# AUSTRALIAN VINTAGE LTD

**HALF-YEAR REPORT**
**FOR THE HALF-YEAR ENDED**
**31 DECEMBER 2018**

**(ACN: 052 179 932 ASX REFERENCE: AVG)**

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| REVENUE AND NET PROFIT/LOSS | *PERCENTAGE CHANGE %* | *AMOUNT $'000* |
|---|---|---|
| Total operating revenue | up 8.1% | 143,064 |
| Net profit after tax | up 46.3% | 6,486 |

| **Dividends (cents)** | **Amount per security** | **Franked amount per security** |
|---|---|---|
| Interim dividend | - | - |
| Previous corresponding period | - | - |

| **Other information** | **As at 31/12/18** | **As at 31/12/17** |
|---|---|---|
| Net tangible asset per security | $0.77 per share | $0.73 per share |

# Directors' Report

The directors of Australian Vintage Ltd submit herewith the financial report of Australian Vintage Ltd and it's subsidiaries for the half-year ended 31 December 2018. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half-year are:

***NAME***

Richard H. Davis
Neil McGuigan
John D. Davies
Naseema Sparks
Peter Perrin
Jiang Yuan

***REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS***

**Key Points**

- Net Profit after tax $6.5 million compared to $4.4 million in the prior period
- Revenue up 8% to $143.1 million with branded sales up 14%
- Cash Flow from Operating Activities positive $10.9 million compared to $11.0 million in prior period

The ongoing improvement in our branded sales has contributed to the 46% growth in our half year result, again reinforcing that our strategies are correct. The McGuigan brand continues to perform exceptionally well in the UK with sales up 16% when compared to the prior period. McGuigan remains the third largest global wine brand in the UK.

The contribution from our UK/Europe operations increased by $1.7 million to $6.4 million due mainly to increased sales of the McGuigan brand and improved distribution and mix.

Even though the UK remains our largest overseas market, we continue to have a strong focus on growing and strengthening our distribution channels in the key Australian market and overseas markets of Asia, United States and Canada. In the 6-month period to December 2018, sales into Asia have increased by 51%, reinforcing our long-term strategy for this region. Whilst the contribution from the Asian division remains relatively small when compared to other segments of our business, it is showing good growth. As we have previously stated, we remain confident that the long-term outlook for sales into Asia looks positive, but we must manage this growth appropriately in terms of pricing and depletions.

Our three core brands continue to perform well with sales of McGuigan, Tempus Two and Nepenthe all in growth. For the half year, sales of these three core brands increased by 14% with the McGuigan brand growing by 15%, Tempus Two by 4% and Nepenthe by 3%.

Our cash flow from operating activities continues to be significantly positive and for the half year it was $10.9 million, in line with 31 December 2017. Our capital spend for the half year was $10.9 million with a further $8.6 million planned for the remainder of this financial year.

This year's vintage is underway and early indications are that the recent extreme heat and dry conditions have negatively impacted yields across most grape growing regions. Together with the frost that occurred on some of our vineyards in October last year, we are expecting that our vineyard yields will be at least 10% below expectation. This will impact our SGARA (Self Generating and Regenerating Assets) income for this financial year. With regard to our wine supply base to meet our growing sales, we had already taken steps earlier in the year to ensure we have enough wine by entering into bulk wine supply contracts and through the long-term lease agreement on the 10,000 tonne Millewa vineyard.

**Sales**

Revenue for the half year increased 8% or $10.7 million due to increased sales of our branded products in both the Australasia/North America and UK/Europe segments.

Australasia/North America packaged sales were up 10% on the prior period with bottled branded sales up 11% and cask sales up 2% -

| | Sales ($000) | |
|---|---|---|
| | **6 months to December 2018** | **6 months to December 2017** |
| Australia | 42,795 | 40,236 |
| Asia | 7,948 | 5,278 |
| New Zealand/North America | 7,039 | 7,253 |
| Australasia/North America | 57,782 | 52,767 |

- Australian sales increased by 6% with bottled branded sales up 8% and cask sales up 2%. Sales of McGuigan increased by 13% and the higher margin brand, Nepenthe, increased by 6%. Tempus Two increased by 3% on the back of promotional phasing with strong expectations following significant growth in the prior period.
- Sales to Asia increased by 51% due to a significant increase in sales to our major distributor in China. McGuigan sales increased by 47% while Nepenthe and Tempus sales also increased but from a lower base.
- New Zealand sales increased by 16% with all the growth coming from the McGuigan brand.
- North American sales have decreased by 14% on the back of significant growth in prior periods.

UK/Europe sales were up 16% with packaged sales up 16% or $8.5 million and bulk sales up 6% from a very low base. McGuigan is now the second largest global wine in the UK by volume and continues to grow in supermarkets and convenience channels.

Australasia/North America bulk & processing sales decreased due to reduced lower margin bulk wine sales.

**Sales By Segment**

| | **6 Months to** | | **Change** | |
|---|---|---|---|---|
| | **31/12/18 $000** | **31/12/17 $000** | **Variation $000** | **%** |
| Australasia/North America Packaged | 57,782 | 52,767 | 5,015 | 10 |
| UK/Europe | 62,487 | 53,929 | 8,558 | 16 |
| Cellar Door | 5,168 | 5,959 | (791) | (13) |
| Australasia/North America bulk & processing | 14,371 | 16,643 | (2,272) | (14) |
| Vineyards | 3,256 | 3,045 | 211 | 7 |
| | **143,064** | **132,343** | **10,721** | **8** |
| Split of UK/Europe revenue | | | | |
| UK/Europe Packaged | 62,225 | 53,682 | 8,543 | 16 |
| UK/Europe Bulk and Private Label | 262 | 247 | 15 | 6 |

*Note: Sales for the 6 months to December 2017 have been adjusted to comply with the new Revenue Recognition Accounting Standard – AASB15 (refer ASX half year accounts).*

**EBIT and Net Profit**

Even allowing for increased wine costs from the 2017 and 2018 vintages, EBIT increased by $2.5 million or 27% to $11.8 million. The UK/Europe segment contributing 67% of the increased EBIT due to the ongoing improved sales mix through the expansion of the McGuigan Black Label brand and the added focus on growing our sales footprint in all channels. The GBP currency movement had no material impact on EBIT when compared to the prior period.

Australasia / North America Packaged EBIT increased by 3% due mainly to an 85% increase in the contribution from the Asian division. The Australian, NZ and North America divisions all achieved an EBIT slightly below last year due to higher marketing costs and higher wine costs -

| | **EBIT ($000)** | |
|---|---|---|
| | **6 months to December 2018** | **6 months to December 2017** |
| Australia | 3,219 | 3,512 |
| Asia | 1,198 | 647 |
| New Zealand/North America | 843 | 938 |
| Australasia/North America | 5,260 | 5,097 |

Cellar Door EBIT reduced due to increased competition in the Hunter Valley region.

Australasia/North America bulk contribution increased due to decreased loss making bulk wine sales.

Vineyard EBIT increased by $0.6m due to the termination of an onerous vineyard lease after the 2018 vintage. However, SGARA (Self Generating and Regenerating Assets) income is still materially below expectation due to frost and the extreme weather conditions.

Finance costs were below last year due to lower average borrowing levels.

| **Profit** | **6 Months to 31/12/18 $'000** | **6 Months to 31/12/17 $'000** | **Change $'000** | **Change %** |
|---|---|---|---|---|
| Australasia / North America Packaged | 5,260 | 5,097 | 163 | 3 |
| UK / Europe | 6,366 | 4,669 | 1,697 | 36 |
| Cellar Door | 810 | 1,010 | (200) | (20) |
| Australasia / North America bulk and processing | (81) | (386) | 305 | 79 |
| Vineyards | (508) | (1,091) | 583 | 53 |
| **EBIT** | **11,847** | **9,299** | **2,548** | **27** |
| Finance costs | (2,076) | (2,900) | 824 | 28 |
| Interest received | 38 | 11 | 27 | 245 |
| Profit Before Tax | 9,809 | 6,410 | 3,399 | 53 |
| Tax | (3,323) | (1,977) | (1,346) | (68) |
| **Net Profit (after tax)** | **6,486** | **4,433** | **2,053** | **46** |

**Financial Position**

Operating cash flow of $10.9 million was basically in line with the December 2017 cash flow and the net debt increased slightly by $2.5 million compared to June 2018. Compared to December 2017, net debt decreased by $3.3 million.

The gearing ratio remains at a comfortable 27% (26% as at 30 June 2018).

**Outlook**

Australian Vintage continues its transformation from a bulk wine company to a quality respected branded wine business. The transformation is supported by the fact that our three key brands, McGuigan, Tempus Two and Nepenthe, have grown by 64% over the last five financial years. As evidenced by our six month result to December 2018, this transformation is continuing and gathering pace.

The December 2018 result was pleasing with Net Profit after tax up 46%. However, this result was hindered by the lower than expected forecast yields from our vineyards in 2019.

As reported at the November 2018 AGM, there was frost in some grape growing regions which will result in a lower than expected yield from our vineyards. The combined impact of this frost plus the recent extreme weather is expected to impact our full year SGARA result by $3.0 million to $5.0 million (before tax) against expectation.

The UK/Europe segment has performed very well with sales up 16%. This sales trend has continued in January 2019 and we remain cautiously optimistic that improved UK sales will continue after Brexit.

After a number of years establishing our distribution in Asia, we are now seeing sustainable sales growth from our major partner in China.

Our trading result continues to be very strong. However, the impact of reduced yields will significantly impact our second half result. Assuming the GBP remains at around 0.55 and taking into account the uncertainty of vintage conditions, we expect our 2019 result to be up by 5% and 15% on the 2018 result.

As in previous years, no interim dividend will be paid.

***INDEPENDENCE DECLARATION BY AUDITOR***

The auditor's independence declaration is included on page 6.

***ROUNDING OFF OF AMOUNTS***

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Report) Instrument 2016/191, dated 24 March 2016, in accordance with that Corporations Instrument amounts in the directors' report and the half-year financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the Directors

| | |
|---|---|
| Richard Davis | Neil McGuigan |
| Chairman | Chief Executive Officer |

Sydney, 27th February 2019

Deloitte.

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27 February 2019

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

Dear Board Members

**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 review of the financial statements of Australian Vintage Ltd for the half-year ended 31 December 2018, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P J Woods
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of Australian Vintage Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2018, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-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 end of the half-year or from time to time during the half-year as set out on pages 10 to 21.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Australian Vintage Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, 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 review report.

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*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Vintage Ltd is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

PJWoods

P J Woods
Partner
Chartered Accountants
Adelaide, 27 February 2019

## 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; and

(b) 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 a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors

| | |
|---|---|
| Richard Davis<br>Chairman | Neil McGuigan<br>Chief Executive Officer |

Sydney, 27th February 2019

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half-Year Ended 31st December 2018

| | CONSOLIDATED | |
|---|---|---|
| | Half-Year Ended 31/12/18 $'000 | Half-Year Ended 31/12/17 (Restated) $'000 |
| Revenue | 143,064 | 132,343 |
| Cost of sales | (102,724) | (96,016) |
| Gross Profit | 40,340 | 36,327 |
| | | |
| Fair value of grapes | (770) | (1,222) |
| Other gains and losses | 383 | 386 |
| Interest received | 38 | 11 |
| Distribution expenses | (7,664) | (7,153) |
| Sales and marketing expenses | (16,484) | (15,028) |
| Administration expenses | (4,110) | (3,591) |
| Gain / (loss) on foreign exchange | 125 | (497) |
| Finance costs | (2,076) | (2,900) |
| Gain on sale of other property, plant and equipment | 27 | 77 |
| **Profit before income tax** | **9,809** | **6,410** |
| Income tax expense | (3,323) | (1,977) |
| **Net Profit for the period** | **6,486** | **4,433** |
| | | |
| **Other comprehensive loss, net of income tax:** | | |
| | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Net gain / (loss) on hedging | 110 | (294) |
| Exchange differences arising on translation of foreign operations | 25 | 76 |
| **Other comprehensive income / (loss) for the period, net of income tax** | **135** | **(218)** |
| **Total comprehensive income for the period** | **6,621** | **4,215** |

**Earnings per share:**

| | | |
|---|---|---|
| Basic (cents per share) | 2.3 | 1.6 |
| Diluted (cents per share) | 2.3 | 1.5 |

Notes to the financial statements are included on pages 15 to 21.

# Australian Vintage Ltd

## Condensed Consolidated Statement of Financial Position as at 31st December 2018

| | Note | CONSOLIDATED 31/12/18 $'000 | 30/6/18 $'000 |
|---|---|---|---|
| ***Current Assets*** | | | |
| Cash and cash equivalents | | 9,388 | 7,712 |
| Trade and other receivables | | 50,825 | 45,526 |
| Inventories | | 136,156 | 139,882 |
| Other | | 2,711 | 2,020 |
| ***Total Current Assets*** | | ***199,080*** | ***195,140*** |
| ***Non-Current Assets*** | | | |
| Other financial assets | | 329 | 362 |
| Property, plant and equipment | | 116,398 | 109,095 |
| Inventories | | 31,914 | 52,164 |
| Goodwill | | 37,685 | 37,685 |
| Deferred tax assets | | 30,233 | 33,597 |
| Water Licences | | 7,554 | 7,554 |
| Other Intangible assets | | 4,952 | 5,179 |
| ***Total Non-Current Assets*** | | ***229,065*** | ***245,636*** |
| ***Total Assets*** | | ***428,145*** | ***440,776*** |
| ***Current Liabilities*** | | | |
| Trade and other payables | | 35,096 | 55,523 |
| Borrowings | 6 | 457 | 503 |
| Other financial liabilities | | 220 | 477 |
| Provisions | | 5,513 | 5,539 |
| Other | | 383 | 596 |
| ***Total Current Liabilities*** | | ***41,669*** | ***62,638*** |
| ***Non-Current Liabilities*** | | | |
| Borrowings | 6 | 88,704 | 84,435 |
| Other financial liabilities | | 11 | 15 |
| Provisions | | 740 | 795 |
| ***Total Non-Current Liabilities*** | | ***89,455*** | ***85,245*** |
| ***Total Liabilities*** | | ***131,124*** | ***147,883*** |
| ***Net Assets*** | | ***297,021*** | ***292,893*** |
| ***Equity*** | | | |
| Issued capital | | 465,490 | 463,961 |
| Reserves | | 2,270 | 1,989 |
| Accumulated losses | | (170,739) | (173,057) |
| ***Total Equity*** | | ***297,021*** | ***292,893*** |

# Condensed Consolidated Statement of Cash Flows for the Half-Year Ended 31st December 2018

| | Inflows/(Outflows) Half-Year Ended 31/12/18 $'000 | Half-Year Ended 31/12/17 $'000 |
|---|---|---|
| ***Cash Flows from Operating Activities*** | | |
| Receipts from customers | 144,522 | 147,235 |
| Payments to suppliers and employees | (131,729) | (133,544) |
| Cash generated from operations | 12,793 | 13,691 |
| | | |
| Interest and other costs of finance paid | (1,893) | (2,665) |
| Interest received | 38 | 11 |
| Net cash provided by operating activities | 10,938 | 11,037 |
| | | |
| ***Cash Flows from Investing Activities*** | | |
| Payment for property, plant and equipment | (10,867) | (9,616) |
| Proceeds from sale of property, plant and equipment | 29 | 174 |
| Net cash used in investing activities | (10,838) | (9,442) |
| | | |
| ***Cash Flows from Financing Activities*** | | |
| Share issue costs | (21) | (46) |
| Dividends paid | (2,624) | (1,772) |
| Net proceeds from borrowings | 4,221 | 4,780 |
| Net cash provided by financing activities | 1,576 | 2,962 |
| | | |
| ***Net increase in cash and cash equivalents*** | ***1,676*** | ***4,557*** |
| | | |
| ***Cash and cash equivalents at the beginning of the period*** | ***7,712*** | ***2,616*** |
| ***Cash and cash equivalents at the end of the period*** | ***9,388*** | ***7,173*** |

# Condensed Consolidated Statement of Changes in Equity for the Half-Year Ended 31st December 2018

| | Share capital $'000 | Equity-settled employee benefits reserve $'000 | Hedging reserve $'000 | Foreign currency translation reserve $'000 | Accum – ulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2018** | **463,961** | **1,978** | **(208)** | **219** | **(173,057)** | **292,893** |
| Profit for the period | - | - | - | - | 6,486 | 6,486 |
| Exchange differences arising on translation of foreign operations | - | - | - | 36 | - | 36 |
| Valuation of foreign exchange hedges | - | - | 218 | - | - | 218 |
| Valuation of interest rate swaps | - | - | (61) | - | - | (61) |
| Income tax relating to components of other comprehensive income | - | - | (47) | (11) | - | (58) |
| **Total comprehensive income for the period** | **-** | **-** | **110** | **25** | **6,486** | **6,621** |
| Dividends paid | - | - | - | - | (4,168) | (4,168) |
| Issue of shares | 1,544 | - | - | - | - | 1,544 |
| Share issue costs | (15) | - | - | - | - | (15) |
| Recognition of share based payments | - | 146 | - | - | - | 146 |
| **Balance at 31 December 2018** | **465,490** | **2,124** | **(98)** | **244** | **(170,739)** | **297,021** |

# Condensed Consolidated Statement of Changes in Equity for the Half-Year Ended 31st December 2018

| | Share capital $'000 | Equity-settled employee benefits reserve $'000 | Hedging reserve $'000 | Foreign currency translation reserve $'000 | Accum – ulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2017** | **463,009** | **1,698** | **46** | **85** | **(177,995)** | **286,843** |
| Profit for the period | - | - | - | - | 4,433 | 4,433 |
| Exchange differences arising on translation of foreign operations | - | - | - | 108 | - | 108 |
| Valuation of foreign exchange hedges | - | - | 98 | - | - | 98 |
| Valuation of interest rate swaps | - | - | (518) | - | - | (518) |
| Income tax relating to components of other comprehensive income | - | - | 126 | (32) | - | 94 |
| **Total comprehensive income for the period** | **-** | **-** | **(294)** | **76** | **4,433** | **4,215** |
| Dividend paid | - | - | - | - | (2,756) | (2,756) |
| Issue of shares | 984 | - | - | - | - | 984 |
| Share Issue Costs | (32) | - | - | - | - | (32) |
| Recognition of share based payments | - | 103 | - | - | - | 103 |
| **Balance at 31 December 2017** | **463,961** | **1,801** | **(248)** | **161** | **(176,318)** | **289,357** |

Notes to the financial statements are included on pages 15 to 21.

## 1. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134 ‘Interim Financial Reporting’. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

**Basis of preparation**

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors’ Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors’ report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company’s 2018 annual financial report for the financial year ended 30 June 2018, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**New accounting standards and interpretations**

Since 30 June 2018 we have adopted the following new and amended accounting standards.

| Standard/Interpretation | Effective from |
|---|---|
| AASB 9 ‘Financial Instruments’ and the related amending standards | 1 July 2018 |
| AASB 15 ‘Revenue from Contracts with Customers’ and relating amending standards | 1 July 2018 |

***AASB 9 ‘Financial Instruments’ and related amending standards***

AASB 9 was applied from 1 July 2018. The transition provisions of AASB9 allow an entity to not restate comparatives.

In relation to the impairment of financial assets, AASB 9 required an expected credit loss model, as opposed to an incurred credit loss model. The expected credit loss model requires an entity to account for expected lifetime and 12-month expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The main impact on the company is the re-assessment of the provision for doubtful debts based on previous bad debt history and consideration of providing for a proportion of all trade debts due, including those within payment terms. The impact was not material.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Hedge accounting*

The new hedge accounting requirements adopted from 1 July 2018 align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items. The Group's current hedging relationships qualified as continuing hedging relationships upon application of AASB 9.

The adoption of AASB 9 has not had a material impact on amounts reported in respect of the Group's financial assets and financial liabilities, but will require additional disclosures with respect to financial instruments and the company's risk management policies which will be disclosed in the Group's consolidated full year financial statements.

***AASB 15 Revenue from Contracts with Customers and related amending standards***

AASB 15 was applied from 1 July 2018 in accordance with the retrospective transition approach. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Accordingly, the new revenue standard requires that consideration payable, such as some rebates, be accounted for as a reduction of the transaction price. This would result in a proportion of rebates being classified out of cost of sales and as a reduction in revenue.

The company has restated it's prior year results which is summarised in the table below:

| | 31 December 2017 $ 000 | Impact (a) $ 000 | 31 December 2017 Restated $000 |
|---|---|---|---|
| Consolidated statement of profit or loss and other comprehensive income (extract) | | | |
| | | | |
| Revenue | 140,941 | (8,598) | 132,343 |
| Cost of sales | (104,614) | 8,598 | (96,016) |

(a) Impact of rebate accounted for as a reduction in the transaction value.

The application of AASB15 has had no impact on basic and diluted earnings per share.

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Issued but not yet effective accounting standards**

The following relevant accounting standards have recently been issued or amended but are not yet effective and have not been adopted for this half year reporting period.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 16 'Leases' | 1 January 2019 | 30 June 2020 |

**Impact of New and Revised Requirements**

AASB 16 'Leases'

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

The new standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.

The accounting model will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the outstanding lease payments. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

The classification of cash flows will also be affected as operating lease payments are currently presented as operating cash flows; whereas under the new standard, the lease payments will be split into principal and interest which will be presented as financing and operating cash flows.

AASB 16 applies to annual periods beginning on or after 1 January 2019 so this would first relate to the half year ending 31 December 2019 and the full year ending 30 June 2020.

A preliminary assessment of the groups operating leases indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases and any other leases contained within contracts upon the application of AASB 16.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements.

The company is in the process of reviewing all existing lease agreements and will adopt the standard using a "Modified Retrospective Approach" for vineyard leases and the "Prospective Approach" for all other leases as allowed in the transitional provisions of the standard.

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impact of New and Revised Requirements (Continued)**

Preliminary calculations indicate the standard could have the following impact on the Group's consolidated financial statements:

Balance Sheet (estimate at 1 July 2019):

- Recognition of Right to Use asset of approximately $40 million to $45 million and Lease Liability of approximately $46 million to $52 million based on current committed leases at balance date
- Reduction in opening Retained Earnings of approximately $7 million to $8 million after tax
- Reduction in Inventory of approximately $3.2 million to $3.8 million
- Increase in Deferred Tax Assets of $3.0 million to $3.5 million

Ongoing Profit and Loss impacts (approximates per annum for the financial year ending 30 June 2020):

- Lease expense (operating item), with the majority recorded in inventory/cost of sales as a large proportion relates to lease payments on leased vineyards, replaced with depreciation/amortisation and interest.
- EBITDA increases by approximately $7.0 million to $8.0 million
- Depreciation/amortisation increases by approximately $4.7 million to $5.2 million
- Interest expense increases by approximately $3.4 million to $3.8 million

### 2. SUBSEQUENT EVENTS

There have been no matters or circumstances, other than that referred to in the financial statements or notes thereto, that have arisen since the end of the half-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.

### 3. CONTINGENT ASSETS & LIABILITIES

There have been no material changes in contingent assets and liabilities from those disclosed at 30 June 2018.

### 4. ISSUANCES OF SECURITIES

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. There were no options issued during the half year (2017 : 4,100,000). There were no other share options issued or exercised during the half-year reporting period (2017: Nil).

Australian Vintage Ltd issued 2,869,300 shares during the half year (2017: 2,270,450) under its Dividend Re-investment Plan. The balance of the dividend was paid in cash. There were no shares issued (2017: Nil) to Directors as remuneration for the half-year ending 31 December 2018.

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

**5. DIVIDENDS**

During the period, Australian Vintage Ltd made the following dividend payments:

| | Date dividend paid / payable | Amount per security (cents) | Franking % |
|---|---|---|---|
| Final dividend – year ended 30 June 2018 | 9th November 2018 | 1.5 | 100% |
| Final dividend – year ended 30 June 2017 | 10th November 2017 | 1.0 | 100% |

**6. BORROWINGS**

The Group's debt facility with the National Australia Bank expires in September 2020. The company is subject to various commercial covenants.

**7. SEGMENT INFORMATION**

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Company's Chief Executive Officer for the purpose of resource allocation and assessment of performance is specifically focused on the nature and location of the supply. The Company's reportable segments under AASB 8 are therefore as follows:

- Australasia / North America Packaged
  - supplies branded and private label packaged wine within Australia, New Zealand, Asia and North America through retail and wholesale channels.
- UK / Europe
  - supplies branded and private label packaged wine 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.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Company's accounting policies.

The revenue reported represents revenue generated from external customers. There were no intersegment sales during the period.

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, legal fees on vineyard lease dispute, 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.

## 7. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Company's revenue, results by reportable operating segment for the period under review:

| | Consolidated Half-Year Ended 31/12/18 $'000 | Consolidated Half-Year Ended 31/12/17 $'000 (Restated) |
|---|---|---|
| **Segment revenue** | | |
| Australasia / North America packaged | 57,782 | 52,767 |
| UK / Europe | 62,487 | 53,929 |
| Cellar door | 5,168 | 5,959 |
| Australasia / North America bulk wine and processing | 14,371 | 16,643 |
| Vineyards | 3,256 | 3,045 |
| **Total segment revenue** | **143,064** | **132,343** |
| | | |
| **Segment profit** | | |
| Australasia / North America packaged | 5,260 | 5,097 |
| UK / Europe | 6,366 | 4,669 |
| Cellar door | 810 | 1,010 |
| Australasia / North America bulk wine and processing | (81) | (386) |
| Vineyards | (508) | (1,091) |
| **Total of all segments** | **11,847** | **9,299** |
| | | |
| Finance costs | (2,076) | (2,900) |
| Interest received | 38 | 11 |
| Profit before income tax expense | 9,809 | 6,410 |
| Income tax expense | (3,323) | (1,977) |
| **Profit for the period** | **6,486** | **4,433** |

### 8. FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

#### *8.1 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 31/12/18 $ 000 | Fair value as at 30/6/18 $ 000 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| A) Forward exchange contracts | Liabilities $23 | Liabilities $391 | Level 2 | (1) | N/A | N/A |
| B) Foreign currency options | Liabilities $93 | Liabilities $94 | Level 2 | (1) | N/A | N/A |
| C) Interest rate swaps | Liabilities $69 | Liabilities $7 | Level 2 | (2) | N/A | N/A |

(1) 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.
(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.

There were no items relating to Levels 1 and 3 in the period or the prior period.

#### *8.2 Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)*

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

### 9. KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report.