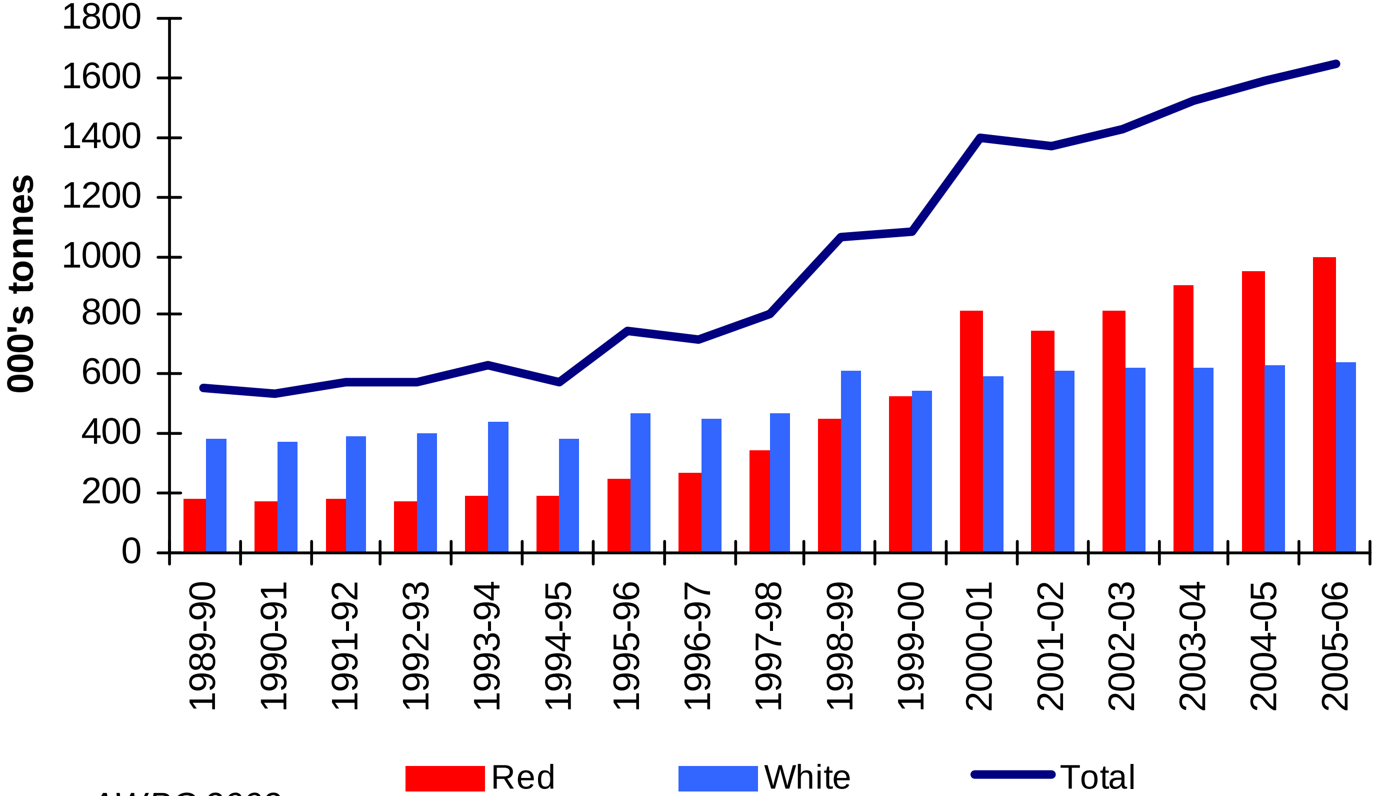
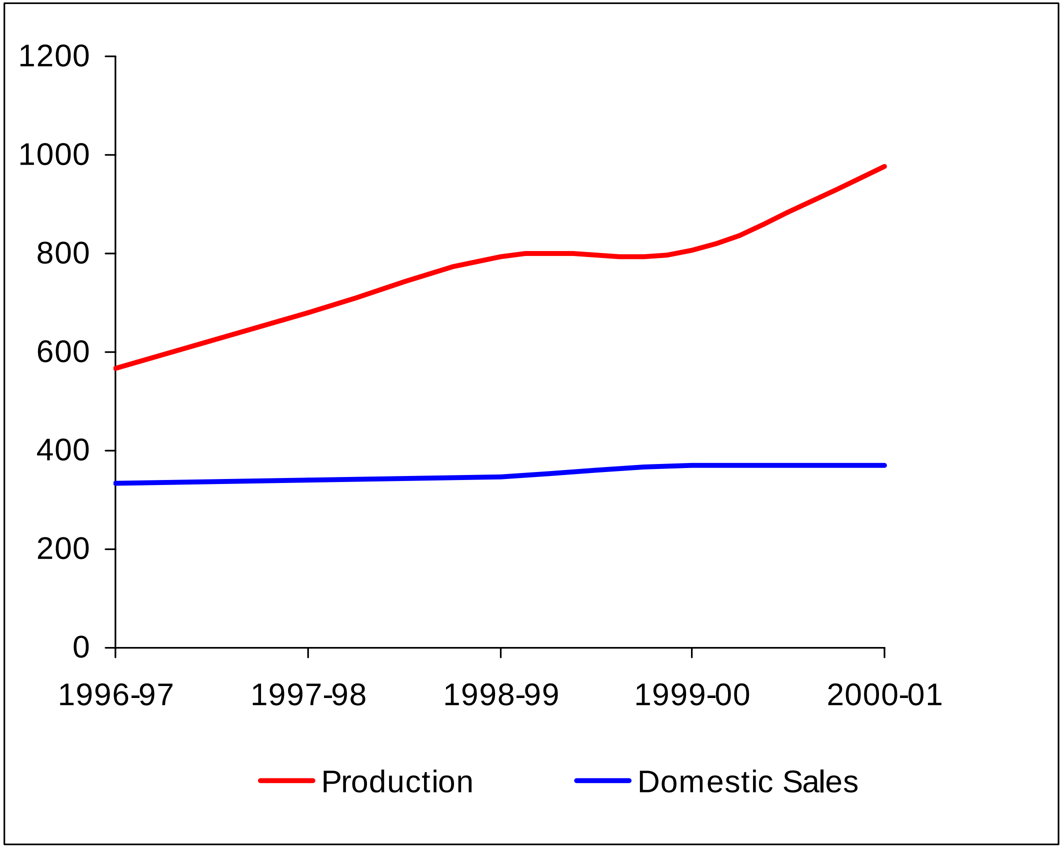
Vintage 2002
Industry notes

Australian wine grape production

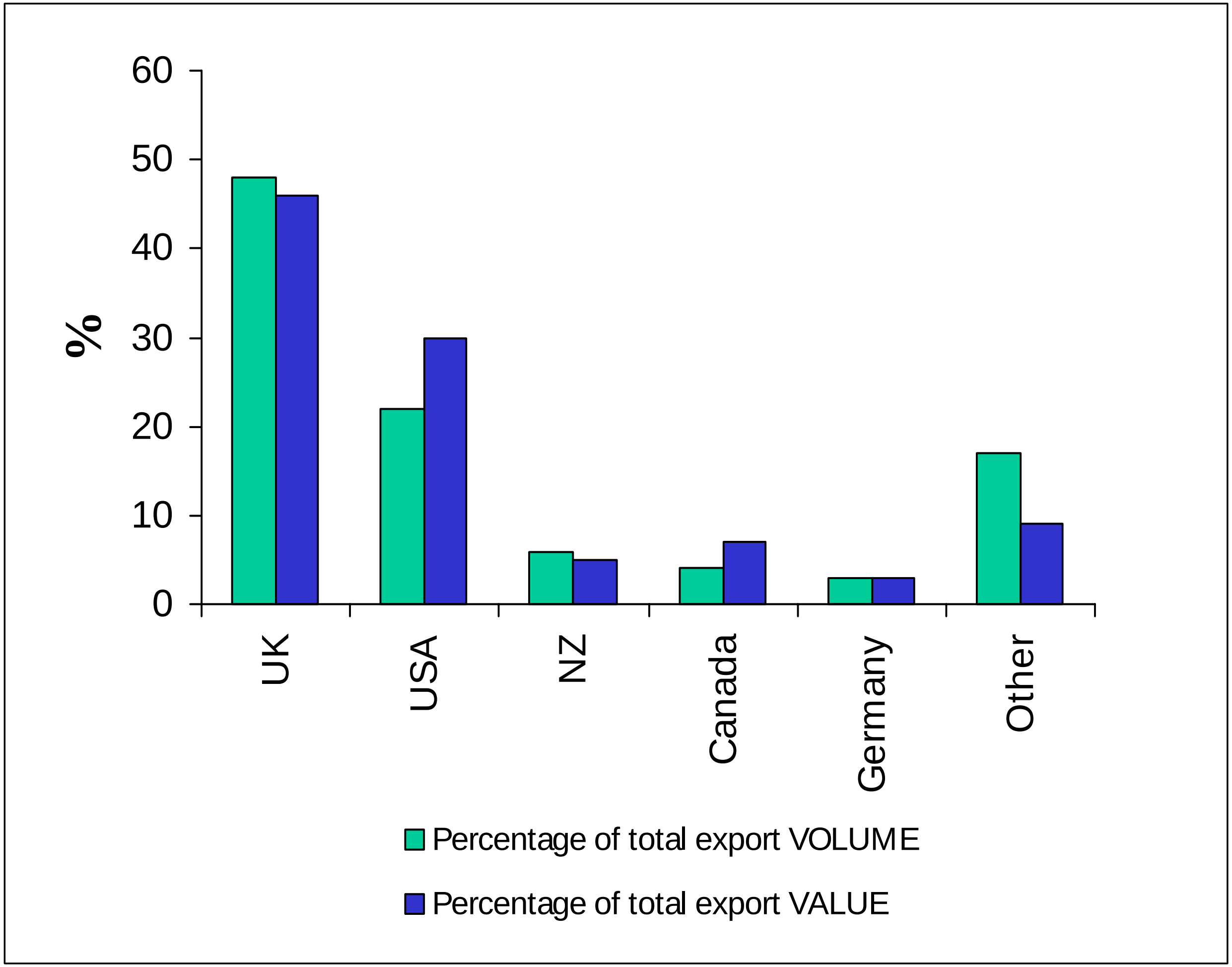


Source: AWBC 2002

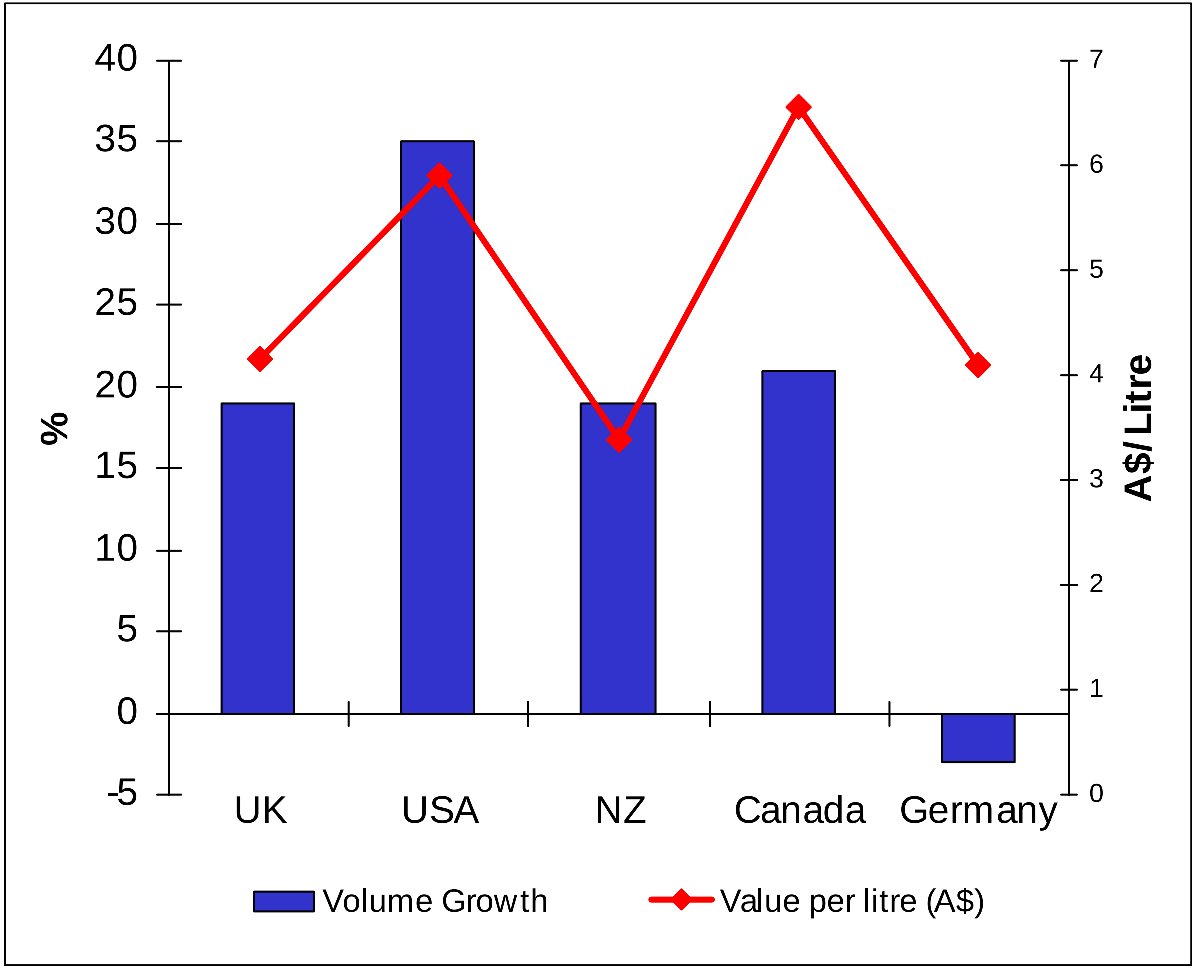
Production versus domestic sales



Australian Wine Exports



Export growth and price



Spectacular growth in exports

UK

- No domestic wine industry
- Australian wine sales grown 53% between 1998 and 2000
- Five largest retailers control 56% of market

US

- In the five years to 2000, US demand has outstripped supply, opening up the market to importers
- However, increased plantings will lead to a 20% increase in domestic supply over the next three years
- High value export market for Australia at $5.91 per litre

Almost keeping ahead of production

The major producers dominate

Southcorp	25%
Fosters (Beringer Blass)	22%
BRL Hardy	15%
Orlando Wyndham	11%
McGuigan/Simeon Wines	4%
	77%
Approx. 1,300 wineries	23%

Further rationalisation can be expected

2002 Vintage notes

- Excellent quality vintage (most regions)
- Record sales into USA
- Chardonnay in short supply
- Some contracted growers paid to leave product on vine
- Some growers without contracts having to leave grapes on vine
- Stocks of unsold bulk wine

"The haves v the have nots"

MANAGING RISK IN VINEYARD AND WINERY BUSINESSES

Risk Management Process

- Identification of key risk areas
- Quantification and ranking of risks
- Introduction of risk management “tools”
- Strategies to minimise risk exposure

Identification of Key Risk Areas

- Agricultural risk
- Supply/Volume risk
- Quality risk
- Price/cost risk
- Environmental risk
- Market risk
- Investment/Capital risks

Agricultural/Growing Risks

- Resource risk – Land, Water, Climate, Aspect
- Clear separation of risks between vineyard & winery
- What business are you in - Grape or Wine?
- Conversion risk > Brand Equity
- Role of Grape Contracts – Qualitative, Quantitative & Commercial

Supply/Volume Risk

- **Agricultural industry – seasonal/regional variations**
- **Supply security – “hit” rates**
- **Yield guidelines/tonnage caps**
- **Flexibility – grapes &/or bulk wine**
- **Capacity constraints**
- **Vintage spread – overhead recovery**

Quality Risk

- What does “Quality” mean?
- “End Use” potential v’s “Purity and Condition”
- Clear end use targets and purity & condition standards
- Field & Weighbridge rejection procedures
- Arbitration on purity & condition
- Transparency on end use classification
- Contribution of science – Grape & Wine Levies

Cooperative Research Centre for Viticulture

- Program 1 – Vineyard management to meet grape quality specifications
- Program 2 – Sustainable vineyard systems
- Program 3 – Improved grapevine performance and grape quality through gene technology
- Approx. A$30M spent past 10 years – further A$12.5M next 3 years – “Innovation” is Australia’s competitive advantage

Price/Cost Risk

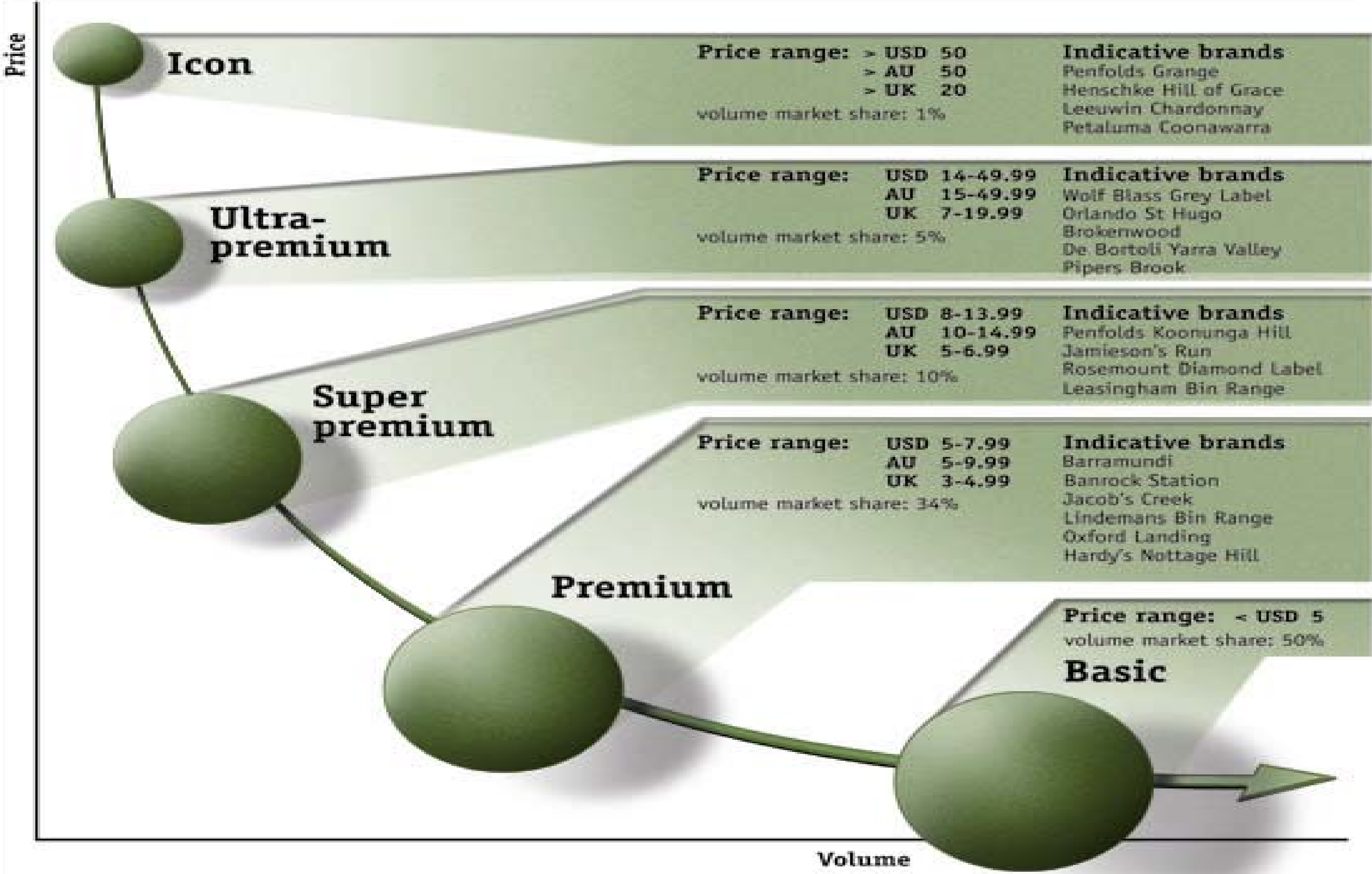
- Clarity of Pricing arrangements prior to vintage
- Pricing commensurate with quality delivered
- Two-way obligation
- Bonus and Penalty measures tied to end use and purity & condition
- Prevent cost “cascading” – COGS impact

Environmental Risk

- Compliance – EPA, MRL, LIP
- Consumer – Food Standards, GMO’s,
- Brand/Corporate Image
- Accreditation – HACCP, EMS
- Non-Tariff Barriers

Market Risk

- Branded product v's bulk wine – Domestic/Export
- Forex
- Market diversification
- Product range & price points
- Ability to absorb "agricultural" variations & de-classifications
- Volatility of demand & supply – "Rabo" scale
- Regionality – Opportunity or Constraint?
- Distribution – "hand sell" v's brand power


Price
Icon
Price range: > USD 50
> AU 50
> UK 20
volume market share: 1%
Indicative brands
Penfolds Grange
Henschke Hill of Grace
Leeuwin Chardonnay
Petaluma Coonawarra
Ultra-premium
Price range: USD 14-49.99
AU 15-49.99
UK 7-19.99
volume market share: 5%
Indicative brands
Wolf Blass Grey Label
Orlando St Hugo
Brokenwood
De Bortoli Yarra Valley
Pipers Brook
Super premium
Price range: USD 8-13.99
AU 10-14.99
UK 5-6.99
volume market share: 10%
Indicative brands
Penfolds Koonunga Hill
Jamieson's Run
Rosemount Diamond Label
Leasingham Bin Range
Premium
Price range: USD 5-7.99
AU 5-9.99
UK 3-4.99
volume market share: 34%
Indicative brands
Barramundi
Banrock Station
Jacob's Creek
Lindemans Bin Range
Oxford Landing
Hardy's Nottage Hill
Basic
Price range: < USD 5
volume market share: 50%
Volume

Market Risk

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Investment/Capital Risks

- Quantification & Ranking of identified risks
- Development of risk management tools & strategies
- Asset allocation
- Supply - vineyard ownership v's "control"

  - supply security targets/controls
- Processing & Storage – Contingency for agricultural variations
- "Virtual" Wine Companies
- Inventory – range & mix – maturation – stock turns - "ego" v's cash flow