

**MANAGING DIRECTOR'S ADDRESS TO AGM  
FRIDAY 25 OCTOBER 2002**

This year demonstrated the strength of Peter Lehmann wines and the benefits of our focus on quality wine.

Net profit after tax was up 12% to \$6.9 million on 7% higher revenue of \$45 million. Sales revenue, excluding agency lines, increased by 14% over the previous year.

Compared to last year:

- case sales, revenue and profit increased
- export revenue for the Peter Lehmann brand increased by 16%

In a very competitive domestic market PLW grew its case sales by 6% in volume with revenue from these sales up by 8% reflecting the growing strength of the Peter Lehmann brand.

Growth in distribution, continuing support from our national distributor Samuel Smith & Son and sound marketing from PLW contributed to the result.

During 2001 we decided to focus our marketing efforts more strongly on our own brands in the important UK and EU markets. As a result in the first half of 2001/02 we discontinued distributing for two of the three companies we were representing. While that decision had a modest impact on the top line it is having a very positive effect on the sales of our own wines.

Total export case sales of Peter Lehmann wines were up 12% while revenue was up 16%. This year export sales of Peter Lehmann wines accounted for over 54% of the brand's case sales.

The UK, our biggest export market, accounted for over 30% of our total branded case sales, with PLW selling 9% more cases for a 13% increase in revenue. Together with the UK, the rest of Europe makes up 43% of our total branded case sales. Working closely to support our distributors in continental Europe saw sales increase 22% over the previous year.

In the UK and Europe we launched a new mid priced range under the Weighbridge label. Market response has been positive and we expect Weighbridge to play an increased role in our continuing growth in the region.

The company appointed a new distributor in British Columbia in Canada in the second half of the year which has resulted in increased sales volume in a market that PLW believes has significant growth potential. Sales also showed moderate increases in the Asia-Pacific region. The USA is an important market for PLW and performed to expectations over the past twelve months.

The Peter Lehmann brands have a strong regional focus and this is becoming increasingly important as wine writers and consumers become more aware of the differences in character and flavour of wines made in different grape growing areas. The Barossa is particularly suited to Shiraz and Semillon and we are at the forefront with these wines. We are celebrating the release of 10 years of Stonewell Shiraz, PLW's flagship wine which is matured for 5 years prior to its release to consumers.

Helping to underpin this has been consistent wine show success coupled with stylish packaging. Over the past financial year the company was awarded 14 trophies, 26 gold, 25 silver and 63 bronze medals at Australian and International Wine Shows.

This year we processed a record total crush of 17,037 tonnes, up 11% on the 2001 crush of 15,371 tonnes. Our intake was 11,528 tonnes (2001: 10,157 tonnes) with contract crushing at 5,509 tonnes (2001: 5,214 tonnes).

Good winter rains preceded the coolest summer on record leading up to the 2002 harvest which commenced on 1 March 2002, almost a month later than last year.

The cool, ripening conditions have added elegance and flavour to the white wines. The reds have retained good acidity and achieved optimum ripeness easily. The colours and fruit flavours are excellent. It is certainly the best year since the great 1998 vintage, although the wines need more time before we can say that they will be equal to or better than those made in 1998.

The high quality and quantity 2002 vintage demonstrates that the Barossa Valley is, without doubt, an extremely reliable, premium grape growing region.

## **OUTLOOK**

The company's commitment to growth aligned with the need to maintain and improve PLW's reputation as a quality wine producer requires further capital expenditure in the 2002/03 financial year.

To enable the company to meet future growth targets, our own grape intake is planned to increase by 26% from 11,561 tonnes processed in 2002 to approximately 14,500 tonnes by the 2007 vintage. Contract processing is planned to remain at approximately 6,000 tonnes per annum over this 5 year period.

To enable the increase in fruit intake to be processed requires significant investment in capital equipment and infrastructure. Red fermentation capacity is being increased from 1,526 tonnes to just over 3,000 tonnes with the installation of 24 x 60 tonne and 10 x 10 tonne potter fermenters.

A new red fermentation barrel warehouse measuring 2,000 square meters is being built adjacent to the potter fermentation complex. Storage capacity is being increased by 3 million litres with the installation of new stainless steel storage tanks together with the relocation of existing tank farms. All of the new works are being located on the land situated on the western side of the existing winery, purchased from Peter and Margaret Lehmann last financial year.

Funds also will be spent on new oak barrels, increased crushing capacity, infrastructure and environmental improvements. Total capital expenditure is budgeted at about \$9M.

The national 2002 vintage was another record with the grape intake reaching approximately 1.65 million tonnes.

It is likely the 2003 vintage will again set a new record figure and with increased supply this may influence a reduction in some grape prices within the premium districts as seen in the irrigated regions over the past two years. Currently most regions of Australia are in drought conditions and this may impact on overall grape volumes, resulting in prices, particularly in premium districts, being maintained.

PLW's 2002 record vintage intake will allow us to grow in existing markets and to enter new global markets. Previously this has been difficult in the past due to stock constraints.

As the Chairman has stated, the first quarter's performance is ahead of the corresponding period for the previous year. However over the past 6 months increased competition and discounting, particularly in the Australian and UK markets, have the potential to impact on margins as wine companies continue to strive for growth going forward.

We expect to see continued growth in all our markets. Given the strong competition in Australia we believe higher growth will come from our export markets particularly Europe, the USA and Canada.

There are long lead times in the wine industry because of vineyard development and wine maturation time. Quality, across the range of activities from grape growing, winemaking,

packaging, marketing and financial management is paramount to success. We have taken a long-term view of the wine market and our place in it but we have and will adapt our tactics to meet short-term market conditions.

In conclusion I would like to sincerely thank all the company staff in Australia and overseas, my fellow directors for their valued guidance and input. Every year we are faced with different challenges within the wine industry we have met them and moved forward. I am confident that we can continue to do so into the future.

I would like to express on behalf of everyone who have been associated with Peter Lehmann Wines I wish to express our sadness at the passing of the company's inaugural Chairman, Mr Des Ross earlier this year. Des's contribution to PLW cannot be underestimated and I know he is remembered with great respect and fondness by all those who were associated with him. To his wife Joyce and family please accept our deepest sympathy and be comforted that his memory remains strong at Lehmann's.