AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

23 February 2023

AVG 4D and Financial Statements 31 December 2022

Australian Vintage Limited (ASX: AVG) has today released its financial results for the half year ended 31 December 2022. Attached to this announcement are the Appendix 4D and half year financial statements.

For the purpose of ASX Listing Rule 15.5, Australian Vintage Limited confirms that this document has been authorised for release by the Board.

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AUSTRALIAN VINTAGE LTD
ACN 052 179 932

Appendix 4D
For the half-year ended 31 December 2022 (listing rule 4.2)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory financial metrics **(All comparisons to half-year ended 31 December 2021)**		**Movement %**	**Amount** **$'000**
Total operating revenue	*Down*	*0.6%*	*137,130*
Net profit	*Up*	*29.0%*	*12,905*

Other financial metrics			
Net profit before SGARA	*Up*	*52.4%*	*16,718*
SGARA (net of tax)			*(3,813)*
Net profit			*12,905*

Dividend information	**Date dividend paid / payable**	**Amount per security ¢**	**Amount franked at 30% tax rate**
Interim dividend – half-year ended 31 December 2022	n/a	nil	n/a
Final dividend – year ended 30 June 2022	16 December 2022	3.4	60%
Interim dividend – half-year ended 31 December 2021	n/a	nil	n/a

	2022 **$**	**2021** **$**
Net tangible assets per security ^	0.97	0.88

^ ***note:*** *net tangible assets used in the net tangible assets per security calculation for includes right-of-use assets and lease liabilities.*

Additional Appendix 4D disclosure requirements can be found in the Financial Report that follows which contains the Director's Report and the 31 December 2022 half-year Financial Statements and accompanying notes.

Australian Vintage Ltd

Directors' Report

The directors of Australian Vintage Ltd submit herewith the financial report of Australian Vintage Ltd and its subsidiaries for the half-year ended 31 December 2022.

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

Richard H. Davis
Craig Garvin
John D. Davies
Naseema Sparks
Peter Perrin

PRINCIPAL ACTIVITIES
The Group's principal activities in the course of the period were the production, marketing and sales of wine.

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

Key financial highlights:

- Reported NPAT 29% higher than prior year at $12.9 million
- Reported EBITDAS 17% higher than prior year at $28.3 million
- Net debt $53.1 million (1.1 times net debt/ rolling EBITDAS), gearing at 17%, NTA 0.97 per share, and rolling ROCE 7.4%
- Overall market share gains for AVG
- Price taken in all key geographies, supported by incremental marketing spend of $2 million
- Significant inflationary costs of $11 million incurred as outlined at the AGM
- Sale and leaseback of commercial vineyards Coldridge and Grande Junction completed generating $14.7 million in ATAX profit, as advised in December 2022
- SGARA loss of $3.8 million ATAX (prior year $0.9 million) as a result of flooding. Yield on owned and leased vineyards down 5% vs region estimates to be down 30-50%
- ESG strategy well advanced
- No interim dividend declared

The current period result is in line with our expectations. We have continued to grow market share. We have taken price in all key geographies despite the challenging global environment and the increased competition in Zero in ANZ. Our premiumisation strategy is working with Tempus Two, Nepenthe and the Barossa Valley Wine Company increasing by 2%, 22% and 4% respectively, whilst McGuigan has declined by 11%, in line with post Covid declines and our expectations.

Total revenue of $137.1 million has remained consistent with the revenue achieved last year. Our pillar brand contribution to revenue at 77% is consistent with the prior year. As announced previously, gross margin is being impacted by high inflationary pressures, notably sea freight, delivering a margin of 29%. Normalising for inflationary pressures and gross margin would have been 35%.

AVG is known for its global innovation and being leaders in the no-and-low wine category. We are continuing to invest in our portfolio growth in line with our strategic plan resulting in an incremental marketing spend of $2.2 million over last year. This is generating a strong and exciting innovation pipeline positioning us well for FY24. Existing innovation is delivering with the drinks business contributing positively to our bottom line in its first year. In addition, a range of Not Guilty zero-alcohol drinks is about to hit the global stage which our customers are very excited about, especially in the UK, with the imminent ABV tax. Core to our strategic intent is being a global business where AVG will continue to invest in brands, despite inflationary pressures. Complimentary acquisitions are core to our strategic growth.

The sale and leaseback of our commercial vineyards Coldridge and Grande Junction, delivering $56.4 million in revenue, $14.7 million in after tax profit, and reducing our net debt to $53.1 million (net debt/ rolling EBITDAS of 1.1 times) provides balance sheet surety. This transaction has increased our net tangible assets per share to $0.97, highlighting the conservative nature of our balance sheet.

Our ESG strategy is well advanced with social and environmental impact now creating a balanced approach to planning and reporting of the business strategy. Key highlights include our premium owned vineyards being certified with Sustainable Winegrowing Australia, the business undertaking a packaging review to meet APCO 2025 packaging targets, and AVG being recognised and accredited as a Mental Health First Aid Skilled Workplace. Our employee engagement is top quartile and we're promoting responsible enjoyment through a DrinkWise campaign in line with our leadership in no-and-low.

We are on track to deliver to our guidance provided at the AGM to return an EBITS in line with FY22, subject to FX, agricultural risk and planned asset sales.

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS (CONTINUED)

PERFORMANCE BY SEGMENT

UK, Europe and Americas

Despite industry wide supply chain issues post-Brexit, the UK continues to grow market share by 2 percentage points. Price increases were successfully implemented however were not enough to offset inflationary pressures. We maintain our leadership in the no-and-low category where we grew market share by 44 percentage points. McGuigan Zero continues to be the number one alcohol free still wine brand in the UK. We are well positioned for the introduction of the ABV tax in August with our release of a new range of McGuigan Mid and a brand new zero-alcohol range, called Not Guilty, hitting shelves in the second half.

The lead up to year end has been unusual in that retailers have not stocked up on inventory as in prior years which has led to a higher-than-expected inventory position. To this end an active inventory reduction program is underway to reduce our holdings in the UK.

Ireland has been a stand-out performance for McGuigan with growth in overall market share of 19 percentage points.

Canada continues to be a growth market for AVG brands and in conjunction with our long-standing partnerships, we have generated growth of 9 percentage points over the prior period.

Australia and New Zealand

Australia has held market share despite the pressure from increased competition in the no-and-low category. We have successfully taken price in line with the long-term strategic direction. Growth was driven by our premiumisation strategy with Nepenthe +21%, Tempus Two +4%, Barossa Valley Wine Company +2%, offsetting an expected post Covid decline in McGuigan of -25%.

The direct-to-consumer (DTC) division, which was impacted by Covid related closures in the prior year, have delivered growth of +25%. The upgrade of the iconic Adelaide Hills Nepenthe cellar door is nearing completion and expected to be finalised by the end of March 2023.

Austflavor

In line with our strategic plan, and the focus on this important business, revenues have improved by 40% over the prior comparative period. This has been delivered utilising our long-term partnerships in Australia, Japan and North America.

AVG's focus on this high margin business as a strategic growth priority will continue.

Asia

Market share growth within the Asia segment was flat. The premiumisation identified through the strategic market reset, offset the reduction in non-core products previously sold in this market. With the continued focus on our core markets of Taiwan, Malaysia and Singapore and the improved product range we look forward to continued growth in this market. From our pillar brand perspective, increases were seen in Tempus Two +79% and Barossa Valley Wine Company +44%, offsetting declines in McGuigan of -31%.

There are some encouraging signs in China with a potential easing of the trade restrictions. AVG have adopted a be-ready position and are actively working with COFCO, our importer, to pursue potential opportunities when trade re-commences.

Vineyards

The sale and leaseback of commercial vineyards Coldridge & Grande Junction to Warakirri Asset Management completed on December 19, 2022, with 90% of the $62.5 million in proceeds received. The residual 10%, associated with the transfer of NSW water rights, is expected to be received in the first half of the 2023 calendar year. The sale was for ~1,300ha of land and ~3,700ML of water where AVG will continue to manage, operate and offtake from the vineyards. The lease term is for 10 + 10 years at market rates with the intent to work collaboratively to further develop the vineyards, thereby increasing yield. The proceeds received have been used to pay down debt and underpins the execution of the strategic plan.

The sale proceeds received were more than double the value on the balance sheet delivering $14.7 million ATAX profit, reducing debt and increasing Net Tangible Asset per share to $0.97 per share.

As reported in the Australian media there have been severe floods throughout the Murray region on the back of extensive and prolific rainfall across the east coast. Estimates across the region suggest yields will be impacted by 30-50% over the prior year which should rebalance wine over supply and maintain higher prices for the growers. Our owned and leased vineyards are estimated to have been impacted by 5% over last year's yield resulting in a SGARA loss of $3.8 million ATAX. Actual yields will be assessed over vintage.

FINANCIAL POSITION

Total sales revenue of $137.1 million is flat with the prior year. Gross margin has been impacted by inflationary pressures, notably from increased sea freight, delivering a gross margin for the half of 29%, 6 percentage points lower than last year. Normalising gross margin for sea freight would have delivered a gross margin 6 percentage points higher.

Reported EBITDAS of $28.3 million, an increase of 17% over the prior year, reflects an EBITDAS margin of 20.6%, an increase of 3 percentage points over the prior year.

Reported NPATS of $16.8 million, an increase of 52% over the prior year, is driven primarily by the sale and leaseback of Coldridge & Grande Junction and the utilisation of carry forward tax losses absorbing majority of the potential capital gains tax.

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS (CONTINUED)

FINANCIAL POSITION *(CONTINUED)*

Reported NPAT of $12.9 million is $2.9 million higher than the prior year impacted by the sale and leaseback of Coldridge & Grande Junction offsetting the inflationary pressures absorbed, and partially offsetting by the SGARA loss driven by flood impacted yields.

Inventory was strategically increased in FY22 to partially mitigate the impact of freight disruption on our global supply chain from Brexit. This has been further impacted by inflationary pressures and costs. Inventory has declined by $9.8 million from the June 2022 position which is nett of increased inflationary costs of $3.1 million. Normalising for the inflationary costs in inventory and the decrease in inventory would have been $12.9 million. An active inventory reduction program is underway to reduce inventory in the second half and free up working capital.

Cash flow from operating activities prior to inflationary costs and changes in working capital of $16.2 million, including an incremental $2.2 million in marketing, was in line with last year. When inflationary costs are included, as well as payments for our growers (70% of grower payments are paid in the second half of a calendar year) our operating cash flow reduced to -$18.5 million. After considering the revenue received from the asset sales our total cash flow from activities prior to debt movements was $21.4 million, $60.4 million higher than the prior year.

Balance sheet strength, with net debt at $53.1 million, net debt/ rolling EBITDAS of 1.1 times, gearing of 17% and leverage at 15%, positions AVG well to take advantage of disruptive market opportunities and luxury acquisition opportunities as they arise.

ROCE on a rolling basis was 7.4%, consistent with the mid 7% returns over the last couple of years during peak Covid returns.

OUTLOOK

Our strategic plan is on track with increased marketing spend implemented to drive pillar brand market share, launch new innovative products, and enable AVG to take price across all key geographies where most competitors are holding price.

Softer trading conditions are expected to continue, driven by hyper-inflation, ongoing interest rate increases, aggressive Australian export behaviour arising from red wine surplus, and increase competition in the no-and-low segments in Australia. AVG will continue to lead the no-and-low wine category and is excited by the innovation that is being released setting us up well for FY24.

AVG is also well positioned in the UK in anticipation of the introduction of the ABV tax in August. With our world leading technology, coupled with our position as market leaders in the no-and-low segment, we are working with our retailers on the opportunity this presents. New ranges of products are being released in the second half specifically designed with this opportunity in mind.

As stated above we are seeing encouraging signs and confidence in China re-opening. By adopting a be ready position we will be able to maximise our opportunity in this market with our key distributor COFCO.

Global hyper-inflation continues to place pressure on input costs in all markets. However, inflationary pressures are starting to ease setting us up well for FY24. AVG is working on reducing inventory to improve operating cash flow in the second half through lower shipping to the UK which we expect to couple with lower sea freight prices.

A further cost out strategy is underway.

The company maintains its guidance outlined at the AGM with EBITS to be in line with the prior year, subject to FX, agricultural risk and planned asset sales.

INDEPENDENCE DECLARATION BY AUDITOR

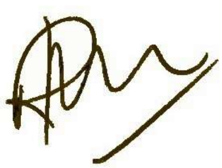
The auditor's independence declaration is included on page 5.

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
Chairman

Craig Garvin
Chief Executive Officer

23 February 2023

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Auditor's Independence Declaration to the Directors of Australian Vintage Limited

As lead auditor for the review of the half-year financial report of Australian Vintage Limited for the half-year ended 31 December 2022, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
b) No contraventions of any applicable code of professional conduct in relation to the review; and
c) No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Vintage Limited and the entities it controlled during the financial period.

Ernst & Young

Mark Phelps
Partner
Adelaide
23 February 2023

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Independent auditor's review report to the members of Australian Vintage Limited

Conclusion

We have reviewed the accompanying half-year financial report of Australian Vintage Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities 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 responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Group's financial position as at 31 December 2022 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*.

Building a better
working world

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.

Ernst & Young

Mark Phelps
Partner
Adelaide
23 February 2023

Australian Vintage Ltd

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
Chairman

Craig Garvin
Chief Executive Officer

23 February 2023

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2022

	NOTE	2022 $'000	2021 $'000
Revenue	2	137,130	138,015
Cost of sales		(97,105)	(91,388)
Gross Profit		40,025	46,627
Fair value gain / (loss) on grapes		(5,447)	(1,375)
Other income	2	16,319	669
Distribution expenses		(9,624)	(8,006)
Sales expenses		(12,283)	(11,604)
Marketing expenses		(8,355)	(6,147)
Administration expenses		(5,346)	(4,769)
Finance costs		(2,350)	(1,325)
Profit before income tax		**12,939**	**14,070**
Income tax expense	6	(34)	(4,065)
Net Profit for the period		**12,905**	**10,005**
Other comprehensive loss, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of hedging instruments		(632)	(262)
Exchange differences arising on translation of foreign operations		5	20
Other comprehensive (loss) / income for the period, net of income tax		**(627)**	**(242)**
Total comprehensive income for the period		**12,278**	**9,763**
Earnings per share:			
Basic (cents per share)		5.1	4.0
Diluted (cents per share)		5.1	4.0

The above consolidated statement of profit or loss and other comprehensive income should be read with the accompanying notes.

Consolidated statement of financial position
As at 31 December 2022

	Note	31/12/22 $'000	30/06/22 $'000
Current Assets			
Cash and cash equivalents		6,384	2,548
Trade and other receivables		59,683	44,826
Inventories		176,769	179,822
Other financial assets	5	648	1,595
Total Current Assets		243,484	228,791
Non-Current Assets			
Inventories		35,841	42,621
Other financial assets	5	5,051	5,224
Property, plant and equipment		96,022	114,445
Goodwill and other intangible assets		45,097	51,058
Deferred tax assets		13,243	14,238
Right-of-use assets	7	53,313	41,624
Total Non-Current Assets		248,567	269,210
Total Assets		492,051	498,001
Current Liabilities			
Trade and other payables		42,584	63,210
Income tax payable		98	2,421
Lease liabilities	7	7,577	6,400
Other financial liabilities	5	-	9
Provisions		5,750	6,275
Income received in advance		208	144
Total Current Liabilities		56,217	78,459
Non-Current Liabilities			
Borrowings		59,500	77,000
Lease liabilities	7	72,215	41,970
Provisions		636	719
Total Non-Current Liabilities		132,351	119,689
Total Liabilities		188,568	198,148
Net Assets		303,483	299,853
Equity			
Issued capital		441,474	441,474
Reserves		2,968	3,653
Accumulated losses		(140,959)	(145,274)
Total Equity		303,483	299,853

The above consolidated statement of financial position should be read with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 31 December 2022

	Share capital	Equity – settled employee benefits reserve	Hedging reserve	Foreign currency translation reserve	Accumulated losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2022	**441,474**	**954**	**2,419**	**280**	**(145,274)**	**299,853**
Profit for the period	-	-	-	-	12,905	12,905
Net gain on interest rate swaps	-	-	9	-		9
Net loss on foreign exchange hedges	-	-	(913)	-	-	(913)
Exchange differences arising on translation of foreign operations	-	-	-	8	-	8
Income tax relating to components of other comprehensive income	-	-	271	(2)	-	269
Total comprehensive income for the period	**-**	**-**	**(633)**	**6**	**12,905**	**12,278**
Transactions with owners in their capacity as owners						
Purchase and issuance of treasury shares to employees	-	(331)	-	-	-	(331)
Dividend paid	-	-	-	-	(8,590)	(8,590)
Recognition of share based payments	-	273	-	-	-	273
Balance at 31 December 2022	**441,474**	**896**	**1,786**	**286**	**(140,959)**	**303,483**
Balance at 1 July 2021	**465,490**	**1,883**	**762**	**333**	**(155,786)**	**312,682**
Profit for the period	-	-	-	-	10,005	10,005
Net gain on interest rate swaps	-	-	309	-	-	309
Net gain on foreign exchange hedges	-	-	(684)	-	-	(684)
Exchange differences arising on translation of foreign operations	-	-	-	29	-	29
Income tax relating to components of other comprehensive income	-	-	113	(9)	-	104
Total comprehensive income for the period	**-**	**-**	**(262)**	**20**	**10,005**	**9,763**
Transactions with owners in their capacity as owners						
Purchase and issuance of treasury shares to employees	-	(1,233)	-	-	-	(1,233)
Dividend paid	-	-	-	-	(6,821)	(6,821)
Recognition of share based payments	-	356	-	-	-	356
Capital return, net of transaction costs	(24,016)	-	-	-	-	(24,016)
Balance at 31 December 2021	**441,474**	**1,006**	**500**	**353**	**(152,602)**	**290,731**

The above consolidated statement of changes in equity should be read with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Cash Flows from Operating Activities			
Receipts from customers		132,757	137,822
Payments to suppliers and employees		(146,539)	(135,488)
Cash generated from operations		(13,782)	2,334
Interest paid (commercial bills)		(1,850)	(1,178)
Interest paid (resulting from leases under AASB 16)		(1,828)	(1,989)
Income tax paid		(1,090)	-
Net cash provided by operating activities		(18,550)	(833)
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(6,308)	(5,207)
Payments for intangible assets		-	(618)
Payments for investments held at fair value through profit or loss		-	(200)
Proceeds from sale of property, plant and equipment		58,064	1,824
Net cash provided by / (used in) investing activities		51,756	(4,201)
Cash Flows from Financing Activities			
Return of capital		-	(24,070)
Dividends paid	4	(8,590)	(6,821)
Repayments of lease liabilities		(3,280)	(3,102)
Net (repayments of) / proceeds from borrowings		(17,500)	40,000
Net cash (used in) / provided by financing activities		(29,370)	6,007
Net increase in cash and cash equivalents		3,836	973
Cash and cash equivalents at the beginning of the period		2,548	3,655
Cash and cash equivalents at the end of the period		6,384	4,628

The above consolidated statement of cash flows should be read with the accompanying notes

Notes to the financial statements
For the half-year ended 31 December 2022

Note 1: About this report

General information

Australian Vintage Ltd is a for-profit entity, incorporated and domiciled in Australia and limited by shares which are traded on the Australian Securities Exchange (trading under the ticker code 'AVG'). The interim condensed consolidated financial statements of Australian Vintage Ltd (the 'Company') and its subsidiaries (collectively, the 'Group') for the six months ended 31 December 2022 (herein referred to as the 'half-year financial report') were authorised for issue in accordance with a resolution of the directors on 23 February 2023.

The Group's registered office is 275 Sir Donald Bradman Drive, Cowandilla SA 5033 and its principal activities are wine making, wine marketing, and vineyard management.

Basis of preparation

This general purpose half-year financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. The half-year financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial report for the year ended 30 June 2022.

Accounting policies, significant accounting estimates and judgements

The accounting policies, significant accounting estimates and judgements adopted in the preparation of the half-year financial report are consistent with those followed in the preparation of the Group's annual financial report for the year ended 30 June 2022, except where otherwise noted in the notes that follow for any updated or new accounting policies.

Note 2: Revenue and expenses

Accounting policy - revenue
Revenue is measured based on the consideration to which the group expects to be entitled in a contract with a customer. The group recognises revenue when it transfers control of a product or service to a customer. The transaction price is net of rebates and discounts. Credit terms granted to customers is generally between 30 days and 60 days depending on the customer type and shipping arrangements.

- Sales of wine is the sale of bottled and bulk wine and wine products to wholesale and retail customers. There is one performance obligation associated with the sale of goods, being the delivery of the product to the location specified in the agreement with the customer. Accordingly, revenue is recognised at the point in time at which control of the product is passed from the Group to the customer. This is typically by way of delivery to the customer's warehouse for wholesale customers, or at the point of sale at a cellar door outlet for a retail customer.

Other revenue from contracts with customers is comprised of the following:

- Contract processing involves manufacturing a wine product based on the agreed specifications required by the customer. There is one performance obligation, being the delivery of the completed wine product to the site or location in the agreement with the customer. Accordingly, revenue is recognised at a point in time once control of the completed product has passed to the customer.
- Vineyard services is the development of customer's vineyards. This involves planting vines and installing trellising and irrigation. There is one performance obligation being the provision of vineyard services in line with the agreed budget and timeline over the life of the contract. This obligation is satisfied over time as activities are undertaken. The allocation of the transaction price is determined by the budgeted costs for each period of time that the services are undertaken, which is agreed in advance with the customer.

Any amounts received from customers prior to the performance obligations being completed are recorded as Income received in advance and held in the consolidated statement of financial position, until the relevant performance obligations have been completed in line with the policies above.

	2022	2021
	$'000	$'000
(a) Revenue from contracts with customers		
Sales of wine	136,461	137,066
Other	669	949
	137,130	138,015

Notes to the financial statements
For the half-year ended 31 December 2022

Note 2: Revenue and expenses (continued)

(b)	**Other income**		
	Gain on sale and leaseback of vineyard assets *(see note 7)*	16,143	-
	Wine equalisation tax rebate	175	175
	(Loss) on unrealised foreign exchange	(124)	(21)
	Gain on disposal of property, plant and equipment	64	275
	Other rebates and grants	53	160
	Rental income	35	33
	Interest income	19	17
	Dividend income from investments held at fair value through profit and loss	13	28
	Other (loss) / gain	(59)	2
		16,319	669
(c)	**Specific expenses**		
	Depreciation and amortisation	7,553	7,355

Note 3: Segment information

Accounting policy– segment reporting
Operating segments are determined based on the reporting to the Chief Operating Decision Maker ('CODM'). The Group's CODM, who is responsible for allocating resources and assessing the performance of the Group has been identified as the Chief Executive Officer ('CEO').

- Australia / New Zealand: engaged in the manufacturing, sales and marketing of wine in Australia, New Zealand and the Pacific through wholesale and retail channels.
- UK, Europe & Americas: engaged in the packaging, sales and marketing of wine in the United Kingdom, Europe & the Americas through wholesale, distributor and retail channels.
- Asia: engaged in the sales and marketing of wine in Asia through wholesale channels.

The following table presents revenue and profit information for the Group's operating segments for the six months ended 31 December 2022 and 2021, respectively:

	Revenue		Profit before tax	
	2022	2021	2022	2021
	$'000	$'000	$'000	$'000
Australia / New Zealand	63,171	64,811	4,394	8,828
UK, Europe & Americas	70,181	69,587	22	6,245
Asia	3,778	3,617	163	276
Total	**137,130**	**138,015**	**4,579**	**15,349**
Unallocated corporate expenses				
Gain on sale and leaseback of vineyard assets			16,143	-
Fair value adjustment to grapes due to floods			(5,447)	-
Dividend income and fair value adjustment to investments			13	28
Net interest expense (commercial bills)			(2,153)	(1,046)
Interest expense (AASB 16) ^			(196)	(261)
Profit before tax			**12,939**	**14,070**

^ ***note:*** *net of interest capitalised to inventory under AASB 102*

Notes to the financial statements
For the half-year ended 31 December 2022

Note 3: Segment information (continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers:

For the six months ended 31 December 2022

Segments	Australia / New Zealand	UK, Europe & Americas	Asia	TOTAL
	$'000	$'000	$'000	$'000
Type of goods or service				
Sales of wine	62,502	70,181	3,778	136,461
Other	669	-	-	669
	63,171	70,181	3,778	137,130
Geographical breakdown				
Australia	51,667	-	-	51,667
UK / Europe	-	66,045	-	66,045
New Zealand	2,963	-	-	2,963
Asia	5,712	-	3,778	9,490
North America	2,430	4,136	-	6,567
Other	399	-	-	399
	63,171	70,181	3,778	137,130

For the six months ended 31 December 2021

Segments	Australia / New Zealand	UK, Europe & Americas	Asia	TOTAL
	$'000	$'000	$'000	$'000
Type of goods or service				
Sales of wine	63,862	69,587	3,617	137,066
Other	949	-	-	949
	64,811	69,587	3,617	138,015
Geographical breakdown				
Australia	54,710	-	-	54,710
UK / Europe	-	66,067	-	66,067
New Zealand	4,438	-	-	4,438
Asia	666	-	3,617	4,283
North America	2,080	3,520	-	5,600
Other	2,917	-	-	2,917
	64,811	69,587	3,617	138,015

Notes to the financial statements
For the half-year ended 31 December 2022

Note 4: Dividends

	2022		2021	
	Cents per share	Total $'000	Cents per share	Total $'000
2022 final dividend – 60% franked at a tax rate of 30% (2021: 2021 final dividend - 60% franked at a tax rate of 30%)	3.4	8,590	2.7	6,821

No dividend was declared in respect of the half-year ended 31 December 2022 (2021: nil).

Note 5: Other financial assets and liabilities

	31/12/22 $'000	30/06/22 $'000
Current assets		
Derivative financial instruments – foreign currency forward contracts	648	1,595
	648	1,595
Non-current assets		
Loan receivable	479	463
Investments held at fair value through profit and loss	2,577	2,577
Security deposits	22	211
Prepaid borrowing costs	69	103
Derivative financial instruments – foreign currency forward contracts	1,904	1,870
	5,051	5,224
Current liabilities		
Derivative financial instruments – interest rate swaps	-	9
	-	9

Derivative financial instruments are the Group's only significant financial assets and liabilities that are measured at fair value. Details on the methods used to value the Group's derivative financial instruments are noted below.

Forward Exchange Contracts ('FECs')

FECs are measured using models which utilise inputs such as quoted foreign currency exchange rates, the date of maturity of each contract and foreign currency forward curves. Credit risk on these contracts is considered in the valuation and is generally not material. In the fair value hierarchy referred to in AASB 13, these are Level 2 valuations.

Interest rate swaps

Interest rate swaps are measured using models which utilise inputs such as quoted interest rates, the date of maturity of each contract and interest rate forward curves. Credit risk on these contracts is considered in the valuation and is generally not material. In the fair value hierarchy referred to in AASB 13, these are Level 2 valuations.

Notes to the financial statements
For the half-year ended 31 December 2022

Note 6: Income taxes

Accounting policy – income taxes
Income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. This is calculated based on tax laws enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised for taxable temporary differences. Deferred income tax assets are recognised for deductible temporary Differences, to the extent it is probable there will be sufficient future profits in the Group to utilise them against. 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.

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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the way 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 Group intends to settle its current tax assets and liabilities on a net basis.

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. The members of the tax-consolidated group are identified in note 24.

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 have 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.

Significant accounting estimates and judgement – recognition of income tax losses
The Group 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 Group will have sufficient taxable profit in the foreseeable future and against which the deferred tax assets can be recovered.

The assessment of whether there will be sufficient taxable profit is subject to a level of judgement and if the actual conditions vary to the assumptions adopted, the carrying value of the asset would need to be reassessed.

	31/12/22 $'000	31/12/21 $'000
Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	12,939	14,070
Tax at the Australian Corporate tax rate of 30%	3,882	4,221
Previously unrecognised capital losses now recouped	(3,704)	(107)
Over provision from prior year	(168)	(4)
Other	24	(45)
Total tax expense	34	4,065

Notes to the financial statements
For the half-year ended 31 December 2022

Note 7: Sale and leaseback

Accounting policy – leases
Identification of a lease

AVL enters into leases primarily for vineyards where grapes are sourced for the production of wine, as well as equipment (mostly machinery used on vineyards), fleet vehicles for staff and properties for the Group's corporate and sales offices and a cellar door retail outlet. The Group reviews all relevant arrangements and contracts entered into to determine if it contains a lease. Under AASB 16, a lease exists if the arrangement or contract grants the Group the rights to control the use of an identified asset in exchange for consideration for a specified time period.

Lease recognition exemptions and scope exclusions

The Group applies the short-term lease recognition exemption for any leases that have a lease term of 12 months or less. The Group also applies the low-value asset recognition exemption, for leases of assets that are deemed to be low-value under the rules of AASB 16. In addition, the Group does not apply AASB 16 to leases of intangible assets such as water licenses, as is permitted under the standard. Payments for these exempt and excluded leases are recognised in profit or loss on a straight line basis over the term of the lease.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Amortisation for leases that are related to wineries, production and vineyards is capitalised into inventory and ultimately classified in the Statement of profit or loss and other comprehensive income as a cost of goods sold. Right-of-use assets are subject to impairment assessments under AASB 136 Impairment of Assets (see note 12 for further details).

In the current period, AVL has entered into a partnership with Warakirri Asset Management to sell and leaseback its Coldridge and Grande Junction vineyard assets and associated water entitlements for a total transaction value of $62.5m. Key details of the financial impacts of the transaction are as follows:

- *Transaction completion date:* 19 December 2022
- *Fair value of assets transferred*: $62.5m
- *Term of lease:* 10 years

The transaction satisfies the relevant requirements of AASB 15 *Revenue from contracts with customers* and AASB 16 *Leases* and has resulted in the following balances being recognised on the Group's Consolidated statement of financial position at the completion date of the transaction.

	Take-on balances $'000
Current assets	
Cash	56,437
Other receivables *	6,063
	62,500
Non-current assets	
Right-of-use assets	14,353
Property, plant and equipment	(20,760)
Goodwill and other intangible assets	(5,790)
	(12,197)
Current liabilities	
Lease liabilities	(3,914)
	(3,914)
Non-current liabilities	
Lease liabilities	(30,252)
	(30,252)

** the transfer of funds relating to $6.1m of water entitlements is held in trust as at 31 December 2022 pending customary administrative procedures in the transfer of ownership of NSW water entitlements from the Group to Warakirri Asset Management. This is expected to be completed within 12 months of this reporting date.*

The net impact of the above transactions results in a pre-tax accounting gain on sale and leaseback of the vineyards of $16.1m, which has been recognised in the Group's statement of profit or loss for the period ended 31 December 2022.

Notes to the financial statements
For the half-year ended 31 December 2022

Note 8: Impairment testing

Accounting policy - impairment testing
The Group tests for impairment by determining the recoverable amount of each cash generating unit ('CGU') and compares this to its carrying value. A CGU is the smallest identifiable group of assets that generate independent cashflows.

The Group's Goodwill (which has a carrying value of $37.7m) and other indefinite life intangible assets are allocated in full to the Australia / New Zealand CGU and tested for impairment annually. Other CGUs are tested for impairment when there are triggers present that indicate the carrying value of the assets may not be recoverable. The recoverable amount of each CGU is the higher of it's fair value less costs of disposal and it's value-in-use ('VIU').

The Group calculates VIU by using discounted cash flow calculations. These calculations use profit and loss forecasts from the Group's board approved 5-year plan for a period of 5 years and a terminal value applied to the cashflows. An impairment charge is recorded if the recoverable amount of a CGU is less than the carrying value of the assets of any CGU.

For the period ended 31 December 2022, the Group re-assessed the most recent impairment testing that was undertaken at 30 June 2022. Key assumptions were updated including the discount rate, sales volumes and expenditure levels to reflect market conditions. The updated assumptions were reflected in the cashflows in the VIU calculations to determine the recoverable amounts of the Group's CGUs, Sensitivities have been performed over the updated VIU calculations, with the details noted below:

- Volume growth forecasts can be reduced by a further 4% without impairment being recognised;
- The pre-tax discount rate can be increased by a further 1 percentage point without impairment being recognised; and
- Foreign exchange and agricultural risk are key risk factors in the modelling. Value-in-use models utilise a best estimate for both of these factors to ascertain if an impairment trigger is reached. In the absence of other changes in the supply chain, the exchange rates can move unfavourably by 10% without impairment being recognised.

The result of the re-assessments performed above is that the recoverable amount of the Group's CGUs is higher than the carrying amount and as such no impairment is recorded for the period ended 31 December 2022.

Note 9: Other

Contingent liabilities

	31/12/22 $'000	30/06/22 $'000
Bank guarantees	5,843	3,682

Events after the reporting period

There have been no matters or circumstances, other than those referred to in the half-year report or notes thereto, that have arisen since 31 December 2022, 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.