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Dear Shareholder

15 March 2011

### **Review of operations for the half year ended 31 December 2010**

It is with great pleasure that I write my first of what I hope to be many half year results. Unfortunately however, it is not with particularly positive results. Long term structural issues relating to the Australian wine industry still remain, with grape oversupply, the continued success of NZ Sauvignon Blanc and the Australian dollar strength compressing the margin of Australian wine producers.

Since our last official communication following the annual general meeting in October 2010, there have been some changes at PLW board level. Martin Kronenberg resigned as Chairman in January 2011, and on January 25, Eveline Saupper was appointed our new Chairwoman. Zurich based Eveline brings a wealth of board experience to PLW, along with her extensive tax and legal expertise. We are very privileged and pleased to have Eveline as our new Chairwoman.

Whilst our results overall are down versus the previous period, it is important to note that the health of the PLW brand remains strong. In value and volume terms our export markets are still growing, against the backdrop of very tough trading conditions for all Australian wine producers. This weakness in export markets for Australian wine producers (particularly the impact of a stronger Australian dollar), have caused many to realign their focus to the Australian market. This has made for an aggressive market place, which has impacted our business considerably. The domestic market is where all of our first 6 months losses stem from, and we are very focused on addressing this issue. However, as alluded to above, the health of the PLW brand still remains strong, with recent research indicating consumers in Australia still perceive PLW as a desirable brand.

#### *Trading for the 6 months to 31 December 2010 compared with the previous period:*

- Total branded sales decreased by 5% in both volume and value terms versus the previous year.
- Export markets performed strongly over the period and increased 4% and 5% in volume and revenue respectively.
- The key driver of this growth has been Mainland Europe, which has reversed the declines from the same time last year, growing 35% and 24% in volume and revenue respectively. Strong sales results have been recorded in our major markets, Switzerland, Sweden, and Germany.
- The US market has remained resilient and continues to grow (+15% growth in volume terms), however, the stronger Australian dollar has meant revenue growth has been more subdued at 5%.
- Asia continues to develop, and recorded an exceptional 122% revenue growth versus the previous 6 months, albeit from a small base.

- The key issue is the domestic market, which has deteriorated significantly on the prior period – volume is down by 25%, and revenue is down by 21%. Most of the decline is attributed to the retail chains (Coles & Woolworths) as a result of reduced promotional slots, continued aggressive price activity by all major wine competitors, and across the board de-stocking from retailers.

*Operating Profit:*

- Overall revenue declined 5% to \$25M, reflecting poor trading within the domestic market.
- Over the 6 month period the Australian dollar appreciated by 19.5% against the US dollar, 16% against the UK pound, 13% against the Canadian dollar, and 10% against the Euro. For the first 6 months the Company recorded an exchange rate loss of \$0.6M.

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**Condensed consolidated statement of comprehensive income**

**For the six months ended 31 December 2010**

<i>In thousands of AUD</i>	<b>31 Dec 2010</b>	31 Dec 2009
<b>Continuing operations</b>		
Revenue	<b>25,058</b>	26,444
Cost of sales	<b>(13,539)</b>	(13,898)
<b>Gross profit</b>	<b>11,519</b>	12,546
Other income	<b>71</b>	193
Administrative expenses	<b>(2,066)</b>	(1,417)
Marketing and public relations expenses	<b>(923)</b>	(1,122)
Selling and distribution expenses	<b>(5,865)</b>	(5,838)
Other expenses	<b>(292)</b>	(149)
<b>Results from operating activities</b>	<b>2,444</b>	4,213
Finance income	<b>99</b>	230
Finance costs	<b>(1,306)</b>	(1,158)
<b>Net finance (costs)/income</b>	<b>(1,207)</b>	(928)
<b>Profit before income tax</b>	<b>1,237</b>	3,285
Income tax expense	<b>(371)</b>	(985)
<b>Profit from continuing operations</b>	<b>866</b>	2,300

*Bank Facilities:*

At 31 December 2010 the Company had commercial bills of \$16.7M (2009: \$19.4M) drawn against the bill facility of \$29M with \$7.3M swapped from variable rates to fixed interest rate terms. Marking the swap interest rate bills to market value resulted in a gain of \$0.1M (2009: \$0.2M gain). The Company has successfully extended its facilities with the bank to 31 January 2012.

*Interim Dividend:*

Given the difficulties facing the Australian wine industry and the challenges facing PLW, the directors have determined that it would not be prudent to pay an interim dividend. The financial statements are available on request from the company or under the Investors section of the website at [www.peterlehmannwines.com](http://www.peterlehmannwines.com)

*Strategy and Future Performance:*

The Company is expecting the tough trading conditions in the domestic market to remain for the balance of the calendar year. Although we are currently developing plans to address the key fundamental issues we don't anticipate these plans to have any material impact in the current financial year.

**2011 Vintage**

Over the last few months much of eastern Australia has experienced severe weather events. These conditions have made it very challenging for those engaged in agriculture and we are relieved to report that the vigilance of our independent growers in applying sprays to prevent disease has resulted in fruit of sound quality.

We started crushing on 21 February. Currently we are experiencing warm days and cool nights and this is ideal for ripening and winemaking. Although it is too soon in the vintage period to predict, the early indications are that we will take in a good quality crop.

**2011 Royal Agricultural Society of NSW Wine Show Success**

Peter Lehmann Wines 2005 'Margaret' Barossa Semillon swept all other wines before it by winning three trophies, including the **Macquarie Group Perpetual Trophy** for Best Wine of Show.

Andrew Wigan, PLW Chief Winemaker, was thrilled to accept all three awards on behalf of his winemaking team and said *"this is a great result for Semillon, Peter Lehmann Wines and the Barossa. Semillon has been growing in our valley for 150 years or so and many of our growers' plantings are quite ancient. It makes delicious, refreshing young wines as well as complex bottle aged examples such as the 2005 Margaret that is released as a 5 year old and represents our Best Semillon of vintage"*.

Great to end on a high note!

Yours sincerely



Jeff Bond  
**General Manager**