



AUSTRALIAN VINTAGE LTD

ABN 78 052 179 932

ASX ANNOUNCEMENT

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AUSTRALIAN VINTAGE LIMITED (AVG) INTERIM RESULTS

Sales up 11 per cent in tough markets Legacy costs hamper operational results

Sales	\$ 146.4M
EBIT (before significant items)	\$ 5.7M
NPAT (before significant items)	\$ 0.2M
NPAT (after significant items)	\$(127.8)M
Operating Cash Flow	\$ (12.4M)
Gearing	78%
No interim dividend payable	

Australian Vintage Limited (ASX: AVG) today released its results for the six months ending 31 December 2008.

Key points

- Strong sales growth reflecting strategy of building brands is appropriate
- Strategic review will rebase AVG going forward
- No interim dividend
- Post vintage update in late May / early June
- Facing up to the new reality of the global wine industry

Australian Vintage Ltd today said that total sales for the half year were up 11 per cent. Longstanding vineyard and grape purchase contracts have penalised the company and combined with retailer pressure on margins saw EBIT before tax drop to \$5.7 million from \$10.4 million in the first half of last financial year.

After previously announced unfavourable significant items of \$128 million (after tax), the loss for the six months was \$127.8 million. Pre significant items Australian Vintage Ltd recorded a small profit.

These results should be considered in the context of one of the harshest and most unforgiving six months ever faced by the company. In Australia, the wine industry battled chronic oversupply which was exacerbated by the unpredicted high volume 2008 vintage. Second, the global economic conditions impacted demand, prices and consumer confidence in all key markets as well as the confidence of our suppliers, customers and business partners. The business also had to manage wine and grape production in one of the most unpredictable seasons, coping with ongoing drought and other climatic circumstances.

“The two immediate issues that we had to deal with as a result of these conditions were higher cost inventories and onerous grape supply contracts that have reduced our competitiveness,” Australian Vintage CEO, Dane Hudson said today.

“Regardless of the difficult situation, almost across the board our sales grew, bucking the industry trend that saw Australian wine sales fall by 2% and wine export sales decline 18%.

“While the earnings result is very disappointing our ability to grow sales in a climate where demand for Australian wine and Australian wine exports are down validates our branded and export sales strategy.

“We saw consistent sales growth across our whole Australian business. Australian branded sales were up 5 per cent with the McGuigan label up 20 per cent and we are making very strong inroads into Australia’s major retailers.

“We lifted branded export net sales by 11 per cent against an industry decline of 18 per cent. We are seeing record growth in Asia, the US and Canada and continuing growth in our biggest market, the UK.

“The provision we have taken for onerous vineyard contracts will allow us to fix a major reason for our poor profit performance and low margins,” Mr Hudson said.

He said there were four main reasons for the higher sales not flowing through to the bottom line:

- The high cost of grapes due to long standing grape and vineyard contracts,
- Continued investment in sales and marketing, including larger teams in the UK and US,
- Higher water costs due to drought and
- Some margin squeeze in the United Kingdom and the general oversupply of wine.

“We took a range of costs out of the business in November, we are addressing the legacy issues with contracts and taking other measures to increase margins and improve cashflow. We are cutting capital expenditure by 75%, clearing excess bulk wine and further streamlining the business. These actions are aimed at year-on-year improvement in cash flow of \$25 million over the next 12 months.

Strategic review

“We are disappointed with the interim result,” said acting Chairman, Ian Ferrier. “Given the global economic crisis and overlay, the crippling Australian wine industry issues of drought, oversupply and demand imbalance, Australian Vintage has made solid progress in facing up to the new reality of the global wine industry.”

“A strategic review of the industry and our position in it confirmed our focus on brands, the need for innovation and the necessity to maintain a low cost position.

“It also demonstrated the need to rebase the business and take an impairment charge to reflect the new realities of the economy, our industry and the business. This was painful but it means our balance sheet and business can move forward and is now much more focused on the future and activities that will drive real returns for shareholders.

“There is more work to do with addressing our cost base and providing support to develop our new markets and this is an urgent focus for Australian Vintage.

“The new reality is equally challenging, but through the review we have put ourselves in the best strategic position to return to profitability.

Outlook

“In light of the global economic uncertainty it is hard to make definitive forecasts, but we are budgeting for a small operating profit before significant items in 2008/09,” Mr Hudson said

“Looking ahead, although we do not underestimate the challenges, we believe all the steps we have taken will enhance our position and profit in 2009/10.”

ENDS

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