



## **MARLBOROUGH WINE ESTATES GROUP LIMITED (NXT: MWE) – NXT Market Announcement**

**Date: 28 October 2016**

### **MWE Key Operating Milestones - First Quarter (July – September 2016) Business Update**

#### **General Commentary**

AUCKLAND, NEW ZEALAND, 28 October 2016 – The board of Marlborough Wine Estates Group Limited (NXT: MWE) is pleased to announce the quarterly performance of the business to September 30, 2016, compared to the company's Key Operating Milestone (KOM) targets for the year ending June 30, 2017.

The board remains confident in achieving its FY2017 KOM targets. The Company has seen an increase in demand for wine in China and is continuing its efforts to expand into other overseas markets. MWE's first shipment to its new USA distributor is due to arrive in the USA at the end of October.

#### **Awards**

MWE's products have also received critical acclaim with O:TU Sauvignon Blanc recently receiving awards in the below prestigious international wine competitions:

- Double Gold Medal in the San Francisco International Wine Competition 2016
- Gold Medal in the Berliner Wein Trophy 2016

#### **MPI Update**

MWE understands that the dispute between the Ministry for Primary Industries (MPI) and MWE's former wine processor remains unresolved and the timing for a resolution remains uncertain. As a result, \$1.2 million of MWE's bottled wine stock still cannot be released for sale. Based on legal advice received MWE considers that it has a strong basis for claiming damages from its former processor.

#### **OIO Update**

MWE continues to work with the Overseas Investment Office (OIO) regarding the retrospective consent application, as previously outlined in the listing document. The timing for a final decision from the OIO remains uncertain. A retrospective consent will effectively cure the technical breaches of the Overseas Investment Act 2005 that occurred as part of MWE's internal restructuring to prepare for listing on the NXT Market. If the consent application is declined the OIO would then determine what action it would take in respect of the breaches. At this time MWE has no indication from the OIO that it would seek any materially adverse remedies.

#### **Donaldson Block Dam Construction**

The Company has initiated the construction of the Donaldson Block dam and it is expected to be completed in January. The dam will greatly improve the irrigation of the McKee and Donaldson blocks. Planting is expected to begin next year and the harvest is expected to begin in five years' time.

## Performance Against Key Operating Milestones

In accordance with the requirements of Rule 49 of the NXT Market Rules, the Board of Marlborough Wine Estates Group Limited is pleased to report the following Key Operating Milestone performance for the first quarter of FY2017:

Key Operating Milestones	First Quarter FY 2017	FY ended 30 Jun 2017 (Prospective)
Gross Harvest (tonnes)	0	1,544
Bulk Grape Sales (tonnes)	0	1,144
International Bottled Wine sales revenue	\$170,169	\$3,200,000
New Zealand Bottled Wine sales revenue	\$41,104	\$205,940

For ease of reference, we attach to this announcement further information (as contained in MWE's Listing Document dated 30 June 2016) regarding the rationale for the KOMs, together with the manner in which the respective KOMs have been calculated.

### Commentary regarding KOMs

#### Gross Harvest:

Gross Harvest is a seasonal metric which is normally reported in the last quarter of the financial year (April to June) following the annual harvest of the grapes. As such, there was no gross harvest tonnage for the quarter ended September 30, 2016. The climatic and growing conditions have been normal and in line with expectation, and the fruit is developing naturally and in accordance with its seasonal schedule.

#### Bulk Grape Sales:

Actual sales and delivery of bulk grapes are made after the grapes are harvested, which is normally in the period of April to June. The nil Bulk Grapes Sales Revenue in the first quarter is in line with expectations.

#### Bottled Wine Sales:

International Bottled Wine Sales Revenue is low against the full year target. The distributor in China tends to place large orders to minimise costs of freight and customs clearance. It is expected that a large proportion of the international bottled wine sales will fall into the second half of the financial year. The upcoming Chinese New Year holiday in early 2017 also tends to increase wine demand. MWE remains confident that the full year KOM target will be met, particularly in light of the Chinese distributor having contractually agreed to order a minimum of \$3 million of wine in the current financial year.

New Zealand Bottled Wine Sales Revenue has been strong and in line with expectation. The total bottled wine sales in New Zealand for the first quarter are slightly lower than 25% of the annual target, mainly due to the winter season, during which customers are more likely to purchase red wines over white wines. MWE is confident that the New Zealand bottled wine sales revenue will pick up in the summer season and the annual KOM target will be met.

### Authority for this announcement

Name of senior manager or director authorised to make this announcement:	Catherine Ma
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Date of release:	28 October 2016

Marlborough Wine Estates Group Limited's shares can be traded on the NXT Market. Marlborough Wine Estates Group Limited is required to disclose information under the NXT Market Rules. Information about the NXT Market and the NXT company is available here [www.nxt.co.nz](http://www.nxt.co.nz).

## FURTHER INFORMATION REGARDING KOMS

All NXT companies are required to set Key Operating Milestones (KOMs) and targets and must report against those targets on an ongoing quarterly basis. A KOM is a metric for measuring and reporting on the performance of MWE. The KOMs must meet the NXT standard. This means that the KOMs, when taken together, address the most significant factors by which the performance of MWE's business should be assessed and monitored and will result in understandable reporting for investors.

The rationale for MWE's KOMs expressed in the table above, together with the manner in which the respective KOMs have been calculated, is as follows:

### 1 Gross Harvest

This is an annual measurement of grape production from the vineyards and shows the vineyards growth and grape supply capacity. Harvest yields are expected to increase from the existing vines until they mature. The importance of increased gross harvest is to meet bottled wine sales growth. In particular, it demonstrates the ability of MWE to meet growth in sales without a need to reduce or cease bulk grape sales in the short term.

### 2 Bulk Grape Sales

Grape supply agreements have been signed to supply bulk grapes from certain vineyard blocks for the 2016 and 2017 vintage harvests. MWE is expecting to see growth in bulk grape sales for each vintage for 2016 and 2017 from the 2015 levels, due to increased operating efficiency and vine maturity, resulting in a lift in gross harvest volumes as outlined in the Gross Harvest KOM. Due to very favourable climatic and growing conditions in the Marlborough region, there was a larger than expected harvest for FY 2016 (on that basis, it is anticipated that FY 2017 bulk grape sales will reduce). This measurement shows the bulk grape allocation of the total harvest under the first KOM (Gross Harvest) with the remaining harvest being processed for bottled wine and bulk wine. MWE's key strategy is to significantly increase exports of bottled wine that will be supported over time by more allocation of grapes to bottled wine processing.

### 3 Bottled Wine sale revenue

This is a measurement of revenue derived from bottled wine sales. It shows the core overall market growth that MWE is seeking to achieve. MWE's strategy is to use its joint ownership model and distribution network advantage in China to dramatically increase export volumes to that market and drive growth in bottled wine sales revenue. Distribution agreements have been signed to supply \$1.4 m and \$3m worth of bottled wine to China in FY2016 and FY2017 respectively. This measurement will show the effectiveness of MWE's business strategies around increasing bottled wine sales revenues.