



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

Date: 3 May 2017

MWE Key Operating Milestones - Third Quarter (January - March) Business Update

General Commentary

AUCKLAND, NEW ZEALAND, 3 May 2017 – The board of Marlborough Wine Estates Group Limited (NXT: MWE) is pleased to announce the quarterly performance of the business to 31 March 2017, compared to the company's Key Operating Milestone (KOM) targets for the year ending June 30, 2017.

As recently advised to the market, the International Bottled Wine sales revenue has been adversely impacted by a general slowdown of the Chinese economy and consumer spending, which has affected the spend on premium New Zealand wines.

China is MWE's largest export market and the Company will continue to work with its distributor to develop the Chinese market as well as continuing its efforts to expand and develop other major international markets.

New Products Launched

MWE launched two products in the third quarter, including a Hawkes Bay Merlot Rosé and Hawkes Bay Organic Syrah. These were created due to strong market demand and will further broaden the Company's product range and variety.

Bulk Wine Sales

MWE has started selling bulk wine to a large US-based importer and distributor. Year to date sales as at the end of the third quarter were \$288,000.

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 and subsequent updates. 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. Currently, MWE has no indication from the OIO that it would seek any materially adverse remedies.

Donaldson Block Dam Construction

The construction of the Donaldson Block dam is completed and now in use. The dam greatly improves the irrigation of the McKee and Donaldson blocks. Planting in the Donaldson Block is expected to begin in late 2017 and the harvest is expected to start in five years' time.

Performance Against Key Operating Milestones – Reset of Target

In accordance with the requirements of Rule 47 of the NXT Market Rules, the Board of Marlborough Wine Estates Group Limited has reset the KOM target for International Bottled Wine sales revenue as follows:

Key Operating Milestones	Full Year FY17 Target	Full year FY17 Target - Reset	Impact of Target Reset
International Bottled Wine sales revenue	\$3,200,000	\$1,300,000	Decrease - \$1,900,000

The board of MWE is today resetting the annual target for one of its key operating milestones, International Bottled Wine sales revenue, following notification from its key distributor in China that it would not be able to meet its annual purchase commitment.

The adjustment by its distributor is due to more challenging trading conditions in China, which is MWE's main export market. This includes:

- A general slowdown of the Chinese economy and consumer spending, which adversely affects the spend on premium New Zealand wines;
- A slower than expected Chinese New Year shopping period which is traditionally a busy shopping season. This year MWE's distributor did not sell as much wine as expected which has caused delays in placing further orders with MWE.

As advised to market in MWE's interim update on 19 April 2017, because of the above conditions in China, Great Esprit Limited (GEL) will not be able to meet its minimum annual commitment to purchase bottled wine for the year ended June 30, 2017 under its wine supply agreement with MWE's subsidiary Otuwhero Trustee Limited. The commitment was for \$3 million of bottled wine and MWE has been advised that the expected performance against this commitment is likely to now be \$1.3 million.

Talks are continuing with GEL about the shortfall.

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 third quarter of FY2017:

Key Operating Milestones	First Quarter FY2017	Second Quarter FY2017	Third Quarter FY2017	Year to Date FY2017	FY ended 30 Jun 2017 (Prospective)
Gross Harvest (tonnes)	0	0	0	0	1,544
Bulk Grape Sales (tonnes)	0	0	0	0	1,144
International Bottled Wine sales revenue	\$170,169	\$651,910	0	\$822,079	\$1,300,000 (Reset)
New Zealand Bottled Wine sales revenue	\$41,104	\$48,093	\$36,017	\$125,214	\$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 way 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 31 March 2017. The climatic and growing conditions have been normal and in line with expectations, and the fruit has developed naturally and in accordance with its seasonal schedule. The Gross Harvest is expected to be slightly down on the KOM target forecast but still well within the 10% KOM target band.

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 third quarter is in line with expectations.

Bottled Wine Sales:

As noted above, the International Bottled Wine sales revenue has had its target reset.

New Zealand Bottled Wine sales revenue has been growing strongly this year and in line with expectations. MWE remains confident that the New Zealand bottled wine sales revenue will continue to grow and the annual KOM target will be met. The new products launched, especially the Merlot Rosé, was driven by strong local market demand and will help MWE expand the local market.

Outlook

MWE will continue to monitor the market conditions in China very closely. The overall value of wine exports to China from New Zealand has not grown in the past year but the industry still believes there is significant potential for premium New Zealand wines in China, as the value of exports to China is currently only small compared to exports to Australia and the US.

MWE is working on further developing other international markets such as the US, Japan and other Asian countries. The bulk wine importer based in the US has indicated they would like more containers of the FY18 vintage and this could contribute to increased international sales revenue in the next financial year. MWE has recruited staff in Japan to help develop the lucrative Japanese market, which is a consumer of white wines. MWE is also partnering with distributors to open up markets in South Korea, Taiwan and Canada.

Future Events

Event	Date
2017 Year End balance date	30/06/2017
4 th Quarter Business Update	28/07/2017
Annual KOM Targets Due	31/08/2017
Full Year Preliminary Result Due	31/08/2017

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Authority for this announcement

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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.

MWE

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.