



**PETER LEHMANN WINES LIMITED**

**2011  
ANNUAL REPORT**

## **PETER LEHMANN WINES LIMITED**

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# GENERAL MANAGER'S REVIEW

## Company Overview

Since the public subscription in 1993 Peter Lehmann Wines has worked assiduously to build the brand in both the domestic and export markets. As our home base the Australian market is particularly important and we have enjoyed considerable success over the years.

However, the market dynamics have changed with the two major retailers exerting substantial influence and making it difficult to work through a distributor business model. Accordingly we have restructured the business operation in Australia to deal direct with the retailers and service the independent and on-premise trade through Four Seasons Fine Wines Pty Ltd, a distributor which did not have a Barossa producer in its portfolio.

One of the concerns we had when changing our route to market was the impact on members of our domestic sales team. Although one person was made redundant we ensured options were made available for consideration.

Considerable uncertainty continues in the global economy with the resources boom fueling the Australian dollar compared with our trading partners. The higher dollar impacts on the profitability of exporters and most commentators predict the Australian dollar will remain strong against the US dollar, euro and pound sterling over the short to medium term.

Consequently total branded sales were down 6% in volume and 8% in value over that of the previous year. These difficult conditions are expected to continue over the medium term.

## Production

Above average rainfall before and during vintage did cause disease problems in some of the independent growers' vineyards.

However, this fruit was not picked and did not enter the winery. The majority of our growers were unaffected and, due to the ideal ripening temperatures we have produced excellent wines.

Despite the challenging conditions, the total crush was 11,380 tonnes (2010: 10,477) with 11,000 tonnes (2010: 10,138) made for our own use.

## Trading during 2010-11

The Australian market conditions continue to remain extremely difficult, with our branded domestic sales down 23% in volume and 20% in value. Over supply, continued market consolidation and the strong presence of New Zealand white wine were major factors negatively influencing the domestic scene.

PLW total branded export sales have been significantly affected by adverse exchange rates, with volume down 1% and value decreasing by 3%. Transactions in foreign currencies are translated at the prevailing exchange rates with profitability put under pressure when the Australian dollar strengthens against the counterpart's currency. These conditions further emphasise the need for the business to seek growth within the domestic market.

Wine surplus to our requirements is sold on the bulk wine spot market and we saw solid movement with sales of \$3.4M (2010: \$3.9M).

We had a good year in the wine show arena with the 2005 Margaret Semillon taking out the "Wine of Show Trophy" at the Sydney Wine Show in February 2011. Our top two white wines – the Wigan Riesling and the Margaret Semillon – continue to receive accolades and it is a powerful endorsement of these great grape varieties.

Over the years we have been awarded many trophies and this is testament to the dedication of the growers in growing top quality fruit, the skill of the winemakers and the loyal support of laboratory technicians, cellar staff and the maintenance team.

Sustainability is a key driver for the business and we are now working towards the better measurement and control of the winery's impact on the environment. The focus is on reducing packaging which goes into the waste stream and lowering the overall weight of wine cases which are transported primarily by road and ship. In addition we are implementing initiatives in the operation of the winery which will eliminate or reduce the use of certain substances which are potentially harmful to the environment.

During the year we were pleased to achieve certification of our Hazard Analysis Critical Control Point (HACCP) program which addresses food safety issues.

### **Strategy and future performance**

We have addressed the issues which we can control and acted to stabilise the business in the Australian market by changing the route to market model for Australia. We are already seeing positive signs that the change is gaining traction in the marketplace.

A major review of the range of wines and packaging was undertaken and we have implemented a focused approach to channel management, disciplined range architecture and differentiation of wines in the portfolio through the label designs. This is the most thorough range review since the labels were changed in 1996.

The one common thread to all the stories is Peter Lehmann himself. It was therefore logical to link the new iconography back to him. This has been achieved with a depiction of his silhouette, which will now feature on labels across the family of wines.

The range has been revised to give each tier a distinct personality in line with the wines. From accessible to icon, the restructured brand tiers are: Art Series, Portrait, Futures, Masters and Stonewell.

It is a very difficult logistical exercise to change labels and other packaging elements across a large range of wines to a number of different markets. Staff have worked extremely hard to implement the changes and it is heartening that we have already received positive comments from the trade, on-premise segment and consumers about the changes.

A recent global wine industry study by Morgan Stanley Research expresses the view that there are signs that oversupply in the Australian wine industry, fuelled by the substantial increase in land planted to vines in the late 1990's, has started to come back into balance.

The land under vine is now 15% below its peak with most planted land now bearing. This will reduce the pressure of over production.

The study also notes that pricing of Australian wine has been below inflation for about 10 years as a result of the oversupply position. The most aggressive domestic discounting seems to have passed and this can only be a good thing for all wine producers and grape growers.

Export markets remain challenging, particularly the USA and UK markets which are the largest importers of Australian wine. They, along with many of the developed countries in Europe, are still struggling to emerge from the global financial crisis. The situation within Europe's financial sector combined with the sovereign debt of some EU countries makes trading extremely difficult and exchange rates volatile so consumers react cautiously.

Although there are opportunities in the emerging markets of Brazil, Russia, India and China growth will be a slow process as per capita wine consumption is much lower than in the established markets, particularly the UK and Europe. Peter Lehmann Wines is selling to the emerging markets and we are achieving incremental growth. The Company is also slowly building sales in Dubai.

After a year at the helm I would like to thank all the directors, staff, growers and other suppliers as well as the customers and consumers who are great supporters of Peter Lehmann Wines. I would particularly like to thank Doug Lehmann who was Managing Director for 20 years. He has been particularly helpful in providing a sounding board as well as being very supportive of changes.

The Company continues to make wines of outstanding quality and with its strong backing and rejuvenation PLW is expected to come through the current difficulties and progress positively.



**JEFF BOND  
GENERAL MANAGER**

**21 October 2011**

## DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Group comprising Peter Lehmann Wines Limited (the Company), and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

### Directors

The Directors of the Company at any time during or since the end of the financial year are:

<b>Name, Qualifications &amp; Special Responsibilities</b>	<b>Age</b>	<b>Experience and other Directorships</b>
Eveline Maria SAUPPER, Dr iur Non-Executive Director Member of the Audit & Remuneration Committees	52	Eveline Saupper is a member of the Hess Family Estates AG Board. She is a member and partner at Homburger AG, a law firm in Zurich, Switzerland. She is a member of the Zurich bar and a qualified tax expert. Appointed to the board on 16 August 2010 and appointed Chairwoman on 25 January 2011.
Douglas McCaig LEHMANN Executive Director until 30 June 2010 Non-Executive Director from 1 July 2010 Member of the Audit & Remuneration Committees	59	Doug Lehmann's formative experience in the wine industry was as a winemaker. Over the last 37 years he has developed skills in wine production, marketing and distribution as well as general management. Managing Director from March 1993 and appointed Deputy Chairman from 1 July 2010.
Donald Mark Conrad HESS Non-Executive Director Member of the Audit & Remuneration Committees	75	Donald Hess is Chairman of the Hess Family Estates AG Board. Inspired by a trip to the Napa Valley he bought his first vineyard and developed the Hess Collection Winery which also houses part of his collection of modern art.  Hess Family Estates has wineries in four continents - Hess Collection Winery in California, Bodega Colomé in Argentina, Glen Carlou in South Africa and the majority holding in Peter Lehmann Wines, Australia. Appointed Director on 4 March 2010.
Robert Lee WILLIAMS, JD, LL.M (Tax) Non-Executive Director Chairman of the Audit Committee Member of the Remuneration Committee	68	Vice Chairman of Hess Family Estates AG Board and a former Ernst & Young International Tax Partner. Appointed to the board on 4 March 2010.
Roger Maxwell WILSON, LLB Non-Executive Director Chairman of the Remuneration Committee and Member of the Audit Committee	70	Roger Wilson has 47 years experience as a practicing solicitor specialising in commercial law. Appointed as a Director in March 1993 and designated as Peter Lehmann's representative in November 2002.
Christoph Jakob EHRBAR, BBus Admin (Marketing) Non-Executive Director Member of the Audit & Remuneration Committees	35	Christoph Ehrbar has built on his finance industry experience in Switzerland and the UK through an active involvement in a property company and management of an Argentinean winery. He was appointed as Managing Director of the Hess Family Estates and appointed to the board on 1 July 2011.

Name, Qualifications & Special Responsibilities	Age	Experience and other Directorships
Martin Robert KRONENBERG Non-Executive Director Member of the Audit & Remuneration Committees	46	Martin Kronenberg was a member of the Hess Family Estates AG Board. Appointed to the board on 12 March 2009 and appointed Chairman of the board on 12 March 2010. Resigned 10 January 2011.
<b>General Manager</b> Jeffrey Brooke BOND, BBus Management (Marketing)	37	Jeff Bond has held senior marketing positions in food and beverage businesses in Australia, Asia and North America. He joined the Company on 12 July 2010.
<b>Company Secretary</b> Barbara Kay CLAPTON, BEd Grad Dip Acc FCA, FCIS	57	Chief Financial Officer & Company Secretary and leads the finance and administration team. Appointed Company Secretary 5 March 1993.

### Corporate governance statement

The board was reconstituted following the takeover in October 2003 with many of the established practices remaining in place. The Company requested removal from the Australian Securities Exchange (ASX) and this came into effect on 12 October 2004.

During 2009 Hess Family Estates AG formulated a strategy of combining the marketing and selling resources for the wine companies under its ownership. The restructuring of the PLW board reflects the greater involvement of the Hess Family Estates AG Directors in overseeing PLW's operations.

Board of Directors & its committees

#### *Role of the board*

The Directors have the overall obligation to act in the best interests of the shareholders and to protect the shareholders' investment. The board's charter is located on the Company's website.

#### *Responsibilities of the board*

The board is responsible for the strategic direction of the business, establishing goals for management and monitoring the achievement of goals directly and through its committees. Responsibility for the operation and administration is delegated to executive management.

#### *Matters considered by the board*

The board charter defines the purpose, responsibilities and operation of the board. Issues of substance affecting PLW are considered by the full board of Directors, with advice from appropriate committees and external advisers as required.

Specific matters reserved for the board

- Review and approval of the business strategies and governance developed by management
- Approval of financial and other reporting
- Review and approval of the operating budget and capital expenditure projects
- Monitoring the financial performance and capital management of the business
- Reviewing the risk management system and ensuring the integrity of internal controls and management information systems including adherence to the codes of conduct and legal compliance program
- Monitoring senior management's performance and implementation of the business strategy
- Setting remuneration and appointing, removing and creating succession policies for Directors and senior executives.

#### *Composition of the board*

The Constitution requires a minimum of three and a maximum of ten Directors. Up to five Directors may be executive Directors.

All Directors are subject to election by shareholders at the first opportunity after their appointment. By rotation one third of the Directors are required to be re-elected at each annual general meeting. New Directors appointed by the board are required to seek election at the first general meeting of shareholders following their appointment.

The ownership of the Company whereby two shareholders control 96% of the issued shares has determined the board structure. It is not considered appropriate to set a maximum term of office for individual Directors.

#### *Process*

The board generally schedules one meeting each year at the winery and this provides

Directors with the opportunity to visit the production facilities and for contact with a wider group of employees. Other meetings may be convened at other venues or conducted by conference calls.

To assist in the execution of its responsibilities the board has established an audit committee and a remuneration committee. Following each audit committee meeting the board is given a verbal report by the committee chairman.

Each director has the right to seek independent professional advice at the Company's expense after first obtaining the chairwoman's approval. A copy of the advice received by the director is made available to all other members of the board. The chairwoman has the discretion to approve expenditure without prior reference to the board or to refer the request to the board.

#### *Audit committee*

A documented charter detailing the role, membership, responsibilities and reporting has been determined and is available on the Company's website. The role of the audit committee is to oversee and enhance the credibility of the financial reporting process of PLW.

The objectives of the committee include:

- assessing the risk and control environment, reviewing accounting policies, internal controls, practices and disclosures to assist the board in making informed decisions;
- overseeing the financial reporting to ensure it complies with Australian Accounting Standards (AASBs), is of a high quality and appropriate prior to recommending adoption of the financial statements by the board for release to shareholders; and
- evaluating the audit process, particularly the scope, effectiveness and outcome.

The audit committee is comprised of non-executive Directors. Committee members are financially literate, that is, have the ability to read and understand financial reports including income statements, balance sheets and statements of cash flow. The committee chairman has accounting and financial experience, is knowledgeable about financial and auditing processes and is responsible for the planning and conduct of meetings and overseeing the reporting to the board.

The audit committee meets at least twice a year to coincide with the production of published financial statements and the assessment of external audit reports. The external auditor, the general manager and chief financial officer & company secretary are invited to audit committee meetings. The committee members consult directly with the external auditor as required. This consultation may be independent of management in order to provide an opportunity for the auditor to discuss any contentious issues or raise concerns.

The audit committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to discuss the external audit, identify any significant changes which are likely to impact on the financial statements and review the fees proposed for the audit work to be performed. The audit committee provides advice to the board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The external audit firm was appointed in 1993 and the audit engagement partner was last rotated in March 2009. Each reporting period the external auditor provides an independence declaration in relation to the audit or review.

The audit committee addresses any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission and the Company's bank.

The Company is subject to legal and regulatory compliance with the audit committee responsible for reviewing the legal compliance program regularly. Procedures are in place to ensure compliance with continuous disclosure, occupational health and safety, environment, label integrity, export, trademarks and liquor licence requirements. The Company is cognisant of its responsibilities in relation to food safety, efficient use of resources, effective lifecycle management of packaging and paper products, and the hazard analysis critical control point methodology as applied to the wine industry.

The general manager and chief financial officer complete a detailed questionnaire regarding the financial reports and underlying internal controls and risk management system. They provide a written statement that, in all material respects, the financial reports present

a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is made at half yearly intervals. The audit committee assesses management processes which support external reporting.

#### *Remuneration committee*

A documented charter detailing the role, membership, responsibilities and reporting has been determined and is available on the Company's website.

The committee reviews and makes recommendations to the board on the remuneration packages of Directors and senior executives. It is also responsible for incentive performance policies, superannuation entitlements, retirement and termination entitlement, and fringe benefits policies.

#### **Ethical standards**

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. PLW has codes of conduct for Directors and staff and finance officers and these codes are available on the Company's website.

#### **Risk management**

##### *Oversight of the risk management system*

The board as a whole considers the major risks affecting the business. It is not intended to eliminate risk. The risk management system encompasses all financial, operational and compliance controls and is subject to regular review.

The general manager and the chief financial officer have declared, in writing to the board that the financial reporting, risk management and associated compliance and controls have been assessed to be operating effectively and efficiently. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Group and joint ventures.

##### *Risk profile*

PLW has a simple business model with these features:-

- sourcing of grapes from 143 independent growers who bear the agricultural risks
- a single processing site

- the winery operations are subject to South Australian Environment Protection Authority (EPA) requirements with regular monitoring of licence requirements reported to the EPA as required
- stable workforce
- packaging work outsourced
- wine is sold through independent distributors in Australian and overseas markets except for the UK and USA
- distribution in the UK is through a joint venture
- wine is sold to a commonly controlled company in the USA
- retail sales through the Cellar Door
- operates in a market subject to rapid changes in consumer preferences
- affected by potential government policy changes regarding the taxing and regulation of the alcohol industry

Major business risks include

- *Grape intake* – 79% of the 2011 grape intake was from contracted growers. Crop levels vary with seasonal events and restrictions on water allocations have the potential to constrain yields.
- *Occupational health and safety* - Occupational health and safety standards and management systems are monitored and reviewed by the board to assess performance and compliance with regulations. The Company has not had any health and safety prosecutions.
- *Environmental impact* - The Company's operation has the potential to impose environmental risks through chemical storage and handling and winery wastewater. Winery wastewater is treated onsite and then piped to a nearby operator where it is further processed before being returned for irrigation on lawns and gardens at Cellar Door. The Company voluntarily reports emissions to the National Pollutants Index and is a member of the National Packaging Covenant which seeks to reduce packaging materials entering the waste stream. PLW is signatory to the South Australian wine industry sector agreement which seeks to record and reduce carbon emissions. PLW has adopted the Australian Wine Industry Carbon Calculator and is a preliminary member of the Wine Federation of Australia's *EntWine* program which addresses sustainability issues.

- *Wine quality* - Winemakers, laboratory, cellar and maintenance staff are trained to ensure PLW complies with the highest production standards. The hazard analysis critical control point program (HACCP program) has been implemented to ensure food safety issues are addressed with PLW granted accreditation in 2011. The contract bottler is HACCP and ISO 9001 accredited.
- *Channels to market* – PLW works closely with a range of buyers including distributors, wholesalers, retailers, mail order businesses, duty free operators and the restaurant trade.
- *Competitor activity* – the Australian wine industry is dominated by four large producers and their marketing and selling programs, particularly with large retail chains, influence trading conditions in many markets.
- *Exchange rate movements* - PLW transacts export sales in Australian dollars, Euros, US dollars and Canadian dollars and has developed a treasury management policy to ensure personnel do not engage in unauthorised trading positions.
- *Interest rate movements* - Interest rate risk emanates from changes in market interest rates impacting on the Company's short and long term debt. This exposure is managed by combining fixed interest rate swaps with floating rate arrangements.

#### *Risk management and compliance and control*

The board is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and codes, division of responsibility, and the careful selection and training of qualified personnel.

The system provides the structure for controlling the business – planning, running the operation and monitoring activities to assess progress on achieving defined business objectives.

Key areas subject to regular reporting to the board include grape intake, occupational health and safety performance, treasury operations, credit risk, insurance, legal matters and environment performance.

There are a number of committees established to oversee matters relating to operational activities – wine production, occupational health and safety, environment and enterprise conditions. These committees meet regularly and provide reports to the board.

Financial controls and procedures are clearly defined with the operating and capital budgets used as key controls for business operations. Reports of monthly actual results against budgets are provided regularly to the board. Rolling forecasts for the year are regularly prepared in line with market conditions and expectations.

#### *Assessment of the effectiveness of risk management*

The general manager and chief financial officer monitor compliance and control systems and report to the audit committee on weaknesses identified and remedial actions undertaken.

#### **Communication with shareholders**

The Directors ensure shareholders are informed of all major developments affecting the Company.

- The half yearly report contains summarised financial information about the operations during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission (ASIC), published on the Company's website and sent to any shareholder who requests it.
- A summary of the half-year result is sent to all shareholders in March each year.
- PLW prepares full financial statements which are available in September each year from the Company's website and sent to any shareholder who requests a copy.
- The annual report and other relevant information about the operations during the financial year, changes in the state of affairs and details of future developments are made available on the Company's website. The annual report is sent to any shareholder who requests a copy.
- The outcome of the AGM is sent to all shareholders each year.
- Shareholders, who elect to do so, receive promotional information in the form of newsletters which are usually circulated twice a year.
- Shareholders may also join the electronic mailing list and receive notices of the winery's activities and promotional information.

- All announcements, financial statements and other relevant reports are made available on the Company's website within a day of public release.
- Announcements, annual reports and financial statements are archived on the Company's website.

The board encourages full participation of shareholders at the annual general meeting. The shareholders are requested to vote on the appointment and aggregate remuneration of Directors and changes to the Constitution. The audit engagement partner attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

### Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Board		Audit Committee	
	A	B	A	B
E M Saupper	3	3	2	2
D McC Lehmann	3	3	2	2
D M C Hess	2	3	1	2
R L Williams	3	3	2	2
R M Wilson	3	3	2	2
M R Kronenberg	1	2	-	1

A – Number of meetings attended

B – Number of meetings held in which the overseas director could participate or during the time the director held office during the year.

### Principal activities

The principal activities during the course of the financial year were the manufacturing and sale of wine. The wine is sold in bottle and in bulk. Bottled wine is exported as well as being sold domestically.

Specific information relating to employment and occupational health and safety management, environment management, 10 year financial history, capital investment cycle and the review of operations and financial conditions for year ended 30 June 2011 is available from the Company's website.

### Shareholder returns

	2011	2010	2009	2008	2007
After tax profit for the year	\$1,006,000	\$3,795,000	\$5,736,000	\$9,604,000	\$5,975,000
Basic EPS	2.6 cents	10.0 cents	15.1 cents	25.3 cents	15.7 cents
Dividends paid/payable	Nil	\$2,088,000	\$3,148,000	\$5,282,000	\$3,265,000
Dividends per share	Not applicable	5.5 cents	8.3 cents	13.9 cents	8.6 cents
Return on capital employed	1%	6%	9%	14%	10%

Returns to shareholders increase through both dividends and capital growth.

### Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

	Cents per share	Total amount \$000	Franked/ Unfranked	Date of payment
<b>Declared and paid during the year 2011</b>				
- Final 2010 ordinary	5.5 cents	2,088	franked	5 Nov 2010

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

After the balance sheet date the result was considered by the Directors and they determined not to pay a dividend for the year ended 30 June 2011.

## Review of operations

### Company overview

Since the public subscription in 1993 Peter Lehmann Wines has worked assiduously to build the brand in both the domestic and export markets. As our home base the Australian market is particularly important and we have enjoyed considerable success over the years.

However, the market dynamics have changed with the two major retailers exerting substantial influence and making it difficult to work through a distributor business model. Accordingly we have restructured the business operation in Australia to deal direct with the retailers and service the independent and on-premise trade through Four Seasons Fine Wines Pty Ltd, a distributor which did not have a Barossa producer in its portfolio.

Considerable uncertainty continues in the global economy with the resources boom fueling the Australian dollar compared with our trading partners. The higher dollar impacts on the profitability of exporters and most commentators predict the Australian dollar will remain strong against the US dollar, euro and pound sterling over the short to medium term.

Consequently total branded sales were down 6% in volume and 8% in value over that of the previous year. These difficult conditions are expected to continue over the medium term.

### Production

Above average rainfall before and during vintage did cause disease problems in some of the independent growers' vineyards. However, this fruit was not picked and did not enter the winery. The majority of our growers were unaffected and, due to the ideal ripening temperatures have produced excellent wines.

Despite the challenging conditions, the total crush was 11,380 tonnes (2010: 10,477) with 11,000 tonnes (2010: 10,138) made for our own use. The increased yields as a result of the higher than average rainfall compensated for the loss of volumes caused by disease, enabling the Company to have a higher intake than in 2010.

### Trading during 2010-11

The Australian market conditions continue to remain extremely difficult, with our branded domestic sales down 23% in volume and 20% in value, compared with the previous year.

Over supply, continued market consolidation and the strong presence of New Zealand white wine are major factors negatively influencing the domestic scene. These poor results underpinned the need for the business to seek an alternate business model in the domestic market.

PLW total branded export sales have been significantly affected by adverse exchange rates, with volume down 1% and value decreasing by 3%. Transactions in foreign currencies are translated at the prevailing exchange rates with profitability put under pressure when the Australian dollar strengthens against the counterpart's currency. These conditions further emphasise the need for the business to seek growth within the domestic market.

Monitoring of our stock holding is a continuous process as we align stock levels with bottled wine sales and sales forecasts. Wine surplus to our requirements is sold on the bulk wine spot market and despite an overall national wine surplus we saw solid movement with sales of \$3.4M (2010: \$3.9M).

### Foreign exchange and financing

On a value basis the Company exported approximately 72% (2010: 68%) of its branded wine to a number of overseas markets. Consequently PLW has substantial exposure to foreign exchange movements. The Australian dollar has been strengthening against most major currencies over the last year and for the year ended 30 June 2011 on translation of receipts from sales and conversion of balances owing at balance date an overall exchange rate loss on translation of \$654,000 (2010: \$471,000 loss; 2009: \$1M gain; 2008 \$0.1M loss) was recorded.

The Company's \$15.5M debt at 30 June 2011 represented 23% (2010: 27%) of shareholders' equity. Marking the interest rate swap contracts with a face value of \$6M to market values resulted in a gain of \$46,000 (2010: \$311,000 gain).

### Equity

There has been no change to the capital structure of the Company during the year and it remains an unlisted public company with 449 shareholders. Swiss based Hess Family Estates AG (formerly Hess Group AG) and founder Peter Lehmann hold 85.67% and 10.37% of the issued shares respectively.

### **Strategy and future performance**

Over recent years the Australian wine industry has experienced rapid change and is currently undergoing a restructuring of sorts. The strengthening of the Australian dollar, the rise of new world wine producers (NZ, Chile and Argentina) with lower cost structures and the oversupply of grapes in Australia have all resulted in compressed sales and squeezed producer margins. PLW traditionally found its strength in export markets mitigated risks associated with being too concentrated in one or two markets. This strength still remains, however the industry headwinds mean profitability in the export markets has come under pressure.

In response to these pressures, the core strategies were reviewed and priorities set. The first priority is to “refresh” and reposition the brand through a revised brand portfolio and packaging update. The brand refresh is the most significant since the Art Series Queens were introduced in the mid 1990’s.

The second priority is to position the business for growth in the domestic market. The Australian market parameters have changed markedly over the last decade and the previous arrangement whereby the Company successfully sold its wines primarily through a distributor ceased to be relevant. The Company will be selling direct to the two large retailers and appointed Four Seasons Fine Wines to distribute to the independent chains and on-premise segment. This route to market commenced on 1 July 2011.

In addition to these key priorities we have reviewed all facets of the business to reshape it to take advantage of opportunities. The Company continues to make wines of outstanding quality and with its strong backing and rejuvenation PLW is expected to come through the current difficulties and progress positively.

### **Likely developments**

The Group will continue to pursue its strategy of increasing the profitability and market share of its major business sectors during the next financial year. Further information about likely developments in the operations of the Group and the expected results of these operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

### **Environmental regulation & management**

The Company’s operations are subject to licence requirements under the South Australian Environment Protection Act 1993. This requires the Company to dispose of winery waste water in a manner which does not adversely impact on the surrounding land, underground water or nearby water course. The Company regularly monitors its licence requirements, with performance reported to the state regulator on a periodic basis. There have been no instances of non-compliance in relation to these licence requirements during the financial year.

### **Events subsequent to reporting date**

As outlined in Note 21 to the financial statements the Group breached its banking covenants by exceeding its interest rate cover and maximum leverage threshold in the fourth quarter of 2011. Subsequent to year end the bank advised that they would not waive or give up its rights in relation to the breaches of banking covenants thresholds in June 2011.

In September 2011 a letter of continuing financial support was received from Hess Family Estates AG.

There have been no other events subsequent to balance date which would have a material effect on the Group’s financial statements at 30 June 2011.

### **Banking arrangements and the going concern basis of preparation**

As outlined above and in Note 21 to the financial statements the Group breached banking covenants in June 2011 and are in ongoing negotiations with National Australia Bank. In Note 2(e) to the financial statements the directors have determined the going concern basis of preparation to be appropriate for the 30 June 2011 financial statements.

### **Remuneration report - audited**

#### **Compensation policies**

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and senior executives for the Company including the five most highly remunerated Company executives.

The compensation structures took into account:

- the overall level of compensation for each director and executive
- the key management personnel's ability to control the relevant segment performance
- the Group's performance including earnings per share
- the amount of incentives within each executive's compensation

Compensation packages may include a mix of fixed and performance based remuneration. Equity based remuneration has not been included since 1998.

#### **Fixed compensation**

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, market contributions and overall performance of the Group. Compensation levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

#### **Consequences of performance on shareholder wealth**

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee has regard to the following indices in respect of the current financial year and the previous four financial years.

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
After tax profit for the year	\$1,006,000	\$3,795,000	\$5,736,000	\$9,604,000	\$5,975,000
Basic EPS	2.6 cents	10.0 cents	15.1 cents	25.3 cents	15.7 cents
Dividends paid/payable	Nil	\$2,088,000	\$3,148,000	\$5,282,000	\$3,265,000
Dividends per share	Not applicable	5.5 cents	8.3 cents	13.9 cents	8.6 cents
Return on capital employed	1%	6%	9%	14%	10%

'After tax profit' is considered to be the key financial performance target in setting short term incentives for the Group's personnel. The 'after tax profit' determines the rate of dividend payments and the return on capital provided by shareholders.

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. Since the record 2008 year the Group's profit after tax has declined in line with the reduced level of sales which reflect the extremely competitive global and domestic wine market and the effect of a strengthening Australian dollar.

#### **Other benefits**

Key management personnel may receive additional benefits such as non-cash benefits. Non-cash benefits typically include wine allowances and motor vehicles and the Company pays fringe benefits tax on these benefits.

#### **Performance linked remuneration**

The remuneration committee may structure packages for executive directors and senior executives to receive performance linked remuneration based on the achievement of specific performance objectives. The performance objectives are designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short term incentive is an 'at risk' bonus provided in the form of cash.

#### **Short term incentive bonus**

Each year the remuneration committee considers the key performance indicators (KPIs) for certain sales personnel. The KPIs generally include the financial performance measures relating to the relevant market and individual. The financial performance objectives are 'market contributions' compared to budgeted amounts as these directly align the individual's reward to the KPI's of the Group and to its strategy and performance. At the end of the financial year the remuneration committee assesses the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. No bonus is awarded where the performance falls below the minimum.

#### **Service contracts**

It is the Group's policy that service contracts for key management personnel be unlimited in term.

#### **Retirement Benefits**

The retirement scheme has been discontinued from 31 October 2003 and is not available to directors first appointed after that date. Upon retirement, Mr Roger Wilson is entitled to \$113,667.

The former Managing Director was paid \$600,000 in cash and given use of two motor vehicles under operating leases which expire in January 2013 valued at \$159,930, on transition to the non-executive Deputy Chairman role. His appointment as Deputy Chairman recognises his deep understanding of the Australian wine industry and long standing involvement with the Company.

#### Non-executive Directors

Compensation for all non-executive directors, last voted upon by shareholders at the 2001 AGM, is not to exceed \$300,000 per annum. Directors' base fees are presently up to \$44,000 per annum.

The Deputy Chairman's base fee is set at \$80,000 per annum. Non-executive Directors do not receive any performance related remuneration. Director's Fees cover all main board activities and membership of the board committees.

In the 2010/11 year the non-executive directors' compensation, excluding the retirement benefit, totalled \$295,961 (2010: \$273,187).

#### Bonus Payment

The General Manager who was appointed in July 2010 received a "sign on" bonus of \$25,000 after completing six months in the position.

#### Directors' and executive officers' remuneration (Company and Group)

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Group executives who receive the highest remuneration and other key management personnel are:

		Short-term				Post Employment	Total	Proportion of remuneration performance related
		Salary & Fees	Cash Bonus	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Super-annuation Contributions/ Termination Payment		
		\$	\$	\$	\$	\$	\$	%
<b>Directors</b>								
<b>Non-executive</b>								
E M Saupper	2011	44,000	-	-	-	-	44,000	-
(Appointed 16 August 2010 and appointed Chairwoman 25 January 2011)								
R M Wilson	2011	44,000	-	-	2,574	4,400	50,974	-
(appointed 5 March 1993)								
	2010	44,000	-	-	2,996	4,400	51,396	-
D M C Hess	2011	44,000	-	-	-	-	44,000	-
(appointed 4 March 2010)								
	2010	-	-	-	-	-	-	-
R L Williams	2011	44,000	-	-	-	-	44,000	-
(appointed 4 March 2010)								
	2010	-	-	-	-	-	-	-
D Mc Lehmann	2011	80,000	-	-	2,574	767,930	850,504	-
Former Managing Director								
(appointed non-executive 1 July 2010)								
	2010	269,995	-	5,900	80,181	90,499	446,575	-
P A Young	2010	80,000	-	-	2,800	8,000	90,800	-
(Appointed Chairman 25 October 2009 and resigned 12 March 2010)								
Kay Carey	2010	44,000	-	-	2,519	4,400	50,919	-
(resigned 3 March 2010)								
R V Edwards	2010	44,000	-	-	2,701	4,400	51,101	-
(resigned 3 March 2010)								
M R Kronenberg	2011	22,413	-	-	-	-	22,413	-
(appointed 12 March 2009 & resigned 10 January 2011)								
	2010	-	-	-	28,971	-	28,971	-

		Short-term				Post	Total	Proportion of remuneration performance related
		Salary & Fees	Cash Bonus	Increment in Annual & Long Service Leave Entitlements	Non-Monetary Benefits	Employment		
		\$	\$	\$	\$	Super-annuation Contributions/ Termination Payment	\$	
<b>Executives</b>								
J B Bond General Manager (Appointed 12 July 2010)	2011	250,000	25,000	13,270	31,216	25,000	344,486	-
H T Astrom <sup>(1)</sup> EU Brand Development	2011	290,125	-	(5,634)	91,961	36,266	412,718	-
	2010	271,890	-	(17,536)	88,506	33,986	376,846	-
B K Clapton CFO & Company Secretary	2011	192,678	-	4,670	39,546	19,268	256,162	-
	2010	187,066	-	20,971	40,859	18,707	267,603	-
P S Turale Marketing Manager	2011	194,361	-	22,021	57,384	19,436	293,202	-
	2010	188,700	-	18,496	53,367	18,870	279,433	-
A D Wigan Chief Winemaker	2011	205,669	-	14,558	37,107	20,567	277,901	-
	2010	199,679	-	10,988	34,439	19,968	265,074	-
T M Brown Operations Manager	2011	-	-	-	-	-	-	-
	2010	127,773	-	3,731	28,463	12,777	172,744	-
W I Whigham <sup>(1)</sup> (retired 31 December 2009) Director of Sales – UK & Ireland	2011	-	-	-	-	-	-	-
	2010	97,801	-	19,797	7,900	137,264	262,762	-
<b>Total compensation: key management personnel</b>	2011	1,411,246	25,000	48,885	262,362	892,867	2,640,360	-
	2010	1,554,904	-	62,347	373,702	353,271	2,344,224	-

<sup>(1)</sup> Salary packages of the EU executives have been converted to Australian dollars at the balance date exchange rates.

## Notes in relation to the table of Directors' and executive officers' remuneration – audited

The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 9. It was clear that the criteria for bonus payments would not be met when the board considered internal financial reports on 6 August 2011.

## Indemnification and insurance of officers

### Indemnification

The Company has agreed to indemnify the current and former Directors of the Company, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its controlled entities and an officer of the Company for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### Insurance premiums

The Directors have not included details of the nature of liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract.

## Non-audit services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the years are set out below.

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
<b>Audit services:</b>		
Audit and review of the financial reports (KPMG Australia)	<b>89</b>	87
<b>Services other than statutory audits:</b>		
Taxation compliance services (KPMG Australia)	<b>15</b>	24

## Lead auditors independence declaration

The Lead auditor's independence declaration is set out on page 14 and forms part of the Directors' report for the financial year ended 30 June 2011.

## Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and the Directors' report thereon have been rounded off to the nearest thousand dollars, unless otherwise stated.

## Presentation of Financial Statements

The Company has elected to adopt the amendment to the *Corporations Act 2001* which allows companies to present consolidated financial statements and remove full parent entity financial statements. In accordance with the *Corporations Amendment Regulations 2010* the consolidated financial statements include a note containing information about the parent entity.

Signed in accordance with a resolution of the Directors.



**E M Säupper**  
**Chairwoman**



**D McC Lehmann**  
**Deputy Chairman**

Adelaide, South Australia  
30 September 2011



**Lead auditor's independence declaration under Section 307C of the Corporations Act 2001**

To: the directors of Peter Lehmann Wines Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

N T Faulkner  
*Partner*

Adelaide  
Dated this the 30<sup>th</sup> day of September 2011



KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association.

## PLW CAPITAL INVESTMENT CYCLE

The significant capital expenditure undertaken during 2002 and 2003 to improve and enlarge the winemaking capacity has enabled the company to increase its production in line with forecasts.

Apart from purchases of new oak barrels, the major movements in capital expenditure items over the last 16 years include:-

Year	Project	\$000's	Year	Project	\$000's
1993/94	Winery extension	400	2003/04	Stainless steel tanks	336
1994/95	Stonewell vineyard	325		Information Technology	119
1995/96	Crossing vineyard	725		Wastewater irrigation	38
	Red wine fermentation	580	2003/04	Sale of the Crossing vineyard	-1,100
1996/97	1 <sup>st</sup> Barrel warehouse	490		Stainless steel tanks, insulation & fittings	327
	Refrigeration upgrade	295	2004/05	Stainless steel tanks, insulation & fittings	653
	Stainless steel tanks	250	2005/06	Stainless steel tanks, insulation & fittings	872
1997/98	Trillians Hill vineyard	980		Winery equipment	279
1998/99	Red wine fermentation	1,758	2006/07	Stainless steel tanks, insulation & fittings	719
1999/00	2 <sup>nd</sup> Barrel warehouse	459		Winery equipment	344
	Stainless steel tanks, insulation fittings	272	2007/08	ERP software – stage 1	267
2002/01	Finished goods warehouse	444		Winery equipment	127
	Stainless steel tanks	487		Cellar Door extension (leased premises)	1,450
2001/02	Land including the Andriske vineyard	2,073	2008/09	Refrigeration upgrade	287
	Land acquisition	161		Winery equipment	378
	Stainless steel tanks	716	2009/10	Wastewater processing and irrigation	146
	Water treatment plant	321		Basket Press	115
	Winery plant	40	2010/11	Stainless steel tanks	320
	Processed water dam	141		Winery, lab & IT equipment	527
2002/03	Red wine fermentation	3,955			
	Tankfarm	2,019			
	Barrel fermentation warehouse	482			
	Water treatment plant additions	112			

## COMMUNITY INVOLVEMENT

### Supporting regional South Australia

As well as paying relevant taxes PLW provides both direct and indirect employment in a regional area. PLW paid \$7.8M (2010: \$7.4M) in wages and salaries with the majority of this being paid to employees located in South Australia.

Although PLW employs only about 100 people the business generates a certain cash flow on effect as we buy fruit from about 145 independent grape growers and the services of Barossa Valley based bottlers and printers are used. PLW supports the region by buying other goods and services from local business wherever possible.

As a large producer of Barossa wine we are very supportive of the formation of the Barossa Grape & Wine Association to interact with local councils to improve infrastructure and to promote the Barossa region domestically and internationally.

### Involvement in regional events

PLW is committed to the region as well as providing a memorable experience for visitors. We host the *Day on the Green* concerts and participate in the biennial Vintage Festival, Gourmet Weekend, Para Road Wine Path event and Barossa Slow food and wine celebration.

### Transition from school and further education to the workplace

PLW hosts visits from local school students interested in the winemaking process and job opportunities. If it is possible, on request we also provide work experience for students.

For over 20 years PLW has been the official wine sponsor for the awards dinner for the CSCC Graduate Cooks Awards for students graduating from the Certificate 111 commercial cookery course in Canberra and the surrounding area.

### **Community groups**

The Barossa Valley district has a rich heritage, diverse interests and strong community spirit. PLW actively supports the many activities which make the Barossa such a great place to live and to visit. We sponsor a range of sporting teams and community groups.

### **Support for Charities**

PLW is a partner with South Australian Club *Variety – The Children's Charity* which through entertainment, sporting and business people devoting their time, talent and skills raises funds to assist children who are sick, disabled or otherwise disadvantaged. In 2011 the South Australian Variety Club Bash raised \$1.5M and these funds will be spent in South Australia on a number of projects. PLW Director Doug Lehmann is a long term Bash participant and committed supporter.

For more than a decade PLW has been the major wine sponsor for the Abel Australia Charity Wine Auction which raises about \$100,000 each year for deaf and blind people. PLW is also proud to have been involved over the last 7 years as the official wine sponsor for the RSPCS (ACT) charity Ball.

Employees from PLW have formed a touch footy team to compete in the annual *Portavin Touch Wine* competition. The wine industry and a group of sponsors got behind UK wine writer Matthew Jukes' idea for a national touch football tournament to raise funds. The South Australian event is a fundraiser for the Hutt Street Centre which is a frontline agency for homeless and disadvantaged people.

## EMPLOYMENT

The wine industry employs people directly in winemaking activities and creates demand for the suppliers of grapes, cardboard and glass containers and services of wholesale traders, freight companies and marketing firms. It also has flow on effects to the accommodation, café and restaurant sector.

PLW has a small workforce relative to turnover as it purchases 98% of its grape intake and has outsourced its packaging and its distribution activities. During vintage more staff are employed to cope with the peak workload in the cellar and laboratory.

### Workforce

*Australia, Europe, Hong Kong & Canada*

Males: 45 & Females: 50

Average age: 43 years

Staff turnover including retirements: 13%

Supplemented by 22 casuals in the cellar and 2 casuals in the laboratory during vintage

### Working Conditions

- Appointments to new positions, together with the engagement of staff to replace people who have left PLW employment, exposes the Company to new ideas, broader experience & additional expertise.
- Temporary staff are not used to avoid our employer obligations. We engage labour hire company staff for work which is subject to unpredictable timing such as peak hand labelling requirements.
- Balancing work responsibilities with family and community interests - vintage is a particularly busy time when employees work long hours and we strive to provide a family friendly work environment.
- Employees who take parental leave may be offered part time work if they choose not to return to work full time when the 12 month period following the birth of the child expires.

### Training - employees are encouraged to improve their skills and qualifications

- PLW regularly provides OHSW and Environment Awareness training as well as support for individuals to qualify for truck and forklift driver's licences, first aid and fire warden certification.
- Administration staff are encouraged to undertake accounting, computing, export documentation and office management courses.
- The local technical and further education college may provide onsite training for people employed in the cellar.
- The cellar door staff regularly meet with the winemakers to discuss and taste the range of wines. They have been trained in the responsible serving of alcohol to the public and in customer service also.
- The maintenance team participates in winery engineer conferences.
- The winemakers, viticulturist and laboratory technicians participate in wine industry technical sessions and seminars.
- Marketing staff attend wine industry marketing conferences.
- Finance staff attend seminars to maintain professional expertise.
- Personal development through study is encouraged and there are a few staff undertaking tertiary study.

### Supplier Ethical Data Exchange (SEDEX)

PLW is a member of SEDEX which connects wholesalers and retailers to their global suppliers to share ethical data and enable continuous improvement in ethical performance. The thrust of the SEDEX initiative is to monitor compliance with labour laws and OHSW policies and procedures.

## OCCUPATIONAL HEALTH & SAFETY MANAGEMENT

### Management Commitment

The General Manager is the Responsible Officer with day to day obligations delegated to the Chief Winemaker. The CFO represents PLW on the OHSW committee of the South Australian Wine Industry Association (SAWIA) and oversees the claims management process.

### Consultation

Consultation between the employees and management is the basis for developing and maintaining appropriate policies and procedures. The safety committee, which has both employee and management representation and encompasses all on-site work areas, provides the primary consultative forum and meets at least every three months.

The safety committee is proactive in seeking alternatives to eliminate risks. Individual members of the safety committee assess work areas for risks regularly by completing audit check lists which are used as the basis for correctional measures.

### Training

Training requirements are assessed regularly to ensure all staff undertake regular and topical OHSW education. PLW is very mindful of the need to train and supervise the casuals who are engaged to operate winery plant and handle chemicals during the intense vintage period.

Contractor safety is addressed by the Company also. Contractors are required to provide evidence of safe working procedures, workers compensation cover and public liability cover as well as comply with the PLW safety rules and practices.

The Company engages the services of labour hire companies periodically and it ensures that the appropriate personnel are assigned for the specific tasks and that training is provided.

### 2010/11 Activity

During the year we designated an experienced employee to coordinate OHSW activities at PLW. The focus has been on updating standard operating procedures and reviewing the use and storage of hazardous materials.

### Performance

Management provides reports, outlining safety issues, initiatives, injury statistics and comparisons of PLW's performance with other wineries, to the board regularly. PLW has not had any health and safety prosecutions.

Rates per 1M hours worked	PLW 2007	PLW 2008	PLW 2009	PLW 2010	PLW 2011	SAWIA 2011
Injury incidence	4.84	7.05	1.15	3.45	3.49	2.62
Lost time injury frequency	23.95	34.88	11.23	17.09	17.3	13.47
Days lost time during year	11.25	7.5	1	12.33	40.67	23.45

### Serious Injury Report 1/7/93 to 30/6/11

Year	Injury
93/94	▪ Repetitive strain
94/95	▪ Nil
95/96	▪ Repetitive strain ▪ Severed tendons
96/97	▪ Broken leg
97/98	▪ Fractured hip ▪ Broken wrist
98/99	▪ Repetitive strain
99/00	▪ Nil
00/01	▪ Manual handling strain
01/02	▪ Manual handling strain x 2
02/03	▪ Manual handling strain x 2 ▪ Recurring injury from 2001 incident ▪ Knee injury
03/04	▪ Manual handling strain x 3
04/05	▪ Degenerative back condition ▪ Knee injury
05/06	▪ Nil
06/07	▪ Broken wrist and ribs
07/08	▪ Nil
08/09	▪ Nil
09/10	▪ Crush injury to finger
10/11	▪ Repetitive strain

## KEY RATIO ANALYSIS

Ratio analysis is one tool for evaluating the performance of a company. It is useful to put the ratios in context by comparing the Company's ratios between years and to other companies in the same industry.

### Profitability

*EBIT as % of sales* – this ratio is influenced by the Company's ability to increase/maintain selling prices, hold costs and/or alter its product mix to more profitable lines.

PLW incurred substantial costs during the takeover in 2003 and this affected the Company's profitability.

*After tax profit as % of sales* – this ratio includes interest and tax expense and indicates the company's effectiveness in using its resources.

*Return on equity* (after tax profit as % of net assets) – measures the Company's ability to generate profits from its assets. The wine industry requires substantial investment in assets to generate profits.

### Financial stability

*Current ratio* (current assets divided by current liabilities) – measures the Company's ability to repay short-term debts quickly if it is in trouble. Generally a ratio of two to one is considered to be very comfortable. PLW operates in an industry where some of its inventory is held for maturation and this traditional measure is distorted. This ratio should be used in conjunction with other measures.

*Debt to equity ratio* (interest bearing debt as % of equity) – measures the extent of a company's debt exposure.

*Interest cover* (EBIT divided by net interest payments) – measures the margin of profit to protect the Company against a business downturn or a sharp rise in interest rates.

### PROFIT & LOSS (\$000's)

#### Revenue from operating activities

Depreciation & amortisation  
Earnings before interest & tax (EBIT)  
Interest paid (net)  
Operating profit before tax  
Income tax expense

#### Operating profit after tax

Dividends paid/payable

### BALANCE SHEET (AU\$000's)

Receivables  
Total inventory  
Depreciated property, plant & equipment

#### Total assets

Accounts payable  
Total borrowings  
Total liabilities

#### Shareholders' equity

### STATISTICS

Number of shares at year end (000's)  
Earnings per share  
**Dividend per share**  
Asset backing per share  
Dividend as % of after tax profit  
Franking for future dividends (AU\$000's)  
EBIT as % of sales  
After tax profit as % of sales (%)  
Return on shareholders' equity (%)  
Return on assets %  
Current assets/current liabilities (times)  
Debt to equity (%)  
Interest cover at 30 June (times)

**NOTE: 2006 prepared using the Australian equivalents of International Financial Reporting Standards.**

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>45,179</b>	<b>46,639</b>	<b>52,298</b>	<b>55,797</b>	<b>57,592</b>	<b>63,487</b>	<b>61,999</b>	<b>52,598</b>	<b>50,088</b>	<b>45,634</b>
1,291	1,465	1,709	1,839	2,013	2,076	2,055	2,320	2,387	<b>2,454</b>
10,654	9,093	7,234	11,065	10,090	10,474	14,823	9,754	6,288	<b>2,579</b>
787	1,420	1,624	1,952	1,679	1,737	974	1,562	1,056	<b>1,144</b>
9,867	7,673	5,610	9,113	8,411	8,737	13,849	8,192	5,232	<b>1,435</b>
2,952	2,254	1,780	2,679	2,663	2,762	4,245	2,456	1,437	<b>429</b>
<b>6,915</b>	<b>5,419</b>	<b>3,830</b>	<b>6,434</b>	<b>5,748</b>	<b>5,975</b>	<b>9,604</b>	<b>5,736</b>	<b>3,795</b>	<b>1,006</b>
4,088	4,095	2,088	3,531	3,151	3,265	5,282	6,607	1,823	<b>2,008</b>
14,423	13,765	15,148	15,809	14,416	17,208	14,530	12,622	13,036	<b>9,575</b>
46,028	49,362	53,591	56,310	54,490	46,877	49,245	49,849	48,270	<b>49,919</b>
22,099	28,970	29,066	30,148	31,583	32,837	32,356	33,168	32,019	<b>31,489</b>
<b>85,606</b>	<b>96,234</b>	<b>101,626</b>	<b>106,538</b>	<b>101,529</b>	<b>100,236</b>	<b>98,532</b>	<b>97,345</b>	<b>96,133</b>	<b>92,524</b>
13,867	13,601	12,398	11,568	8,767	8,846	11,247	8,083	6,860	<b>7,729</b>
21,410	31,800	34,200	35,700	31,877	27,392	15,834	20,139	18,750	<b>15,526</b>
41,356	47,784	50,045	50,741	43,605	39,538	31,616	31,126	27,942	<b>25,415</b>
<b>44,250</b>	<b>48,450</b>	<b>51,581</b>	<b>55,797</b>	<b>57,924</b>	<b>60,698</b>	<b>66,916</b>	<b>66,219</b>	<b>68,191</b>	<b>67,109</b>
<b>37,148</b>	<b>37,311</b>	<b>37,969</b>	<b>37,969</b>	<b>37,969</b>	<b>37,969</b>	<b>37,969</b>	<b>37,969</b>	<b>37,969</b>	<b>37,969</b>
19.0c	14.5c	10.1c	16.9c	15.1c	15.7c	25.3c	15.1c	10.0c	<b>5.5c</b>
<b>11c</b>	<b>9c</b>	<b>5.5c</b>	<b>9.3c</b>	<b>8.3c</b>	<b>8.6c</b>	<b>13.9c</b>	<b>8.3c</b>	<b>4.8c</b>	-
119c	130c	136c	146c	152c	160c	176c	174c	180c	<b>176c</b>
59%	62%	54%	55%	55%	55%	55%	55%	55%	-
11,995	7,894	8,511	10,272	11,792	13,230	14,444	15,467	17,630	<b>16,766</b>
24%	19%	14%	20%	19%	16%	24%	19%	13%	<b>6%</b>
15%	12%	7%	12%	10%	9%	15%	11%	8%	<b>2%</b>
18%	11%	7%	12%	10%	10%	14%	9%	6%	<b>1%</b>
8%	6%	4%	6%	6%	6%	10%	6%	4%	<b>1%</b>
2.2	2.9	2.8	3.5	4.6	5.8	4.4	5.9	2.3	<b>2.4</b>
48%	66%	66%	64%	55%	45%	24%	30%	27%	<b>23%</b>
11	5	3.5	5.7	6.0	5.9	15.2	6.2	5.9	<b>2.2</b>

## ENVIRONMENT REPORT

We believe it is our responsibility to ensure available resources are used efficiently, the effects of the winery operations on the environment are minimised, and materials are recycled wherever possible. PLW regularly conducts awareness seminars for staff to reinforce procedures designed to reduce the Company's impact on the environment.

A study of 135 sectors making up the Australian economy prepared jointly by the CSIRO Sustainable Ecosystems and the University of Sydney indicated the wine industry rates 15% below average on greenhouse emissions; 65% below average for land disturbance; and uses water at twelve times the economy wide average. The study estimated process water, mainly used to wash down equipment, at 2,000 litres per tonne of grapes crushed.

### The major effects of the PLW operation on the environment have been analysed as –

- Use of water
- Disposal of winery wastewater
- Energy use
- Greenhouse emissions
- Storage of chemicals
- Use of packaging materials and their recycling/disposal
- Effect on neighbours – odour, noise, dust and activity
- Aesthetics and biodiversity

PLW appointed a Sustainability Manager in May 2010 and part of this role is to develop and implement plans to improve the use of resources. Analysing data is key to determining better ways to use water, electricity and gas. Regular staff training sessions to increase awareness of the effects of the winery's operation on the environment are held to communicate PLW's environment objectives and initiatives.

### The weather conditions and tonnes processed impact on water and electricity usage.

Year	Tonnes Crushed	Weather Conditions leading up to and during vintage
2000	10,914	Cool, wet spring and wet Jan, Feb & March
2001	15,371	Good winter rain, very hot Jan & Feb
2002	17,070	Good winter rain, cool summer
2003	14,302	Prolonged dry conditions
2004	18,948	Good winter rain, hot December, cool January and 2 week heatwave in Feb
2005	21,079	Good winter & spring rain; mild summer
2006	17,395	Good winter & spring rain; heavy rain in late Feb & Mar; warm at the end
2007	11,655	Frost damage and prolonged dry conditions during the growing season
2008	18,141	Earlier ripening & PLW crushed during the height of the summer
2009	14,829	Early heat moderated for the steady ripening of fruit
2010	10,477	Good spring & winter rain, hot late January, stable in February and March
2011	11,000	Above average rainfall leading up to and during vintage

**Water is used in the vineyards** to enhance grape quality. To conserve water we use drip irrigation systems in the Company owned vineyards to control the amount of water used for irrigation. These systems supplement the natural rainfall of the region. Sources for supplementary irrigation include piped river water, dams and bores. Grape growers who supply 98% of PLW's fruit also use drip irrigation systems.

**Water is used in the winery** to wash down plant and machinery as well as to clean barrels and tanks. PLW was successful between 2002 and 2005 in reducing the volume of water used. Usage in 2007 rose to just below the industry average of 2,000 litres per tonne as even though the tonnage was reduced a similar amount of water is required for cleaning. The lower tonnage processed in 2010 saw a rise to 1,560 litres per tonne crushed. Higher rainfall in 2011 resulted in additional stormwater being captured in the wastewater drainage system.

**Wastewater captured in the drainage system** is made up of washings, stormwater from designated areas and some waste processing

Year	KLs per tonne crushed
2000	1.99
2001	1.52
2002	1.20
2003	1.30
2004	1.20
2005	1.21
2006	1.53
2007	1.98
2008	1.32
2009	1.43
2010	1.56
2011	1.65

**The disposal of winery wastewater** is a critical issue and PLW has installed a winery wastewater treatment plant which uses a system of screening, aeration and solids removal. The winery wastewater is pumped through a series of tanks and ponds.

	Per tonne crushed							
	2004	2005	2006	2007	2008	2009	2010	2011
PLW waste processed								
Wastewater processed KL	1.45	1.52	1.8	2.12	1.46	1.32	1.63	1.25
Solid pressings Kg	11.6	14.2	15.2	20.9	12.2	13.9	15.3	6.4

PLW is becoming increasingly efficient in the capture and processing of wastewater and also the extraction of solid pressings. The by-product of solid pressings is deposited on vacant land to dry and then used as nutrients in the vineyard.

We continue to remove caustic washings from the wastewater treatment process. The reduction in the sodium level in the recovered water benefits the soil when the water is used for irrigation. The caustic washings are sent offsite where the processor recovers the tartrates.

The standard required for the treatment of wastewater for reuse is getting harder to achieve though as reduced water usage results in more concentrated wastewater. Also the stored water is subject to evaporation and the remaining water becomes more saline. We have installed a pipeline to nearby North Para Environment Control (NPEC) where the processed water is further treated and returned to PLW to irrigate the lawns and gardens.

In 2007/08 PLW planted 1.5 hectares of vacant winery land with sugar gums (*Eucalyptus cladocalyx*). The small to medium tree is endemic to South Australia and is quite hardy and useful for windbreaks and wood production. The good winter and spring rains in 2010 have provided ideal growing conditions for the trees.

**Good energy management** seeks to reduce energy consumption, reduce energy-related emissions, alleviate overload on electrical transformers and circuits and lower expenditure.

**Electricity** is the major source of energy used with the remainder derived from the combustion of fossil fuels such as natural gas, LPG and diesel.

Refrigeration plays an important part in the winemaking process as it is used to control the temperature of wine/juice during production. We continue the project whereby energy usage for different processes and particular equipment is monitored to determine actions to reduce energy consumption and expenditure.

#### **Greenhouse emissions**

Electricity and LPG consumption, wine fermentation and transport are the major sources of PLW emissions. The chemical process of converting the sugar in grapes to ethanol releases CO<sub>2</sub>. PLW uses ammonia as the refrigerant and consequently the technology does not require the use of CFC's and their emission into the atmosphere.

The composition of the PLW car fleet has been reviewed and we are changing to more energy efficient vehicles with lower emissions. PLW is a member of *Greenfleet* which promotes fuel efficient technologies to reduce emissions. It maintains a tree planting and carbon program to sequester the CO<sub>2</sub> greenhouse emissions from the transport sector.

PLW has reported its emissions to the National Pollutant Index (NPI) since 2003. The NPI database at [www.npi.gov.au](http://www.npi.gov.au) and [www.epa.gov.au](http://www.epa.gov.au) contains information on the types and quantities of pollutants being emitted from a range of industrial, commercial, transport and household activities.

The collection of NPI emission information is designed to:

- help in environmental planning and management
- promote waste minimisation and cleaner production by industry and business, leading to energy and resource savings
- satisfy community demand for accessible information on pollutant emissions to the environment
- increase community awareness of the contribution to pollution from many different sources.

PLW emissions are **ethanol** (C<sub>2</sub>H<sub>5</sub>OH): an alcohol with low enough toxicity for (moderate) human consumption and **volatile organic compounds**: a general term which refers to a large and diverse group of substances, including hydrocarbons, oxygenates and halocarbons that readily evaporate at room temperature. Emissions relate to fermentation of the wine and bottling activities. PLW's emissions are comparable to those of other similar sized wineries.

Emission	2005	2006	2007	2008	2009	2010 <sup>1</sup>	2011
Ethanol kg	6,600	5,500	3,400	5,960	4,779	18,980	25,555
Volatile organic compounds kg	6,900	5,800	3,600	6,270	4,927	19,450	26,164

<sup>1</sup>Increases in 2010 are attributable to the introduction of a broader NPI emissions scope.

### Carbon Footprint

PLW is measuring its carbon footprint by using the Australian Wine Carbon Calculator, a reporting tool developed by the Winemakers' Federation of Australia for the wine industry which is compliant with the Greenhouse Gas Protocol (GHGP). This tool will provide the basis for accurate, transparent and consistent reporting each year. Although fermentation of wine is a direct emission source, resultant CO<sub>2</sub> is not reported as it is categorised as part of the short term carbon cycle whereby there is a rapid exchange of carbon between plants and animals through respiration and photosynthesis. It is assumed that the emissions from fermentation are in balance with the vineyard sequestration even though the vineyards may be separate enterprises to the winery enterprises.

The *Greenhouse Gas Protocol* separates the source of greenhouse emissions under three scopes to ensure there is no double counting between enterprises. PLW is working through the Calculator guidelines with the focus on scope 1 direct emissions and scope 2 indirect emissions. We are assessing requirements for the scope 3 indirect emissions which emanate from the extraction and production of purchased materials, transport and offsite waste disposal.

Some overseas consumers are expressing concern about the carbon emissions from the transport of wine across vast distances. Emission factors vary by transport mode and the following provides guidance on the calculation of transport GHG emissions = freight weight (tonnes) x freight distance (kms) x emission factor (truck/train/ship/air).

	Road Heavy/articulated truck	Train Average Locomotive	Air Long Haul Over 500 Km	Ship Container
Emission Factor (kgCO <sub>2</sub> /tonne Km)	0.115	0.0265	1.58	0.015

Source: Australian Wine Calculator 2010/11

**Chemicals are stored securely** in the winery and there are dedicated areas for mixing. There are operating procedures for the use of chemicals and the recovery/disposal of spilt chemicals has been addressed in PLW's environment contingency plan. There are separate chemical storage sheds and chemical spray pads on the Company owned vineyards.

PLW requires the independent grape growers to use specified pesticides and herbicides responsibly in the vineyards. The spray regimes for each vineyard are monitored to ensure compliance with relevant government and export regulations. We are fortunate to grow grapes in a district which is not prone to disease and thus sprays are not used extensively.

**PLW plants shrubs and trees** on the winery land to provide windbreaks, prevent soil erosion, provide habitat suitable for birds, and reduce the obtrusiveness of the building structures on the landscape.

PLW aims to provide an **aesthetically pleasing environment** for visitors to the Cellar Door outlet and its surrounding grounds. A computerised watering system, which operates at night when losses from evaporation are lower, has been installed to minimise water usage. The treated winery wastewater is being used to irrigate the area. Mulch is used on the garden beds to reduce weeds and thus minimise the use of herbicides and watering.

**Environmentally friendly features** such as the collection of rainwater for water use and the installation of a solar powered hot water system have been installed into the extension on the western end of the Cellar Door building.

In cooler months **wood fires** warm the Cellar Door building. A 2003 CSIRO study for the Australian Greenhouse Office reported “sustainable firewood production systems have the potential to reduce carbon dioxide emissions”. In future PLW will be able to harvest wood from its sugar gum plantation for use at Cellar Door.

**To protect the nearby watercourse** PLW participates in the local water resources board’s initiative to remove exotic trees and shrubs and re-establish indigenous plants along the North Para River bank side. Further along the river, a bush garden has been established to provide a reliable source of seed for revegetation projects and the preservation of the Barossa Valley’s environmental heritage.

**Packaging** is made up of a number of components including bottles, corks, closures, capsules, labels and cartons.

- Bottles – as part of the kerbside recycling programs used bottles are returned to the manufacturer where they are broken down with the resultant material returned to the furnace and used again to manufacture glass. PLW has moved to lighter weight glass for its proprietary bottles. The use of lower weight glass for popular wines which are exported will assist in lowering the weight of freight movements.
- Corks – a renewable resource
- Aluminium closures – these are being used increasingly instead of corks and are recyclable
- PVC capsules – are non-recyclable with usage reducing as we move to aluminium closures on our wines
- Labels – PLW purchases 100% of the labels from a local printing company which uses new technology to reduce paper wastage, toxic by-products and volatile organic compound emissions
- Cartons – approximately 95% of the cardboard purchased by PLW for use as cartons to package wines is manufactured from recycled material
- Shrinkwrap is used to protect goods shipped on pallets. We collect the incoming shrinkwrap and send it to the recycler for processing.
- Recyclable materials are used to package visitors’ purchases from PLW’s Cellar Door.

PLW is a member of an industry group which provides information on how much material enters the packaging waste stream from the distribution and sale of its wine to the Australian Packaging Covenant.

**DISCUSSION AND ANALYSIS OF THE 2010/11 RESULT** – See separate document PLW Full Financials under [www.peterlehmannwines.com/investor-centre/document-archive](http://www.peterlehmannwines.com/investor-centre/document-archive)

**REVIEW OF OPERATIONS**

**Vintage** is fundamental to the business as it determines the quality and quantity of wine available for future sales in all markets.

**Grape Intake** – The Company sources 98% of the grapes from the independent growers with the balance being harvested from the Company's own vineyards. The resultant wine from the "own use" is used for sale under the Peter Lehmann brand, for sale in bulk to other wineries and under buyers' own brand labels. Above average rainfall before and during vintage caused disease problems in some vineyards. This fruit was not picked and did not enter the winery. The majority of PLW growers were unaffected and, due to the ideal ripening temperatures provided good quality fruit for the production of excellent wines.

**Contract Crushing** – Work is actively sought from other wineries as a means of securing overhead recoveries. The harvesting times for grape growing districts and grape varieties differ and this allows PLW to spread the crushing activities over the vintage period. Over the years to 2009 PLW had a contract to crush grapes on behalf of a large Australian wine producer and this mutually satisfactory arrangement came to an end when the contract was not renewed. Quite simply the lower demand for Australian wines has resulted in excess winery capacity in the industry as well as an oversupply of grapes. The cessation of this contract reduced throughput substantially and this has been reflected in higher overhead costs per litre.

	Vintage – Tonnes		
	Crushed – own use	Crushed – contract	Total Crushed
1994	6,493	5,410	11,903
1995	4,991	5,031	10,022
1996	8,326	5,876	14,202
1997	7,309	5,211	12,520
1998	7,608	6,261	13,869
1999	7,760	6,422	14,182
2000	5,991	4,923	10,914
2001	10,157	5,214	15,371
2002	11,561	5,509	17,070
2003	9,506	4,796	14,302
2004	14,588	4,360	18,948
2005	17,308	3,771	21,079
2006	13,643	3,752	17,395
2007	8,021	3,634	11,655
2008	14,150	3,991	18,141
2009	10,992	3,837	14,829
2010	10,138	339	10,477
2011	11,000	380	11,380

**PLW Vineyards** – The Company has three vineyards located in the Barossa Valley and a fourth located in the Clare Valley. Having vineyards under its own control provides PLW winemakers with flexibility in securing fruit grown under specific viticulture management regimes. The area planted is given in the table below.

Vineyard Hectares			
	Total Hectares Planted		Total Hectares Planted
1994	-	2004	41
1995	18	2005	41
1996	18	2006	41
1997	36	2007	41
1998	36	2008	41
1999	57	2009	41
2000	57	2009	41
2001	57	2010	41
2002	71	2011	41
2003	71		

## Sales Revenue –

PLW continually monitors stock holdings and aligns these with bottled wine sales and forecasts. Wine identified as being surplus to requirements is made available for sale on the spot market which has partially recovered from the low point experienced throughout the Australian wine industry. Export sales accounted for 56% (2010: 51%) of sales volume.

	Sales Revenue by Volume					
	Bottled – domestic market	Bottled – UK market	Bottled – export markets excl UK market	Bulk – current vintage	Bulk – prior vintages	Total revenue by volume
1994	16%	15%	4%	44%	21%	100%
1995	15%	17%	4%	37%	27%	100%
1996	15%	18%	5%	44%	18%	100%
1997	16%	21%	4%	36%	23%	100%
1998	21%	33%	5%	27%	14%	100%
1999	27%	34%	6%	21%	12%	100%
2000	36%	33%	11%	8%	12%	100%
2001	33%	32%	17%	8%	10%	100%
2002	37%	28%	17%	10%	8%	100%
2003	43%	24%	22%	8%	3%	100%
2004	37%	25%	26%	7%	5%	100%
2005	37%	26%	25%	4%	8%	100%
2006	32%	27%	29%	5%	7%	100%
2007	28%	20%	28%	2%	22%	100%
2008	29%	19%	33%	6%	13%	100%
2009	33%	16%	38%	7%	6%	100%
2010	32%	13%	38%	5%	12%	100%
2011	29%	10%	45%	6%	10%	100%

	Sales Revenue by Dollars						
	Bottled – domestic	Bottled – UK	Bottled – export excl UK	Bulk – current vintage	Bulk – prior vintages	Contract services	Sales Revenue by \$000's
1994	32%	26%	6%	24%	12%	0%	12,979
1995	31%	33%	7%	18%	11%	0%	13,662
1996	31%	27%	7%	22%	8%	5%	17,167
1997	31%	30%	8%	16%	11%	4%	22,113
1998	32%	43%	7%	10%	5%	3%	31,243
1999	39%	39%	9%	7%	3%	3%	35,146
2000	46%	31%	16%	2%	3%	2%	36,406
2001	38%	31%	24%	2%	2%	3%	41,696
2002	41%	27%	25%	3%	2%	2%	44,762
2003	43%	23%	29%	2%	1%	2%	46,091
2004	38%	23%	33%	2%	2%	2%	51,250
2005	37%	24%	32%	1%	4%	2%	55,543
2006	34%	24%	37%	1%	3%	1%	57,592
2007	31%	21%	39%	1%	7%	1%	63,487
2008	33%	11%	45%	3%	6%	2%	61,999
2009	34%	8%	51%	2%	3%	2%	52,598
2010	35%	7%	49%	2%	6%	1%	50,088
2011	31%	6%	54%	3%	5%	1%	45,634

Branded domestic sales were down 23% in volume and 20% in value compared with the previous year. Over supply, continued market consolidation and the strong presence of New Zealand white wine are major factors negatively influencing the domestic scene.

PLW total branded export sales have also been adversely affected by the poor global conditions and adverse exchange rates, with volume and value down, 1% and 3% respectively. As market conditions in the UK deteriorated further we decided not to be involved, but rather, protect the brand name and to concentrate further on the on premise segment (restaurants, clubs and hotels) of the market supplemented with profitable sales to the off premise segment (supermarket trade).

The Company's largest export market remains a collective of countries in Continental Europe with sales of a similar volume to that of our Australian market. Sales for the past twelve months were up 5% in volume and down 4% in value over that for the corresponding period of the previous year. The revenue was affected by the strengthening Australian dollar.

Bulk wine sales recovered from the slowdown experienced in the aftermath of the global financial crisis but remain subdued as the Australian wine industry remains in an oversupply position.

The Barossa district is highly regarded as a world class producer of top quality fruit and PLW has sufficient volumes of high quality wine available which will greatly assist in meeting future sales aspirations. The outlook for the national 2012 vintage is quite uncertain as the industry continues to go through undergoing structural changes to bring supply back into balance with demand.

**Profitability** – Management is cognisant of the need to balance volume growth aspirations with profitability targets. The stronger Australian dollar affected profitability with \$654,000 of translation exchange rate losses being recorded compared with losses of \$471,000 in the prior period.

The reporting of certain assets and liabilities at fair value at reporting date introduced more volatility into the measurement of profit. This principle applies to biological assets - grape vines and their crops, as well as financial derivatives such as interest rate swaps and forward exchange contracts.

A measure of trading profitability EBIT expressed as a percentage of sales. The outcome is determined by the mix of revenue activities and their respective margins as well as PLW's ability to contain costs and expenses. The 2004 EBIT % has been calculated exclusive of the takeover costs in order to compare the performance with prior years.

	EBIT as % of sales revenue		EBIT as % of sales revenue
1994	17%	2004	19%
1995	16%	2005	20%
1996	19%	2006	19%
1997	20%	2007	16%
1998	18%	2008	24%
1999	21%	2009	19%
2000	23%	2009	19%
2001	23%	2010	13%
2002	24%	2011	6%
2003	20%		

After tax profit and earnings per share are other indicators of profitability. The 2004 result was affected adversely by the takeover costs.

	After Tax Profit \$000's	Basic Earnings per share - cents	No of Shares at balance date - 000's
1994	1,352	7.1c	18,930
1995	1,296	6.8c	18,930
1996	1,807	9.4c	19,170
1997	2,589	11.9c	25,371
1998	3,464	12.2c	30,946
1999	4,475	13.9c	33,235
2000	5,009	15.1c	33,260
2001	6,195	18.1c	34,147
2002	6,915	19.0c	36,359
2003	5,419	14.5c	37,311
2004	3,830	10.1c	37,969
2005	6,317	16.6c	37,969
2006	5,748	15.1c	37,969
2007	5,975	15.7c	37,969
2008	9,604	25.3c	37,969
2009	5,736	15.1c	37,969
2010	3,795	10.0c	37,969
2011	1,006	5.5c	37,969

Another measure of profitability is the return on shareholders' equity. This is measured as the after tax profit (ATP) expressed as a percentage of shareholders' equity. The 2004 return on shareholders' equity was affected by the takeover costs.

Return on Equity	ATP as a % of equity	Return on Equity	ATP as a % of equity
1994	14%	2003	11%
1995	13%	2004	7%
1996	16%	2005	12%
1997	17%	2006	10%
1998	17%	2007	10%
1999	16%	2008	14%
2000	17%	2009	9%
2001	18%	2010	6%
2002	16%	2011	1%

## REVIEW OF FINANCIAL CONDITION

### Capital Investment and Structure

Contributed equity remained constant at \$30.6M with the use of debt facilities decreasing from \$18.8M at 30 June 2010 to \$15.5M at 30 June 2011.

At 30 June 2011 gearing (interest bearing debt as a percentage of capital employed) was 23% (2010: 27%). Interest cover (the number of times operating profit before interest and tax is greater than the total interest charge) was 2.2 times (2010: 5.9 times). The rate is below the financial covenant level.

The nature of the industry requires the maturation of red and fortified wines beyond a 12 month period. The higher 2011 grape crop volume together with the slowdown in sales and as a result the value of inventory holdings at 30 June 2011 of \$49.9 is 3% higher than the 2010 level of \$48.3M. The Group is aware of the need to balance the volumes of wines held for future sales.

Capital projects and working capital requirements have been funded by funds generated by operating activities. The relocation of the southern tankfarm to alongside the winery complex has been completed.

Company tax for the Group of \$429,000 at an effective rate of 29.8% has been provided on the operating profit before tax and compares with the company tax rate of 30%.

The Company has determined not to declare a dividend. This determination is in keeping with the board's policy of dividends moving broadly in line with underlying earnings per share.

# SHAREHOLDER INFORMATION

## 20 LARGEST HOLDERS AT 15 SEPTEMBER 2011

	No	% of Total Shares
Hess Group Australia Pty Ltd	32,527,594	85.67
Peter Leon Lehmann	3,935,499	10.37
Margaret Elizabeth Lehmann	153,400	0.40
Estate Late Joan Isabel Hopkins	132,400	0.35
Brian Francis Charles Kearns	55,066	0.15
Philip Edward Lehmann	50,000	0.13
Ann Elizabeth Robson	41,813	0.11
Barry & Marlene Moore	37,636	0.10
Logela Pty Ltd	30,000	0.08
HSBC Custody Nominees (Australia) Limited	26,238	0.07
Roger Maxwell Wilson	21,415	0.06
Chummy Nominees Pty Ltd	20,000	0.05
Thomas & Elsie Gleghorn	16,500	0.04
Zandane Pty Ltd Hinzack Super Fund	15,000	0.04
T M Stevenson Holdings Pty Ltd	14,236	0.04
Haererage Pty Ltd	13,585	0.04
Drury Lane Investments Pty Ltd	12,400	0.03
Steven James Fiebiger	11,436	0.03
Invia Custodian Pty Limited	11,415	0.03
Allen Mark & Joyleen Elizabeth Rohrlach	11,358	0.03

## SIZE OF HOLDINGS AT 13 AUGUST 2011

Range	Holders	Shares	%
1 – 1,000	239	116,615	0.31
1,001 – 5,000	145	390,710	1.03
5,001 – 10,000	43	302,256	0.80
10,001 – 100,000	18	409,459	1.08
100,001 – OVER	4	36,748,893	96.79
	449	37,968,933	100.00

## SUBSTANTIAL SHAREHOLDERS

- Hess Group Australia Pty Ltd holds 85.67% of the issued capital
- Peter Lehmann holds 10.37% of the issued capital

## Annual General Meeting (AGM)

The AGM will be held at the Peter Lehmann Winery, Tanunda, South Australia on Saturday 26 November 2011 at 11.00 am.

## Dividends

No dividend has been proposed by the Directors for 2011.

## Dividend Policy

The directors expect to pay approximately 55% of after tax profit out as dividends. The board's policy remains to increase dividends broadly in line with growth in underlying earnings per share.

## Payment Dividends

Dividends may be paid directly to a shareholder's nominated Australian bank, building society or credit union account.

## Dividend History

Year	Full Year
1993/94	3.5 cents
1994/95	3.75 cents
1995/96	4.75 cents
1996/97	5.5 cents
1997/98	6.25 cents
1998/99	7.5 cents
1999/00	8.25 cents
2000/01	10 cents
2001/02	11 cents
2002/03	9 cents
2003/04	5.5 cents
2004/05	9.3 cents
2005/06	8.3 cents
2006/07	8.6 cents
2007/08	13.9 cents
2008/09	8.3 cents
2009/10	4.8 cents
2010/11	5.5 cents

### **Information for Capital Gains Tax Purposes**

- PLW allotted 18,400,000 shares to subscribers on 29 July 1993. The price was 50 cents per share. These shares were listed for trading on the ASX on 5 August 1993.
- PLW issued 7,360,000 options exercisable at 50 cents each during the months of November 1995, November 1996 or November 1997. The options were listed for trading on the ASX on 5 August 1993.
- PLW issued 2,289,483 shares at \$1.85 each under a share purchase plan. These shares were listed for trading on the ASX on 15 December 1998.
- PLW issued 1,663,634 shares at \$2.12 each under a share purchase plan. These shares were listed for trading on the ASX on 14 December 2000.
- PLW issued 1,750,000 shares at \$3.10 each under a share placement. These shares were listed for trading on the ASX on 1 November 2001.
- PLW issued 450,000 shares at \$3.10 each under a share placement. These shares were listed for trading on the ASX on 20 December 2001.
- Following their on-market bid in September 2003 Allied Domecq plc offered to pay \$4 per share.
- Hess Group Australia Pty Ltd paid \$4 per share for shares sold in October/November 2003.

### **Trading in PLW Shares**

Peter Lehmann Wines Limited requested to be removed from the Australian Securities Exchange (ASX) Official List as there was very little trading in the shares following the takeover. The Company was removed from the ASX on 12 October 2004.

To assist investors who wish to trade shares PLW has engaged Computershare Investor Services Pty Ltd to provide a matching service whereby buyers and sellers may register their intentions. Contact details are provided to each party who then negotiate the share price between themselves.

## **Company publications**

Shareholders receive the following publications throughout the year to inform them of the Company's operations and results:

- Report on the half year to December
- Report on the full financial year & Notice of AGM
- Outcome of the AGM.

It is important that shareholders immediately notify the share registry in writing of any change of address.

PLW maintains a mailing list for shareholders and friends who are interested in receiving news of the winery. Wine offers are also included. To join the mailing list please contact the PLW Cellar Door staff –

PO Box 315

Tanunda SA 5352

Telephone: +61 8 8565 9555

Facsimile: +61 8 8565 9599

Email: [cellar.door@peterlehmannwines.com](mailto:cellar.door@peterlehmannwines.com)

Full financial statements together with the annual report are posted to [www.peterlehmannwines.com](http://www.peterlehmannwines.com).

Financial statements will be sent to shareholders on request.

## **Share Register**

Computershare Investor Services Pty Ltd

GPO Box 1903, Adelaide SA 5001

Information Matching Service –

Telephone: +61 8236 2355

Facsimile: +61 8236 2305

Website: [www.computershare.com](http://www.computershare.com)