AUSTRALIAN VINTAGE LTD

DECEMBER 2013 HALF YEAR RESULTS

26th February 2014

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TOP LINE RESULT

Top Line Results

Earnings

- Net profit after tax of $4.0 million compared to $3.3 million prior year
- EBIT of $11.3 million compared to $11.9 million last year. Contribution from all segments up other than North America bulk and Vineyards

Top Line Results (cont.)

Sales

- Total revenue down 4% to $104.8 million due mainly to reduced bulk wine sales to North America and UK/Europe
- Australasia / North America packaged sales up 8% to $45.8 million with Australian bottled sales up 15%. Cask sales declined by 15%
- Total branded business continues to grow with increased sales of McGuigan brand. Our principle brand, McGuigan Black Label, sales in Australia increased by 29%

Debt

- Net debt of $106.4 million compared to $136.5 million at December 2012
- Gearing (net debt to equity) at 38% compared to 58% as at December 2012

First Half Highlights

- The Australasia / North America segment contribution increased by 11% to $4.0 million due to a significant increase in the sales of McGuigan branded product. McGuigan Black Label sales are up 29% in Australia
- The Cellar Door segment improved contribution by 75% to $0.6 million on the back of increased investment and reduced running costs
- The UK/Europe segment contribution was marginally up on last year against an industry that has seen volumes fall by some 7%. Favourable exchange rates and the continued focus on brands were the main contributors to the result
- Gearing reduced from 58% to 38% due to the $39.5 million (net) capital raising finalised in October 2013. Bank facility extended to October 2015
- AVL strategies remain unchanged
  - Grow the export business
  - Increase branded sales
  - Focus on cost control

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MARKET CONDITIONS

Market Conditions

Global conditions remain challenging:-

1. After a long period of buoyancy, total UK wine consumption declined by 7%. Government taxes have increased resulting in the UK and Ireland now having the highest wine duty rates in Europe (Rabobank Wine quarterly – QF 2013).

2. Recent duty increases in Ireland have resulted in wine sales dropping by up to 10% (Irish Independent 24th December 2013).

3. The US produced large vintages in 2013 and 2012 but recent drought conditions are causing some concern on the size of the upcoming 2014 vintage.

4. Wine inventories in Europe have rebounded as both Italy and Spain have had significant vintages in 2013. Spain's production was up by almost 40% compared to the previous year. France bucked the trend with another below average vintage.

5. The Australian dollar has weakened against USD and the GBP. This has helped margins and will provide for more sales opportunities in the future.

Market Conditions (cont.)

Australian Wine Industry

1. The 2013 vintage at 1.8 million tonnes was higher than expected and more than the industry can sell. (source: Australian Bureau of Statistics)
2. The extraction rates from the 2013 vintage were significantly lower than the previous year and resulted in a similar amount of wine made in 2013 as in 2012 (1.6 million tonnes). The Australian Bureau of Statistics in their report on the Australian Wine and Grape Industry, 2012-13 stated that 1,246 million litres of wine was produced in 2013 compared to 1,236 million litres in 2012. That is a difference of only 10 million litres.
3. Total domestic market wine sales has remained relatively flat at 532.8 million litres. Sales of Australian wine was 453.9 million litres with the balance of 78.9 million litres representing imported wine.
4. In the year ended 31 December 2013, Australian wine exports declined by 43 million litres to 768.3 million litres. A reduction of 43 million litres is equivalent to approximately 60,000 tonnes of grapes.
5. Export sales to the 2 key export destinations of UK and US decreased by 7% (18ml) and 11% (21ml) respectively.
6. Of the top 10 destinations for Australian wine, only Canada and Russia had increased volumes.
7. Early signs are that the 2014 vintage will be very challenging. Severe frost affected a number of grape growing regions in October last year and a number of regions are now experiencing extreme heat. Both these factors will impact yield.

Australian Vintage Limited – Business & Results Summary

1. Branded Sales

During the 6 month period to December 2013, sales of the McGuigan brand grew by 23% in the domestic market partially offset by a 9% decline in the UK/Europe market.

The McGuigan Brand continues to be well received in the UK market and currently stands as the 6th biggest selling still wine in that market. (The Grocer 21 December 2013 – The Grocer's Top products Survey 2013).

The Tempus Two brand continued its growth in the domestic and export market. Total sales increased by 16% during the 6 month period.

Nepenthe sales declined by 9% as a result of focus shifting to the higher priced Altitude range.

2. Australasia / North America Packaged

This segment provided a contribution of $4.0 million compared to $3.6 million in the prior period.

The significant increase in McGuigan branded sales in the domestic market was the main contributing factor in the improved result.

The contribution from the Asian division was down on last year by 10%. Sales were down by 3% and the average selling price was also down.

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Australian Vintage Limited – Business & Results Summary (cont.)

3. UK / Europe

This segment contributed $2.8 million compared to $2.7 million in the prior period.

Total sales were down by $5.6 million to $46.0 million due to a significant decrease in lower margin bulk wine sales and sales into Ireland.

Total wine sales in Ireland have decreased by up to 10% as increased government tax and duties have increased the price of wine and absorbed some of the margin. AVL sales into Ireland declined by 32% but our average selling price increased marginally and we remain one of the biggest selling brands in Ireland. The improved FX mitigated the reduced performance in Ireland.

Our brands continue to perform well and we are now looking at expanding our distribution in the UK.

4. Other Segments

Cellar Door contribution increased by $0.3 million or 75%. The increase was due to increased sales from improved sales mix and tighter cost control.

Australasia / North America bulk and processing contribution declined by $1.8 million due to reduced bulk sales to United States as a result of the large 2012 and 2013 vintages in the US.

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Australian Vintage Limited – Business & Results Summary (cont.)

5. Financial Position

In October 2013 we finalised our $42 million capital raising. As advised, the net proceeds of $39.5 million was used to repay our debt down.

The gearing (debt to equity) as at 31 December is 38% compared to 58% 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 September 2015 at lower margins.

Operating cash flow for the 6 month period to 31 December 2013 was positive $0.6 million compared to negative $2.7 million for the previous corresponding period. Cash generated from operations (excluding interest) was positive $6.3 million compared to $2.0 million. This is an improvement of $4.3 million.

Results Summary ($'000)

	6 months to		Change	
	31/12/13	31/12/12	$'000	%
Australasia / North America Packaged	3,998	3,593	405	11
UK / Europe	2,792	2,733	59	2
Cellar Door	611	350	261	75
Australasia / North America bulk and processing	(337)	1,402	(1,739)	(124)
Vineyards	94	250	(156)	(62)
Total	**7,158**	**8,328**	**(1,170)**	**(14)**
Finance costs	(5,534)	(7,002)	1,468	(21)
Interest received	134	180	(46)	(26)
Profit Before Tax	1,758	1,506	252	(17)
Tax	(598)	(391)	(207)	53
Net Profit	**1,160**	**1,115**	**45**	**4**
Impairment of water licences	-	(901)		
Adjustment to provision for onerous contracts *(note)*	4,106	4,423		
Tax	(1,232)	(1,327)		
Total impairment and provision for onerous contracts adjustments	**2,874**	**2,195**	**679**	**31**
Total Net Profit	**4,034**	**3,310**	**724**	**22**
EBIT before impairment and provision for onerous contracts adjustment	7,158	8,328	(1,170)	(14)
EBIT after impairment and provision for onerous contracts adjustment	11,264	11,850	(586)	(5)

Note: Due to the expected improved margins from favourable FX movements and an increase in branded sales, some contracts were no longer considered onerous and consequently $4.1 million was written back to profit.

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Outlook

Industry

Global industry conditions remain challenging but there are signs that in the long term global supply and demand are heading towards balance.

Weakening AUD against GBP, USD and EURO are expected to improve margins. The weakening AUD will also create profitable opportunities at different price points.

The 2013 Australian vintage was in excess of demand and this will create a short term oversupply. However, the impact of the higher vintage is lower than expected due to the poorer than average 2013 extraction rates.

The upcoming 2014 vintage appears to be challenging as a result of frost, some disease and significant heat.

Australian Vintage Limited

Quality reputation of our brands continues to grow.

We remain optimistic about our business.

We continue to face short term challenges in some of our export markets.

The Australasian / North American segment performance is encouraging with stronger than expected demand.

The 2014 vintage has started and there are signs that the frost, disease and heat will impact on vineyard yields. It is too early to predict total crop levels at this time. As per usual, a vintage and trading update will be provided at the completion of vintage.

We remain confident that our 2014 result will be significantly better than last year and in line with market expectation. Vintage conditions are likely to negatively affect SGARA, but we believe this will be offset by the favourable adjustment to the provision for onerous contracts.

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