast cash flows from the vineyards have been discounted using a 15.14% (2013 : 14.32%) pre-tax discount rate.



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

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

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
<b>(a) Revenue – continuing operations</b>		
Revenue from the sale of goods	200,904	193,158
Revenue from contract processing	10,067	11,959
Revenue from rendering vineyard contract services	3,782	3,432
<b>Total</b>	<b>214,753</b>	<b>208,549</b>
<b>Investment income</b>		
Rental income	85	91
Interest income	447	312
<b>Total</b>	<b>532</b>	<b>403</b>
<b>Other gains / (losses)</b>		
Gain / (Loss) on sales of other property, plant and equipment	178	(32)
Wine equalisation tax rebate	500	500
Gain on foreign exchange	229	-
Other rebates	538	740
Government grants	-	136
Impairment of water licences	-	(901)
Other	557	474
<b>Total</b>	<b>2,002</b>	<b>917</b>
<b>(b) Profit before income tax</b>		
Profit before income tax has been arrived at after (crediting) the following gains:		
Unrealised profit on foreign exchange	-	(459)
Profit before income tax has been arrived at after charging the following expenses:		
Cost of sales	155,745	151,380
Operating lease rental expenses (minimum lease payments)	10,708	13,137
Employee benefit expense:		
Share-based payments:		
Equity settled share-based payments	196	81
	196	81
Termination benefits	103	351
Superannuation benefits	2,855	2,595
Other employee benefits (incl. salaries and wages)	34,651	32,805
<b>Total employee benefits expense</b>	<b>37,805</b>	<b>35,832</b>
Depreciation of non-current assets - charged to cost of sales / inventory	5,323	5,402
Depreciation of non-current assets - other	1,184	1,157
Amortisation of non-current assets	567	511
<b>Total depreciation and amortisation expense</b>	<b>7,074</b>	<b>7,070</b>
<b>(c) Finance costs</b>		
Interest on bank overdrafts and loans	8,021	12,259
Interest on obligations under finance lease	528	661
	8,549	12,920
Unwinding of discounts on provisions	590	990
<b>Total finance costs</b>	<b>9,139</b>	<b>13,910</b>

The weighted average rate on funds borrowed is 5.47% per annum (2013 : 8.12% per annum).



## Note 6: Income taxes

		CONSOLIDATED	
		2014 \$'000	2013 \$'000
<b>(a) Income tax recognised in profit or loss</b>			
Current tax			
Tax expense comprises:			
Current tax expense in respect of the current year		593	89
		593	89
Deferred tax			
Deferred tax expense relating to the origination and reversal of temporary differences		3,906	3,376
Adjustments recognised in the current year in relation to the current tax of prior years		64	(54)
Total tax expense attributable to continuing operations		3,970	3,322
Total income tax expense recognised in the current year relating to continuing operations		4,563	3,411
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 from operations		15,107	10,481
Income tax expense calculated at 30%		4,532	3,144
Non-deductible expenses		(33)	51
Current year capital losses not recognised		-	270
Capital losses utilised (not previously recorded)		-	-
		(33)	3,465
Adjustments recognised in the current year in relation to tax of prior years		64	(54)
Total tax expense		4,563	3,411
The tax rate used for the 2014 and 2013 reconciliations above is the corporation tax rate of 30% payable by Australian Corporate entities on taxable profits under Australian tax law.			
<b>(b) Income tax recognised in other comprehensive income</b>		(92)	21
<b>(c) Current tax assets and liabilities</b>			
Current tax assets		49	79
<b>(d) Deferred tax balances</b>			
Deferred tax assets comprise:			
Tax losses – revenue		34,700	34,250
Temporary differences		17,400	18,038
		52,100	52,288
Deferred tax liabilities comprise:			
Temporary differences		14,491	10,773
Total income tax recognised directly in equity		(92)	21

## Note 6: Income taxes (continued)

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

## CONSOLIDATED

Temporary differences 2014	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Acquisitions/ Disposals \$'000	Closing Balance \$'000
<b>Gross deferred tax liabilities:</b>					
Work in progress	(1,665)	(2,708)	-	-	(4,373)
Property, plant and equipment	(7,448)	(798)	-	-	(8,246)
Intangible assets	(344)	(124)	-	-	(468)
Inventories	(1,288)	(86)	-	-	(1,374)
Other	(28)	90	(92)	-	(30)
	<b>(10,773)</b>	<b>(3,626)</b>	<b>(92)</b>	<b>-</b>	<b>(14,491)</b>
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	10	(1)	-	-	9
Provisions and accruals	8,694	(3,335)	-	-	5,359
Financial liabilities	275	(147)	-	-	128
Inventories	9,059	2,263	-	-	11,322
Tax losses	34,250	450	-	-	34,700
Other	-	(145)	727	-	582
	<b>52,288</b>	<b>(915)</b>	<b>727</b>	<b>-</b>	<b>52,100</b>
<b>Temporary differences 2013</b>					
<b>Gross deferred tax liabilities:</b>					
Work in progress	(1,948)	283	-	-	(1,665)
Property, plant and equipment	(6,629)	(819)	-	-	(7,448)
Intangible assets	(370)	26	-	-	(344)
Inventories	(1,256)	(32)	-	-	(1,288)
Other	(29)	(20)	21	-	(28)
	<b>(10,232)</b>	<b>(562)</b>	<b>21</b>	<b>-</b>	<b>(10,773)</b>
<b>Gross deferred tax assets:</b>					
Property, plant and equipment	-	10	-	-	10
Provisions and accruals	11,824	(3,130)	-	-	8,694
Financial liabilities	711	(436)	-	-	275
Inventories	9,235	(176)	-	-	9,059
Tax losses	33,353	897	-	-	34,250
	<b>55,123</b>	<b>(2,835)</b>	<b>-</b>	<b>-</b>	<b>52,288</b>

There are no unrecognised revenue tax losses relating to the Group or the Company. The company has not recognised \$6,710,000 (2013 : \$6,710,000) of capital losses. The Directors expect the future financial performance of the company will facilitate the full recovery of the revenue tax losses.

**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 39.

**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 or 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

## Details of Key Management Personnel

The aggregate compensation of the key management personnel of the Group and the company is set out below:

	CONSOLIDATED	
	2014 \$	2013 \$
Short-term employee benefits	2,774,963	2,560,554
Post-employment benefits	185,086	227,073
Share based payments	-	52,905
Termination benefits	-	-
	<u>2,960,049</u>	<u>2,840,532</u>

## Note 8: Executive share option plan

The following share based payments arrangements were in existence during the current and prior reporting periods.

## Australian Vintage Ltd Executive Option Acquisition Plan ("Plan")

The Company had an executive and senior employee option scheme which allowed for the granting of share options over unissued shares of the company. The company also issues share options under the Australian Vintage Ltd Executive Option Acquisition Plan ("Plan"). These options were granted over issued shares of the company. The last of the options under this plan lapsed during the prior year. There were no options issued under this plan during the current year.

## Australian Vintage Ltd Performance Rights and Option Plan

Established in August 2012, this long term incentive is provided as a right to an issue of shares. This right is subject to the achievement of set growth rates in earnings per share over a 4 year period up until the vesting date and the likelihood of these hurdles being met is assessed annually. The plan is available to senior management as approved by the board. On the 22nd July 2013, 1,156,514 (2013 : 1,383,400) performance rights were issued under this plan to employees. The fair value of these performance rights was \$444,448 (2013 : \$367,569) at the grant date. These rights were priced using a binominal option pricing model.

The table below summarises all performance rights on issue:

	2014 NUMBER	2013 NUMBER
Balance at the beginning of the financial year (i)	1,383,400	-
Granted during the financial year (ii)	1,156,514	1,383,400
Exercised during the financial year (ii)	-	-
Lapsed / cancelled during the financial year (iii)	-	-
Balance at the end of the financial year (iv)	<u>2,539,914</u>	<u>1,383,400</u>

## (i) Balance at the beginning of the financial year

2014 PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(1) Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
	<u>1,383,400</u>	-	<u>1,383,400</u>				

2013

Nil

## (ii) Granted/Exercised during the Financial Year

PERFORMANCE RIGHTS – SERIES	No.	VESTED No.	UNVESTED No.	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE \$
(2) Issued 22 July 2013	1,156,514	-	1,156,514	22/07/13	22/07/17	21/08/17	N/A
	<u>1,156,514</u>	-	<u>1,156,514</u>				

## Note 8: Executive share option plan (continued)

## (iii) Lapsed / Cancelled during the financial year

Nil

## (iv) Balance at end of financial year

2014			VESTED	UNVESTED	GRANT	VESTING	EXPIRY	EXERCISE
PERFORMANCE RIGHTS – SERIES		No.	No.	No.	DATE	DATE	DATE	PRICE \$
(1)	Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
(2)	Issued 22 July 2013	1,156,514	-	1,156,514	22/07/13	22/07/17	21/08/17	N/A
		2,539,914	-	2,539,914				

2013			VESTED	UNVESTED	GRANT	VESTING	EXPIRY	EXERCISE
PERFORMANCE RIGHTS – SERIES		No.	No.	No.	DATE	DATE	DATE	PRICE \$
(1)	Issued 15 August 2012	1,383,400	-	1,383,400	15/08/12	15/08/16	15/09/16	N/A
		1,383,400	-	1,383,400				

## Note 9: Remuneration of auditors

	CONSOLIDATED	
	2014	2013
	\$	\$
<b>Auditor of the parent company</b>		
Audit or review of financial report	344,793	334,750
Other services – other audit services	8,200	9,500
Other services – taxation advice	3,650	13,931
Other services – grant advice	-	6,500
Other services – systems review	10,000	-
Other services – taxation compliance	43,750	35,500
	<b>410,393</b>	<b>400,181</b>

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

## Note 10: Current trade and other receivables

Trade receivables (i)	41,076	33,247
Allowance for doubtful debts	(219)	(122)
	<b>40,857</b>	<b>33,125</b>
Loans to other entities (ii)	-	1,843
Other receivables	841	645
	<b>41,698</b>	<b>35,613</b>

(i) The average credit period on sales of goods and rendering of services is 64 days (2013 : 64 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 repaid in the year ended 30 June 2014. The interest rate charged is 10.25% (2013 : 10.25%).

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, \$16.8 million (2013 : \$15.8 million) is due from international and domestic supermarket groups and a major wine entity. 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 \$3.0 million (2013 : \$3.6 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.

## Note 10: Current trade and other receivables (continued)

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
<b>Ageing of past due but not impaired</b>		
30 – 60 days	2,952	3,010
60 – 90 days	60	239
90 – 120 days	9	397
Total	<b>3,021</b>	<b>3,646</b>
Average age (days)	<b>38</b>	<b>50</b>
<b>Movement in the allowance of doubtful debts</b>		
Balance at the beginning of the year	(122)	(303)
Impairment (losses) / reversals recognised on receivables	(228)	68
Amounts written off as not collectable	131	113
Balance at the end of the year	<b>(219)</b>	<b>(122)</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 individually impaired trade receivables amounting to \$77,000 (2013 : 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. The impaired receivable is aged over 120 days.

## Note 11: Current inventories

Bulk wine	121,634	112,996
Other stores and raw materials	4,093	3,727
Work in progress	5,640	5,551
Bottled wine	36,775	29,102
	<b>168,142</b>	<b>151,376</b>

The cost of inventory recognised as an expense (or cost of sales) during the year in respect of continuing operations was \$155.7 million (2013 : \$151.4 million).

## Note 12: Other current assets

Prepayments	3,851	3,637
	<b>3,851</b>	<b>3,637</b>

## Note 13: Non-current inventories

Bulk wine	21,800	19,326
Bottled wine	1,936	1,532
	<b>23,736</b>	<b>20,858</b>

## Note 14: Other non-current financial assets

Investments in companies (i)	59	59
	<b>59</b>	<b>59</b>

(i) Relates to investments in wine related businesses.

## Note 15: Biological assets

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Fair value less costs to sell of vines at beginning of year	33,184	33,169
Valuation adjustment	-	15
Fair value less costs to sell of vines at end of year	<b>33,184</b>	<b>33,184</b>

## (a) Impact on Consolidated Statement of Comprehensive Income

The profit / (loss) before income tax included in the Consolidated statement of comprehensive income resulting from the fair value less costs to sell of produce extracted from the biological assets is a profit of \$2,713,000 (2013 : \$3,171,000).

## (b) Physical quantity of vines

	CONSOLIDATED	
	2014 No.	2013 No.
Number of vines owned	1,429,364	1,429,364
Acres owned	1,923	1,923
Number of grapes crushed - owned vineyards (tonnes)	18,498	20,165

## (c) Nature of asset

Australian Vintage Ltd owns vineyards in several regions across Australia (primarily the Sunraysia, Riverland and Adelaide Hills regions).

There are two resulting assets:

- (i) grapes (agricultural produce) – recorded within inventory
- (ii) vines (biological asset)

## (d) Significant assumptions

Significant assumptions made in determining the net market value of the vines are:

- (i) 100% of the vines are currently mature and will be productive for periods up to 40 years per vine;
- (ii) the expected price of the vines is constant in real terms, based on average prices throughout the current year;
- (iii) the costs expected to arise throughout the life of the vines are constant in real terms, based on average costs throughout the year;
- (iv) inflation will continue at the current rate; and
- (v) discount rate of 15.14% (2013 : 14.32%).

Significant assumptions made in determining the net market value of grapes picked are:

- (i) grapes crushed valued at management estimate of market price; and
- (ii) costs are those costs incurred in the 12 months preceding harvest.

## Note 16: Property, plant and equipment

		CONSOLIDATED	
		2014	2013
		\$'000	\$'000
(a)	<b>Vineyard Improvements</b>		
	at cost	14,270	14,270
	accumulated depreciation	(6,978)	(6,276)
		<u>7,292</u>	<u>7,994</u>
	<b>Freehold Land</b>		
	at cost	13,726	13,726
	<b>Buildings</b>		
	At cost	17,884	17,765
	accumulated depreciation	(5,275)	(4,871)
		<u>12,609</u>	<u>12,894</u>
	<b>Plant and equipment under lease</b>		
	at cost	13,561	13,232
	accumulated amortisation	(1,247)	(831)
		<u>12,314</u>	<u>12,401</u>
	<b>Plant and equipment</b>		
	at cost	114,585	112,172
	accumulated depreciation	(70,468)	(66,016)
		<u>44,117</u>	<u>46,156</u>
	<b>Total Property, Plant and Equipment</b>		
	at cost	174,026	171,165
	accumulated depreciation and amortisation	(83,968)	(77,994)
		<u>90,058</u>	<u>93,171</u>
(b)	<b>Reconciliations</b>		
	<b>Vineyard Improvements</b>		
	carrying amount at beginning of the financial year	7,994	8,698
	additions	-	-
	disposals	-	(2)
	depreciation	(702)	(702)
	<b>at end of year</b>	<u>7,292</u>	<u>7,994</u>
	<b>Freehold land</b>		
	carrying amount at beginning of the financial year	13,726	13,726
	<b>at end of year</b>	<u>13,726</u>	<u>13,726</u>
	<b>Buildings</b>		
	carrying amount at beginning of the financial year	12,894	12,877
	additions	119	419
	depreciation	(404)	(402)
	<b>at end of year</b>	<u>12,609</u>	<u>12,894</u>
	<b>Plant and equipment under lease</b>		
	carrying amount at beginning of the financial year	12,401	11,735
	additions	329	1,040
	depreciation	(416)	(374)
	<b>at end of year</b>	<u>12,314</u>	<u>12,401</u>
	<b>Plant and equipment</b>		
	carrying amount at beginning of the financial year	46,156	48,577
	additions	2,951	2,727
	disposals	(5)	(67)
	depreciation	(4,985)	(5,081)
	<b>at end of year</b>	<u>44,117</u>	<u>46,156</u>



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

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
<b>Aggregate depreciation and amortisation allocated, and impairment recognised as an expense during the year:</b>		
Buildings	404	402
Vineyard improvements	702	702
Plant and equipment	4,985	5,081
Plant and equipment under lease	416	374
	<b>6,507</b>	<b>6,559</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****44,085****44,085****Accumulated impairment losses**

Balance at beginning of financial year

6,400

6,400

**Balance at end of financial year (i)****6,400****6,400****Net book value**

At the beginning of the financial year

37,685

37,685

**At the end of the financial year****37,685****37,685****Allocation of goodwill to cash-generating units**

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

Bulk wine business

37,685

37,685

- (i) The impairment of goodwill is tested each reporting date and is based on determining the recoverable amount the businesses' cash generating units (CGU). To assess the recoverable amount of each CGU, the company has determined both the fair value less costs to sell and the value in use of the assets in each CGU. Given the unique nature of the assets, it is not always possible to obtain comparable fair values to the assets owned by this company and therefore the value in use method is the primary method used by the company for assessing whether the assets in the CGU are impaired. The recoverable amount of each cash generating unit 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 forecasts for the following 5 years and a terminal value to account for the cash flows beyond the 5th year. In preparing the impairment models for each CGU the company started with the cash flows from the year ended 30 June 2014 and adjusted that base year for the budgets and plans approved by the Board of Directors.

The cash flows in the impairment model have been discounted to present value using a discount rate applicable to each cash flow. The company 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's. The net present value of the cash flows has been compared to the assets within the CGU which include the goodwill balances above. In the current year, the company applied a pre-tax discount rate of 13.42% p.a. (2013 : 13.12% p.a.) to account for the risk associated with the assets in the current financial markets.

**Discount Rate**

The discount rate was determined after considering an appropriate: Beta; risk free interest rate; incremental cost of borrowing for the company; and the debt / equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the company and the Australian wine industry and have been considered in relation to the company.

**Key Assumptions**

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

- Working capital levels used in future years adjust in line with future sales growth.
- Terminal Growth Rate of 3% (2013 : 3%)
- Pre-tax Weighted Average Cost of Capital/ Discount rate of 13.42% (2013 : 13.12%)
- Risk Free rate of 3.75% (2013 : 3.15%)
- Cost of debt 7.5% (2013 : 8.5%)
- Levered Beta of 0.85 (2013 : 0.85)
- Revenue growth rate of 3% (2013 : 3%)

## Note 17: Goodwill (continued)

## Sensitivity Analysis

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

- The discount rate can be increased by 1.1 percentage points (to 14.5%) before an impairment is recognised.
- Reducing revenue growth rates to 0% does not cause the associated goodwill to be impaired.
- Reducing the terminal growth rate to 1% does not cause the associated goodwill to be impaired. However, a reduction in the terminal growth rate to 0% would generate an impairment charge of \$2.2 million.
- The calculations are not very sensitive to exchange rates as the majority of cash flows from the business unit are denominated in Australian dollars.
- Management believes that any reasonable possible change in the key assumptions on which recoverable amount or the inputs to the discount rate are based would not cause the carrying amount of the individual cash-generating units to exceed their recoverable amount.

## Note 18: Other intangible assets

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
<b>Brand Names and Registered Trademarks:</b>		
Balance at 1 July	5,488	5,488
Costs incurred during the year	60	-
Other	532	-
Balance at 30 June	6,080	5,488
<b>Software:</b>		
Balance at 1 July	1,917	2,292
Costs incurred during the year	314	136
Amortisation expense	(567)	(511)
Balance at 30 June	1,664	1,917
<b>Total other intangible assets</b>	<b>7,744</b>	<b>7,405</b>

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 determining the recoverable amount of the cash flows generated by each brand. The cash flows are based on the current management 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 company applied a pre-tax discount rate of 19.0% p.a. (2013 : 19.5% 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 company; and the debt /equity ratio. The inputs used in the model have been sourced from industry and financial market reports relevant to the company and the Australian wine industry and have been considered in relation to the company.

## Key Assumptions

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

- Terminal Growth Rate of 3% (2013 : 3%)
- Pre-tax Weighted Average Cost of Capital / Discount rate of 19.0% (2013 : 19.5%)
- Cost of debt 7.5% (2013 : 9%)
- Levered Beta of 1.19 (2013 : 1.19)
- Revenue growth rate of 3% (2013 : 3%)

No impairment charges relating to brands were recorded as the cash flows continued to support the carrying values of these brands.

## Sensitivity Analysis

The Company has performed sensitivity analysis on the brand names valuation models as follows:

- 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.

Management believes that any reasonable possible change in the key assumptions on which recoverable amount or the inputs to the discount rate are based would not cause the carrying amount of the brand names to exceed their recoverable amount.

## Note 19: Water licences

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Permanent water licences – at cost	7,554	7,467
Balance at 1 July	7,467	8,692
Acquired during the year	87	751
Impairment during the year	-	(901)
Disposed during the year	-	(1,075)
<b>Balance at 30 June</b>	<b>7,554</b>	<b>7,467</b>

## Note 20: Other non-current assets

Prepayments	435	-
	<b>435</b>	<b>-</b>

## Note 21: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 23 and 27 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 lending institutions, with the exception of assets under hire purchase arrangements. The following assets have been pledged as security:

Inventory	191,878	172,234
Receivables	41,698	35,613
Property, plant and equipment (including Biological Assets)	123,242	126,355
	<b>356,818</b>	<b>334,202</b>

The holder of the security does not have the right to sell or re-pledge the assets other than in an event of default. Assets under finance lease are pledged as security.

## Note 22: Current trade and other payables

Trade payables (i)	28,821	23,595
Goods and services tax payable	2,146	996
Value added tax payable	611	297
Other accounts payable and accruals	9,418	8,131
	<b>40,996</b>	<b>33,019</b>

- (i) The average credit period on purchase of goods is 35 days (2013 : 34 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 23: Current borrowings

Secured, at amortised cost:

Commerical Bills (i) (note 42(b))	1,000	-
Finance lease liabilities (ii)	2,606	2,305
	<b>3,606</b>	<b>2,305</b>

- (i) Commercial bills with a variable interest rate were issued in 2014. The current weighted average interest rate on the bills is 5.47% (2013 : 7.73%). The bank overdraft and commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 21).
- (ii) Secured by assets subject to the finance lease.

## Note 24: Other current financial liabilities

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Hedge liabilities – forward exchange contracts and foreign exchange options	787	1,073
Interest rate swap	314	486
	<b>1,101</b>	<b>1,559</b>

## Note 25: Current provisions

Directors retirement benefit (note 30)	149	149
Onerous contracts (note 30)	1,292	2,045
Employee entitlements (i)	4,138	3,867
	<b>5,579</b>	<b>6,061</b>

(i) The current provision for employee entitlements includes \$3,308,074 (2013 : \$3,180,735) of annual leave and vested long service leave entitlements.

## Note 26: Other current liabilities

Income in advance	535	48
	<b>535</b>	<b>48</b>

## Note 27: Non-current borrowings

Secured - at amortised cost:		
Commercial Bills (i) (note 42(b))	110,000	135,700
Accrued interest	445	813
	<b>110,445</b>	<b>136,513</b>
Finance lease liabilities (ii)	1,904	4,235
	<b>112,349</b>	<b>140,748</b>

(i) Commercial bills with a variable interest rate were issued in 2014. The current weighted average interest rate on the bills is 5.47% (2013 : 7.73%). The bank overdraft and commercial bills are subject to fixed and floating charges over the majority of the Group's assets (refer note 21).

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

## Note 28: Non-current other financial liabilities

Interest rate swap	112	430
	<b>112</b>	<b>430</b>

## Note 29: Non-current provisions

Employee entitlements	1,081	1,030
Onerous contracts (note 30)	2,410	6,945
	<b>3,491</b>	<b>7,975</b>

## Note 30: Provisions

	CONSOLIDATED			
	2014		2013	
	\$'000	\$'000	\$'000	\$'000
	Onerous Contracts (i)	Directors Retirement Benefit (ii)	Onerous Contracts (i)	Directors Retirement Benefit (ii)
Balance at beginning of year	8,990	149	15,818	149
Reductions arising from payments/other sacrifices of future economic benefits	(1,530)	-	(3,418)	-
Unwinding of discount and effect of changes in the discount rate	590	-	990	-
Reductions resulting from re-measurement, contract re-negotiation or settlement without cost	(4,348)	-	(4,400)	-
<b>Balance at end of year</b>	<b>3,702</b>	<b>149</b>	<b>8,990</b>	<b>149</b>

- (i) The provision for onerous contracts represents 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.
- (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.

**30.1 Defined Contribution plans**

The total expense recognised in the statement of comprehensive income of \$2,855,000 (2013 : \$2,595,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 30 June 2014, contributions of \$118,744 (2013 : \$111,964) due in respect of the reporting period had not been paid over to the plans. The amounts were paid in July 2014.

## Note 31: Foreign currency balances

The following table details the forward foreign currency contracts outstanding as at 30 June 2014:

CURRENCY	EXCHANGE RATE	FOREIGN CURRENCY FC '000	CONTRACT VALUE AUD \$'000	FAIR VALUE AUD \$'000
<b>Forward Contracts:</b>				
Sell GB Pounds	0.6427	1,000	1,587	(73)
Sell GB Pounds	0.5770	1,000	1,733	(86)
Sell GB Pounds	0.5757	1,000	1,737	(96)
Sell GB Pounds	0.5649	500	885	(36)
Sell GB Pounds	0.5628	1,000	1,776	(71)
Sell GB Pounds	0.5598	500	893	(33)
Sell Euro	0.6789	200	295	3
Sell Euro	0.6785	40	59	-
Sell Euro	0.6730	400	594	6
Buy Euro	0.6520	(200)	(307)	(10)
Sell Euro	0.7422	200	269	(26)
Buy Euro	0.6462	(200)	(310)	(9)
Sell Euro	0.7324	200	273	(26)
<b>Option Contracts:</b>				
Sell GB Pounds	0.5780 – 0.7000	3,000	5,190	(298)
Sell Euro	0.7055 – 0.8600	400	567	(31)

## Note 31: Foreign currency balances (continued)

The following table details the forward foreign currency contracts and foreign exchange option contracts as at 30 June 2013:

CURRENCY	EXCHANGE RATE	FOREIGN CURRENCY FC '000	CONTRACT VALUE AUD \$'000	FAIR VALUE AUD \$'000
<b>Forward Contracts:</b>				
Sell GB Pounds	0.6427	2,000	3,175	(75)
Sell GB Pounds	0.6125	1,000	1,632	632
Buy GB Pounds	0.5894	1,000	1,696	(696)
Sell GB Pounds	0.6620	2,000	3,022	1,022
Buy GB Pounds	0.5856	2,000	3,415	(1,412)
Sell Euro	0.8115	750	949	(31)
Sell Euro	0.6865	500	728	228
Buy Euro	0.6826	500	732	(232)
Sell Euro	0.7373	400	545	145
Buy Euro	0.6491	400	615	(215)
<b>Option Contracts:</b>				
Sell GB Pounds	0.5635 – 0.6300	2,000	3,549	(6)
Sell GB Pounds	0.5780 – 0.7000	6,000	10,380	(306)
Sell Euro	0.7030 – 0.7800	750	1,067	(30)
Sell Euro	0.7055 – 0.8600	1,200	1,701	(97)

## Note 32: Issued capital

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
232,262,382 Fully paid ordinary shares (2013 : 132,720,637)	443,266	403,155

	CONSOLIDATED			
	2014 Number	2014 \$'000	2013 Number	2013 \$'000
<b>Fully paid ordinary share capital</b>				
Beginning of financial year	132,720,637	403,155	131,993,692	402,792
<b>Issued during the year</b>				
Share Issue	79,633,650	33,446	-	-
Placement	19,908,095	8,361	-	-
Share issue costs	-	(1,696)	-	-
Shares issued under dividend re-investment plan	-	-	726,945	363
<b>End of financial year</b>	<b>232,262,382</b>	<b>443,266</b>	<b>132,720,637</b>	<b>403,155</b>

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.

**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 33: Reserves

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Employee equity-settled benefits (i)	1,497	1,578
Hedging reserve (ii)	(784)	(948)
Foreign currency translation reserve (iii)	91	40
	<b>804</b>	<b>670</b>

- (i) The employee equity-settled benefits reserve arises on the granting of shares and share options to directors and employees. The fair value of share based payments provided to directors and employees of the company 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.
- (iii) 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.

## Note 34: Accumulated losses

Balance at beginning of financial year	(162,926)	(166,564)
Net profit	10,544	7,070
Dividends paid	(3,451)	(3,432)
<b>End of financial year</b>	<b>(155,833)</b>	<b>(162,926)</b>

## Note 35: Earnings per share

	CONSOLIDATED	
	2014 Cents Per Share	2013 Cents Per Share
Basic earnings per share	5.1	5.3
Diluted earnings per share	5.1	5.3

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:

	\$'000	\$'000
Profit for the year	10,544	7,070

	2014 '000 Number of Shares	2013 '000 Number of Shares
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## Basic earnings per share

Weighted average number of ordinary shares used in calculating basic earnings per share (i)	207,738	132,438
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## Dilutive earnings per share

Weighted average number of ordinary shares used in calculating diluted earnings per share (i)	207,738	132,438
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- (i) The basic and diluted EPS are the same.

## Note 36: Dividends

	2014		2013	
	Cents Per Share	Total \$'000	Cents Per Share	Total \$'000
Fully paid ordinary shares:				
Interim dividend – franked to 30%	-	-	-	-
Final dividend – franked to 30%	2.6	3,451	2.6	3,432
		3,451		3,432
Adjusted franking account balance		11,109		12,588

In respect of the financial year ended 30 June 2014, a fully franked final dividend of 2.2 cents per share was declared on 27th August 2014 and will be paid on 19th November 2014. In respect of the financial year ended 30 June 2013, a final dividend of 2.6 cents per share was declared on 23rd August 2013 and was paid on 18th November 2013. There are no income tax consequences of unrecognised dividends.

## Note 37: 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
- Winery equipment

Operating leases relate to leases of plant and equipment with lease terms of between 3 and 7 years.

The following sets out payments recognised as an expense

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Minimum lease payments	78,168	82,534
The following sets out the commitments to future lease payments relating to operating leases:		
– not longer than 1 year	10,607	11,219
– longer than 1 year and not longer than 5 years	38,805	38,930
– longer than 5 years	28,756	32,385
	78,168	82,534

In respect of non-cancellable operating leases the following liabilities have been recognised:

Current	7	171
Non Current	350	2,131
	357	2,302

## (b) Finance leases

Finance leases relate to plant and equipment with a lease term of up to 5 years, expiring between 30 June 2014 and March 2018.

	MINIMUM FUTURE LEASE PAYMENTS CONSOLIDATED		PRESENT VALUE OF MINIMUM FUTURE LEASE PAYMENTS CONSOLIDATED	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
No Later than 1 year	2,919	2,820	2,606	2,336
Later than 1 year and not later than 5 years	2,017	4,637	1,904	4,204
Minimum lease payments*	4,936	7,457	4,510	6,540
Less future finance charges	(426)	(917)	-	-
Present value of minimum lease payments	4,510	6,540	4,510	6,540
Current borrowings (note 23)			2,606	2,305
Non-Current borrowings (note 27)			1,904	4,235
			4,510	6,540

\* 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.

## Note 37: Leases and other commitments (continued)

## (c) Capital expenditure commitments

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Property, Plant and Equipment		
– not longer than 1 year	-	83
	-	83

## Note 38: Contingent liabilities

There are no material contingent liabilities the company is aware of as at the date of this report.

## Note 39: Subsidiaries

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP OF INTEREST	
		2014 %	2013 %
<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 (Europe) Limited (2)	United Kingdom	-	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.
- (2) De-registered 20th August 2013

## Note 39: 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 2014**

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Revenue	214,753	208,549
Cost of sales	(155,745)	(151,380)
<b>Gross Profit</b>	<b>59,008</b>	<b>57,169</b>
Fair value of grapes picked during the financial year less estimated costs to sell	2,713	3,171
Investment income	532	403
Other gains and losses	2,002	917
Distribution expenses	(11,977)	(10,856)
Gain on provision for onerous contracts	4,106	4,223
Sales and marketing expenses	(24,984)	(23,646)
Administration expenses	(7,154)	(6,531)
Loss on foreign exchange	-	(459)
Finance costs	(9,139)	(13,910)
<b>Profit before income tax</b>	<b>15,107</b>	<b>10,481</b>
Income tax expense	(4,563)	(3,411)
<b>Net profit for the year</b>	<b>10,544</b>	<b>7,070</b>
<b>Other comprehensive income / (loss) net of income tax:</b>		
Loss on interest rate swaps	491	1,453
Valuation of foreign exchange hedges	(257)	(1,571)
Exchange differences arising on translation of foreign operations	73	45
Income tax relating to components of other comprehensive income	(92)	21
<b>Other comprehensive income / (loss) for the year, net of income tax</b>	<b>215</b>	<b>(52)</b>
<b>Total comprehensive income for the year</b>	<b>10,759</b>	<b>7,018</b>

## Note 39: Subsidiaries (continued)

Consolidated Statement of Financial Position – Closed Group  
As at 30 June 2014

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
<b>Current Assets</b>		
Cash and cash equivalents	4,057	703
Trade and other receivables	41,698	35,613
Inventories	168,142	151,376
Current tax assets	49	49
Other	3,938	3,906
<b>Total Current Assets</b>	<b>217,884</b>	<b>191,647</b>
<b>Non-Current Assets</b>		
Inventories	23,736	20,858
Other financial assets	59	59
Biological assets	33,184	33,184
Property, plant and equipment	90,058	93,171
Goodwill	37,685	37,685
Other intangible assets	7,744	7,405
Water Licences	7,554	7,467
Deferred tax assets	52,100	52,288
Other	435	-
<b>Total Non-Current Assets</b>	<b>252,555</b>	<b>252,117</b>
<b>Total Assets</b>	<b>470,439</b>	<b>443,764</b>
<b>Current Liabilities</b>		
Trade and other payables	40,979	33,004
Borrowings	3,606	2,305
Other financial liabilities	1,101	1,901
Provisions	5,579	6,061
Other	535	48
<b>Total Current Liabilities</b>	<b>51,800</b>	<b>43,319</b>
<b>Non-Current Liabilities</b>		
Borrowings	112,349	140,748
Deferred tax liabilities	14,491	10,773
Other financial liabilities	112	88
Provisions	3,491	7,975
<b>Total Non-Current Liabilities</b>	<b>130,443</b>	<b>159,584</b>
<b>Total Liabilities</b>	<b>182,243</b>	<b>202,903</b>
<b>Net Assets</b>	<b>288,196</b>	<b>240,861</b>
<b>Equity</b>		
Issued capital	443,177	403,066
Reserves	824	693
Accumulated losses	(155,805)	(162,898)
<b>Total Equity</b>	<b>288,196</b>	<b>240,861</b>

## Note 40: Segment information

The Company's reportable segments are as follows:

### **Australia / 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, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.

### **Vineyards**

- provides vineyard management and maintenance services within Australia and includes biological assets income.

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 (2013 : Nil).

Segment profit represents the profit earned by each segment without allocation of share of profits of associates, investment and interest revenue, gain on onerous contracts, impairment of water licences, 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 under review:

### **Segments**

#### *Segment Revenue, Results and other segmental information*

	REVENUE	REVENUE	RESULTS	RESULTS
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Australasia / North America packaged	88,855	79,903	7,956	5,214
UK / Europe	87,560	88,847	3,903	3,350
Cellar door	7,538	6,843	1,213	708
Australasia / North America bulk wine and processing	27,018	29,524	3,384	8,000
Vineyards	3,782	3,432	3,237	3,485
Unallocated	-	-		
<b>Total</b>	<b>214,753</b>	<b>208,549</b>	<b>19,693</b>	<b>20,757</b>
Finance costs – interest paid			(8,549)	(12,920)
Finance costs – interest un-wind			(590)	(990)
Impairment of water licences			-	(901)
Gain on provision for onerous contracts			4,106	4,223
Interest received			447	312
<b>Profit before tax</b>			<b>15,107</b>	<b>10,481</b>



## Note 40: Segment information (continued)

*Geographical Segments*

	REVENUE FROM CUSTOMERS	
	2014 \$'000	2013 \$'000
Australia	107,345	99,091
UK / Europe	87,560	88,847
North America	6,272	7,926
Other	13,576	12,685
	<b>214,753</b>	<b>208,549</b>

The group has sales to three major customers who individually account for greater than 10% of annual sales. The total sales for these customers were \$88.6M (2013 : \$96.4M). Of these sales, \$52.1M (2013 : \$61.0M) is included within the UK / Europe division and \$36.5M (2013 : \$35.4M) is included within the Australasia / North America Packaged division.

## Note 41: Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company are eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

**(a) Equity interests in related parties**

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 39 to the financial statements.

**(b) Key management personnel remuneration**

Details of key management personnel compensation are disclosed in note 7 to the financial statements.

**(c) Key management personnel equity holdings**

Fully paid ordinary shares issued by Australian Vintage Ltd and held by key management personnel are as follows:

	BALANCE @ 1/7/13 No.	GRANTED AS REMUNERATION No.	RECEIVED ON EXERCISE OF OPTIONS No.	NET OTHER CHANGE No.	BALANCE @ 30/6/14 No.	BALANCE HELD NOMINALLY No.
<b>2014</b>						
Ian D Ferrier	650,159	-	-	390,097	1,040,256	-
Brian J McGuigan	308,670	-	-	178,602	487,272	-
Perry R Gunner	265,670	-	-	252,042	517,712	-
Richard H Davis	-	-	-	110,000	110,000	-
Neil McGuigan	150,000	-	-	220,000	370,000	-
Michael Noack	2,043	-	-	72,398	74,441	-
Flora Saris	30,000	-	-	-	30,000	-
	<b>1,406,542</b>	<b>-</b>	<b>-</b>	<b>1,223,139</b>	<b>2,629,681</b>	<b>-</b>

	BALANCE @ 1/7/12 No.	GRANTED AS REMUNERATION No.	RECEIVED ON EXERCISE OF OPTIONS No.	NET OTHER CHANGE No.	BALANCE @ 30/6/13 No.	BALANCE HELD NOMINALLY No.
<b>2013</b>						
Ian D Ferrier	618,044	-	-	32,115	650,159	-
Brian J McGuigan	308,670	-	-	-	308,670	-
Perry R Gunner	265,670	-	-	-	265,670	-
Neil McGuigan	150,000	-	-	-	150,000	-
Michael Noack	2,043	-	-	-	2,043	-
Flora Saris	30,000	-	-	-	30,000	-
	<b>1,374,427</b>	<b>-</b>	<b>-</b>	<b>32,115</b>	<b>1,406,542</b>	<b>-</b>

## Note 4I: Related party transactions (continued)

## (c) Key management personnel equity holdings (continued)

## Performance Rights

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

	BAL. @ 1/7/13 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	OTHER CHANGE No.	BAL. @ 30/6/14 No.	BAL. VESTED @ 30/6/14 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
<b>2014</b>									
Neil McGuigan	395,257	257,003	-	-	652,260	-	-	-	-
Michael Noack	158,103	128,502	-	-	286,605	-	-	-	-
Cameron Ferguson	197,628	128,502	-	-	326,130	-	-	-	-
Flora Sarris	158,103	102,801	-	-	260,904	-	-	-	-
Julian Dyer	-	128,502	-	-	128,502	-	-	-	-
	<b>909,091</b>	<b>745,310</b>	-	-	<b>1,654,401</b>	-	-	-	-

	BAL. @ 1/7/12 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	OTHER CHANGE No.	BAL. @ 30/6/13 No.	BAL. VESTED @ 30/6/13 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
<b>2013</b>									
Neil McGuigan	-	395,257	-	-	395,257	-	-	-	-
Michael Noack	-	158,103	-	-	158,103	-	-	-	-
Cameron Ferguson	-	197,628	-	-	197,628	-	-	-	-
Flora Sarris	-	158,103	-	-	158,103	-	-	-	-
Julian Dyer	-	-	-	-	-	-	-	-	-
	-	<b>909,091</b>	-	-	<b>909,091</b>	-	-	-	-

All performance rights 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.

Each executive performance right converts into 1 ordinary share of Australian Vintage Ltd on vesting date if performance objectives have been met. During the financial year, no performance rights were exercised by key management personnel.

## Share options

Share options issued by Australian Vintage Ltd and held by key management personnel at 30th June 2013 (Nil at 30th June 2014) are as follows:

	BAL. @ 1/7/12 No.	GRANTED AS REMUNERATION No.	EXERCISED No.	OTHER CHANGE No.	BAL. @ 30/6/13 No.	BAL. VESTED @ 30/6/13 No.	VESTED BUT NOT EXERCIS- ABLE No.	VESTED AND EXERCIS- ABLE No.	OPTIONS VESTED DURING THE YEAR No.
<b>2013</b>									
Neil McGuigan	86,420	-	-	(86,420)	-	-	-	-	-
Paul Schaafsma (i)	49,383	-	-	(49,383)	-	-	-	-	-
Michael Noack	49,383	-	-	(49,383)	-	-	-	-	-
Cameron Ferguson	49,383	-	-	(49,383)	-	-	-	-	-
Flora Sarris	-	-	-	-	-	-	-	-	-
Julian Dyer (ii)	-	-	-	-	-	-	-	-	-
	<b>234,569</b>	-	-	<b>(234,569)</b>	-	-	-	-	-

(i) Resigned 21st August 2012

(ii) Appointed 3rd September 2012

All share options granted to key management personnel during the financial year were made in accordance with the provisions of the Australian Vintage Ltd Executive Option Acquisition Plan.

All ordinary shares issued to the directors during the financial year were made in accordance with the provisions of the non-executive directors' share scheme. These shares were issued as bonus shares as part of compensation under the non-executive director share scheme.



## Note 4I: Related party transactions (continued)

## (d) Other transactions with key management personnel

	CONSOLIDATED	
	2014 \$	2013 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
<b>Revenue</b>	35,660	66,137
Consolidated profit includes the following expenses arising with key management personnel of the Group or their related parties:		
<b>Cost of goods sold</b>	502,962	492,572
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel:		
Current	-	-
Allowance for doubtful receivables	-	-
Non-current	-	-

- (i) During the year the company entered into the following transactions with entities associated with Brian McGuigan:
- (a) The company purchased grapes from Australian Horticultural Management Pty Limited ("AHM") to the value of \$140,710 (2013 : \$142,430) on normal commercial terms. A balance of \$93,564 (2013 : \$94,696) is owed by the company at 30 June 2014.
  - (b) In the prior year, the company sold bottled wine to AHM to the value of \$20,975 (2014 : Nil) on normal commercial terms.
  - (c) In the prior year, the company sold bulk wine to AHM to the value of \$16,498 (2014 : Nil) on normal commercial terms.
  - (d) In the prior year, the company sold bottled wine to Premier Wines 4 Pty Ltd to the value of \$10,356 (2014 : Nil) on commercial terms.
  - (e) McGuigan Nominees Pty Ltd holds a minority interest in an entity which received \$300,710 (2013: \$284,385) from the company for fruit, paid \$22,046 (2013: \$15,614) to the company for the contract processing of fruit to wine and received \$59,442 (2013 : \$65,757) from the company for the sale of bulk wine. All transactions were on the same terms and conditions as other investors in that project.
- (ii) During the year the company entered into the following transactions with Woodnibs Pty Ltd and HVV Management Pty Ltd (entities associated with Neil McGuigan):
- (a) The company sold concentrate to the value of \$2,800 (2013 : \$2,694) on normal commercial terms.
  - (b) The company sold grape skins to the value of \$2,564 (2013 : Nil) on normal commercial terms.
  - (c) The company charged rent to the value of \$8,250 (2013 : Nil) on normal commercial terms.
  - (d) The company paid for vineyard services to the value of \$2,100 (2013 : Nil) on normal commercial terms.
- (e) **Parent Entity**  
The ultimate parent company in the wholly-owned group is Australian Vintage Ltd.

## Note 42: 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	
	2014	2013
	\$'000	\$'000
Cash	4,202	995

**(b) Financing Facilities**

Unsecured bank overdraft facility, reviewed annually and payable at call:

Amount Used	-	-
Amount Unused	5,000	5,000
	5,000	5,000

Reducing lease facility:

Amount Used	3,661	5,841
Amount Unused	-	-
	3,661	5,841

Unsecured revolving lease facility:

Amount Used	273	-
Amount Unused	77	250
	350	250

Bank Guarantee / Surrender facility:

Amount Used	1,543	1,351
Amount Unused	1,107	1,399
	2,650	2,750

Corporate purchasing card facility:

Amount Used	8	216
Amount Unused	492	284
	500	500

Cash advance facility:

Amount Used	111,000	135,700
Amount Unused	4,000	12,000
	115,000	147,700

Total facility

	127,161	162,041
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**(c) Non-cash financing and investing activities / businesses acquired**

During the half-year reporting period Australian Vintage Ltd issued 99,541,745 ordinary shares (2013 : Nil) for \$40,111 thousand net of issue costs (2013 : Nil).

There were no shares issued to Directors as remuneration for the year ending 30th June 2014 (2013 : Nil).

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 the achievement of set growth rates in earnings per share over a 4 year period. During the half-year reporting period 1,156,514 (2013 : 1,383,400) options were issued. These rights had a fair value at grant date of \$0.38 per option (2013 : \$0.27 per option). There were no other share options issued or exercised during the reporting period (2013 : Nil).

During the financial year the company did not issue any shares (2013 : 726,945 for \$363,000) under its Dividend Reinvestment Plan.

There were no other movements in ordinary share capital or issued capital in the current or prior period.

## Note 42: Notes to the cash flow statement (continued)

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

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
Profit from ordinary activities after income tax	10,544	7,070
Depreciation and amortisation of non-current assets	7,074	7,070
(Profit) / Loss on sale of non-current assets	(178)	32
Bad and doubtful debts	97	(181)
Interest on finance leases	528	661
Share option costs expensed	-	81
Impairment of water licences	-	901
<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	(8,025)	4,115
Inventories	(19,644)	(19,732)
Other current assets	(184)	589
Prepaid interest	(368)	1,325
Deferred tax assets	188	2,835
<b>Increase / (decrease) in liabilities</b>		
Current trade and other payables	7,977	(3,899)
Provisions	(5,850)	(5,748)
Deferred tax liabilities	3,718	541
Other	487	6
<b>Net cash provided by/(used in) operating activities</b>	<b>(3,636)</b>	<b>(4,334)</b>

## Note 43: 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 2013.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 23 and 27, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 32, 33 and 34 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.

Based on recommendations of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year end was as follows:

**Financial assets**

Debt (i)	115,955	143,053
Cash and cash equivalents (net of bank overdraft)	(4,202)	(995)
Net Debt	111,753	142,058
Equity (ii)	288,237	240,899
Net debt to equity ratio	39%	59%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 23 and 27.

(ii) Equity includes all capital and reserves.

## Note 43: Financial instruments (continued)

## (a) Capital risk management (continued)

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.

**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

	CONSOLIDATED	
	2014 \$'000	2013 \$'000
<b>Financial assets</b>		
Available for sale	59	59
Loans and receivables	41,698	35,613
Cash and cash equivalents	4,202	995
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	1,213	1,989
Carried at amortised cost	156,951	176,072

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 company's and the Groups maximum exposure to credit risk for such loans and receivables.

## (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 31) and interest rates (refer note 43 (f)). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- foreign exchange forward contracts 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
US dollars	-	92	559	88
GB pounds	7,664	1,105	10,394	4,135
Euro	-	-	816	693
Canadian Dollars	-	-	1,174	757



## Note 43: Financial instruments (continued)

## (e) Foreign currency risk management (continued)

## Foreign currency sensitivity analysis

The Group is exposed to US dollars (USD), GB pounds, EURO's 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.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. 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.

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	
	2014 \$'000	2013 \$'000
<b>Increase (Deterioration) in foreign exchange rate by 10%</b>		
Profit or loss – GBP Impact	(145)	(192)
Profit or loss – USD Impact	(1)	6
Profit or loss – EURO Impact	(52)	(47)
Profit or loss – CAD Impact	(75)	(48)
<b>Decrease (Improvement) in foreign exchange rate by 10%</b>		
Profit or loss – GBP Impact	178	236
Profit or loss – USD Impact	1	(7)
Profit or loss – EURO Impact	63	58
Profit or loss – CAD Impact	91	59

## Forward foreign exchange contracts – note 31

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments. The Group also enters into forward 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 30th June 2014) coverage of highly probable sales and 0-50% (5% covered at 30th June 2014) 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 United States. 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.

As at reporting date the aggregate amount of unrealised profits under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on anticipated future transactions is \$695 thousand loss before tax (2013: profit of \$439 thousand before tax). It is anticipated that the sales will take place in the next financial year at which stage the amount deferred in equity will be released in profit or loss.

OUTSTANDING CONTRACTS	YEAR END EXCHANGE RATE		FOREIGN CURRENCY FC '000		NOTIONAL VALUE \$'000		FAIR VALUE \$'000	
	30/06/14	30/06/13	30/06/14	30/06/13	30/06/14	30/06/13	30/06/14	30/06/13
<b>Cash flow hedges</b>								
<i>Buy Euro</i>								
Less than 3 months	0.6879	0.7028	200	600	295	816	3	(15)
3 to 6 months			440	1,100	653	1,530	6	(45)
6 to 9 months			200	600	306	818	(36)	(25)
9 to 12 months			200	500	310	714	(66)	(30)
<i>Buy GB Pounds</i>								
Less than 3 months	0.5505	0.6011	2,000	3,500	3,463	5,888	(180)	(171)
3 to 6 months			3,000	2,000	5,197	3,286	(300)	(200)
6 to 9 months			1,000	2,500	1,587	4,077	(72)	(187)
9 to 12 months			1,500	1,000	2,662	1,730	(141)	(50)

## Note 43: Financial instruments (continued)

## (f) Interest rate risk management

The company and the Group are 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 company policy requires fixed interest cover on 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 \$244,000 (2013: increase / decrease by \$313,000). 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 and the Company had four (2013 : four) interest rate swap agreements with a notional amount of \$95 million (2013: \$100 million), as follows:

EXPIRY DATE	CURRENCY	AMOUNT	RATE	PAY	RECEIVE
				ROLLOVER FREQUENCY	RATE
26-Nov-14	AUD	\$ 25,000,000	2.87%	Monthly	AUD-BBR-BBSY
03-Sep-15	AUD	\$ 25,000,000	3.40%	Quarterly	AUD-BBR-BBSY
18-Jan-16	AUD	\$ 20,000,000	2.98%	Monthly	AUD-BBR-BBSY
		<u>\$ 70,000,000</u>			
26-Nov-15 (i)	AUD	\$ 25,000,000	3.00%	Monthly	AUD-BBR-BBSY

(i) Commences 26th November 2014.

The swaps in place cover 60% (2013: 66%) of the total borrowings as at 30 June 2014. It is anticipated that the coverage will be above 70% over the next financial year based on expected average debt levels.

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

**Cash flow hedges**

	AVERAGE CONTRACTED FIXED INTEREST RATE		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2014 %	2013 %	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Outstanding floating for fixed contracts						
Less than 1 year	2.87	4.75	25,000	75,000	(21)	(659)
1 -2 years	3.13	-	70,000	-	(405)	-
2 – 5 years	-	3.40	-	25,000	-	(257)

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 simultaneously 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.

## Note 43: 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 look to obtain 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.

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.

The table below shows the balance of 4 major counterparties at the end of the reporting period:

COUNTERPARTY	LOCATION	30/06/14	30/06/13
		CARRYING AMOUNT	CARRYING AMOUNT
		\$'000	\$'000
International supermarkets	United Kingdom	2,995	4,205
Australian supermarkets	Australia	11,079	8,212

Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

- granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
- entering into derivative contracts for example, foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the reporting date will equal the carrying amount;

**(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 Company/Group has at its disposal to further reduce liquidity risk.

The following table details the Group's and Company'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:

CONSOLIDATED	WEIGHTED AVERAGE INTEREST RATE	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000
<b>2014</b>						
Non-interest bearing assets	-	10,368	21,181	10,368	-	-
Non-interest bearing liabilities	-	17,454	23,759	209	-	-
Finance Lease liability	8.84	-	630	1,975	1,905	-
Floating interest rate liabilities	5.05	173	345	1,553	41,000	-
Fixed interest rate liabilities	5.28	316	632	2,864	71,558	-
Fixed interest rate assets	-	-	-	-	-	-
Financial Guarantees	-	-	-	1,543	-	-
<b>2013</b>						
Non-interest bearing assets	-	8,312	17,269	8,312	-	-
Non-interest bearing liabilities	-	14,154	18,868	606	308	-
Finance Lease liability	9.02	-	556	1,120	4,864	-
Floating interest rate liabilities	6.76	201	402	1,810	35,700	-
Fixed interest rate liabilities	7.73	504	1,009	2,305	102,129	-
Fixed interest rate assets	10.25	14	91	1,927	-	-
Financial Guarantees	-	-	-	1,351	-	-

## Note 43: Financial instruments (continued)

## (h) Liquidity risk management (continued)

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.

The Group has access to financing facilities of which \$10.7 million were unused at the end of the reporting period (2013: \$18.9 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>2014</b>					
Net settled:					
Interest rate swaps	-	-	21	405	-
Net settled:					
Foreign currency forward and option contracts	-	83	635	69	-
	<b>316</b>	<b>715</b>	<b>3,499</b>	<b>1,627</b>	<b>-</b>
<b>2013</b>					
Net settled:					
Interest rate swaps	2	-	657	257	-
Net settled:					
Foreign currency forward and option contracts	110	76	482	405	-
	<b>614</b>	<b>1,085</b>	<b>2,787</b>	<b>2,534</b>	<b>-</b>

## (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.

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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.

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.

The financial statements include holdings in unlisted shares which are measured at cost as there are no publically available market prices.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

## Note 43: Financial instruments (continued)

## (i) Fair value of financial instruments (continued)

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).

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets at FVTPL</b>				
Derivative financial assets – 30 June 2014	-	-	-	-
Derivative financial assets – 30 June 2013	-	-	-	-
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities – 30 June 2014	-	1,213	-	1,213
Derivative financial liabilities – 30 June 2013	-	-	-	-

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. 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 30/6/14 \$ 000	FAIR VALUE AS AT 30/6/13 \$ 000	FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
1) Foreign currency forward contracts and foreign currency options.	Liabilities \$787	Liabilities \$1,073	Level 2	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.	N/A	N/A
2) Interest rate swaps	Liabilities \$426	Liabilities \$916	Level 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.	N/A	N/A

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**

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

### Note 44: Events after the reporting period

On the 24th July 2014, the company signed a binding heads of agreement with 1847 (SA) Pty Ltd (1847) for the sale of its Yaldara Winery and Yaldara brand for \$15.5M. Settlement which is subject to 1847 obtaining a liquor licence for the winery, is expected to occur in November or December 2014.

In respect of the financial year ended 30 June 2014, a final dividend of 2.2 cents per share was declared on 27th August 2014 and will be paid on 19th November 2014.

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 45: Parent Entity Disclosures

	CONSOLIDATED	
45.1 Financial Position	2014 \$'000	2013 \$'000
<b>Assets</b>		
Current assets	231,554	196,440
Non-current assets	244,821	240,914
Total assets	476,375	437,354
<b>Liabilities</b>		
Current liabilities	47,981	40,310
Non-current liabilities	186,866	191,610
Total liabilities	234,847	231,920
<b>Net Assets</b>	<b>241,528</b>	<b>205,434</b>
<b>Equity</b>		
Issued Capital	443,266	403,155
Accumulated Losses	(202,374)	(198,273)
<b>Reserves</b>		
Equity settled employee benefits	1,497	1,578
Hedging	(784)	(949)
Foreign currency translation	(77)	(77)
Total reserves	636	552
<b>Total equity</b>	<b>241,528</b>	<b>205,434</b>

	CONSOLIDATED	
45.2 Financial Performance	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Profit / (Loss) for the year	(650)	1,348
Other comprehensive income / (Loss)	164	(84)
Total comprehensive income	(486)	1,264

	CONSOLIDATED	
45.3 Guarantees entered into by parent entity	2014 \$'000	2013 \$'000
Guarantee provided under the deed of cross guarantee (i)	11,459	9,982
(i) The parent entity has entered into a deed of cross guarantee with subsidiaries as indicated in note 39.		

45.4 Contingent liabilities of the parent entity	Nil	Nil
<b>45.5 Capital Commitments of the parent entity</b>		
Plant and Equipment		
Not longer than 1 year	-	83

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**Chief Financial Officer**

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