

PLW MANAGING DIRECTOR'S ADDRESS TO THE AGM – 31 OCTOBER 2003

The Australian Market

Despite a relatively strong Australian economy, PLW's domestic sales volume mirrored that of the previous year.

Expected growth, was dampened by –

- excessive discounting by major wine companies
- continued consolidation in the retail sector
- considerably more wine becoming available for sale on the domestic market

These elements added to the tension in what was already an extremely competitive market and impacted on volume and margin.

Given these difficult conditions Samuel Smith & Son, PLW's national distributor, performed well to maintain the level of distribution.

Export Markets

Exports remain crucial to the continued growth of PLW. Over the past twelve months the company has expanded its distribution to over 25 countries world wide, with sales to these overseas destinations accounting for 58% of the company's total branded sales volume.

Total export sales grew by 19% in volume and 10% by revenue over the previous year.

- The United Kingdom remains the Company's largest export market accounting for 30% of the branded volume. Gains in distribution, particularly with regional wholesalers and on premise outlets, together with the acceptance of the Weighbridge and Wildcard ranges saw volume grow by 10% over the past twelve months. Revenue was down 4% for similar reasons that are affecting the domestic market.
- Over the past six years PLW has focused on building its presence in Continental Europe. Working closely with independent distributors in 16 countries PLW has been able to increase brand awareness and its distribution throughout the continent.

Over the past year sales in Continental Europe increased by 63% in volume with this market now accounting for 17% by volume of the company's total export sales.

- Continental Europe revenue increased by 46% over that of the previous year. The Company is confident that it can continue to grow volume ahead of market growth over the next twelve months.
- North American volume is slightly below the previous year as the strong Canadian performance was offset by a poor USA result. The latter was due to distribution difficulties which management believe have now been rectified with the recent appointment of a new distributor effective from 1 January 2004.
- The Asian and New Zealand markets also experienced growth over the past year.

Production

This year PLW processed a total crush of 14,302 tonnes, down 16% on the record 2002 crush of 17,070 tonnes. The PLW intake was 9,506 tonnes (2002 11,561 tonnes) with contract crushing at 4,796 tonnes (2002 5,509 tonnes).

The Barossa Valley was not as adversely affected by the widespread drought conditions experienced throughout the rest of Australia although the very dry weather leading up to vintage impacted on the crop levels. The reduced crop levels were spread across all varieties. The wines made, combined with existing stocks from the large 2002 vintage, ensure sufficient quantities are available for future sales. PLW is comfortable with the volumes of wines held.

Rain in late February followed by some relatively warm weather caused rapid ripening of most varieties. This led to a compression of the vintage period with PLW well placed to handle the sudden influx of fruit as the 2003 winery expansion provided sufficient fermentation capacity and storage. Importantly, the improved facility immediately provided the flexibility to maintain the quality winemaking edge under difficult conditions.

Quality looks to be extremely promising with sound fruit driven reds of good depth and colour. The whites show pronounced varietal characters and are of above average quality. Overall the company is very satisfied with the vintage outcome, both in terms of quality and volume, given the difficult seasonal conditions.

The Future

The Company is projecting to purchase 12,900 tonnes for its own use for the forthcoming vintage. This will be an increase of 36% over the 2003 crop. A bountiful vintage will ensure PLW has adequate stock cover to meet its future sales projections. It is expected that given a positive outlook on volume for the 2004 vintage, grape prices will reduce further as it is anticipated the industry will have an adequate supply of grapes.

While the rampant discounting prevalent in the Australian market place over the past twelve months appears to have abated to a degree, trading conditions remain extremely competitive. This is also the case in the majority of overseas markets.

Sales volumes in the first quarter are significantly ahead of the previous year's figure with solid increases in the UK and European markets. However promotional costs, higher demand for lower margin wines and the strengthening Australian dollar have impacted on margin which in turn has seen a lower profit figure returned than that of the previous year's first quarter. Further impacting on the full year profit figure has been the significant costs incurred by the company in the take over battle between Allied Domecq and the Hess group.

On a positive note is the excellent outcome for Peter Lehmann Wines with the Hess Group, as of today holding approximately 79% of the company's shareholding.

The Hess Collection will distribute the company's wines in the USA commencing in January 2004 enabling us to move forward rapidly in the American market where we have been underperforming over the past year. Further, our other independent distributors throughout the world can look to the future with confidence and certainty - knowing that PLW's future is on solid ground and absolutely free from future uncertainty and interference.

Peter Lehmann Wines is a quality driven wine company and the Hess Group is a quality driven wine company. We share similar philosophical ideals and goals and I believe this puts us in an excellent position to move forward and grasp the great opportunities in the global wine market.

I wish to congratulate Andrew Wigan and his winemaking team on the outstanding result of Peter Lehmann Wines being named International Wine Maker and Australian Winemaker of the Year at the UK International wine & Spirit Competition in London last Tuesday. Congratulations on a stand out achievement.

In closing I wish to extend my thanks to our retiring directors, Richard England, Neil Lister and in particular Harold Tilley for their contribution over the past years. I would like to pass on my special thanks to all staff. Also to all shareholders, some past and some present for their invaluable support which has helped contribute to what makes Peter Lehmann Wines the company it is today.