



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

**Date: 27 July 2017**

### **MWE Key Operating Milestones - Fourth Quarter (April - June) Business Update**

#### **General Commentary**

AUCKLAND, NEW ZEALAND, 27 July 2017 – The board of Marlborough Wine Estates Group Limited (NXT: MWE) is pleased to announce the quarterly performance of the business to June 30, 2017, compared to the company's Key Operating Milestone (KOM) targets for the year ending June 30, 2017.

#### **New Products Launched**

MWE launched two products in the third quarter, a Hawkes Bay Merlot Rosé and Hawkes Bay Organic Syrah, and have launched a Hawkes Bay Merlot Cabernet Sauvignon in the fourth quarter. These products will further strengthen MWE's product portfolio, capture additional market share and add to the Company's existing revenue streams.

#### **Bottled Wine Sales**

MWE had a strong fourth quarter in terms of domestic bottled wine sales. Its Hawkes Bay red is receiving high levels of interest from retailers and end customers. MWE will continue to grow bottled wine sales in domestic markets in the coming financial year with further improvements in variety and a more competitive pricing strategy.

As previously 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. MWE will continue to work with the Chinese distributor and explore other international markets.

#### **Bulk Wine Sales**

MWE has started selling bulk wine to a large US-based importer and distributor and sales for the year ended June 30, 2017 were \$288,000. MWE has signed a new deal with the same US importer to supply 6 more containers of bulk wine in the current financial year.

#### **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.

#### **Future Vineyard Development**

With the Donaldson Block Dam completed and in use, MWE is shifting its investment focus to vineyard development and further planting. MWE is planning to plant 5 ha of non-Sauvignon Blanc varietals in 2018 and more in 2019-2020.

## 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 fourth quarter of FY2017:

Key Operating Milestones	First Quarter FY2017	Second Quarter FY2017	Third Quarter FY2017	Fourth Quarter FY2017	Year to Date FY2017	Full year FY17 Targets
Gross Harvest (tonnes)	0	0	0	1,450	1,450	1,544
Bulk Grape Sales (tonnes)	0	0	0	1,112	1,112	1,144
International Bottled Wine sales revenue	\$170,169	\$651,910	0	\$525,586	\$1,347,665	\$1,300,000 (Reset)
New Zealand Bottled Wine sales revenue	\$41,104	\$48,093	\$36,017	\$62,001	\$187,215	\$205,940

For ease of reference, we attach to this announcement further information 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.

MWE's gross harvest is within the 10% band of the FY17 target. The Marlborough region endured two devastating storms during harvest season that turned what was expected to be a great season, into a difficult one for many vineyards. With some hard work from its vineyard staff, MWE only suffered a minor loss of grapes and was still able to harvest some high-quality grapes.

#### Bulk Grape Sales:

The minor loss of harvest affected the bulk grape sales but MWE was still able to achieve bulk grape sales within the 10% band of the FY17 target.

#### Bottled Wine Sales:

MWE has slightly exceeded the reset international bottled wine sales target. The premium wine market in China has slowed down in the past year and MWE is working with its distributor to improve its competitiveness by improving the pricing strategy and product range. At the same time MWE is also working with other distributors in the USA and other Asian countries to develop and grow these markets.

New Zealand Bottled Wine sales revenue has been growing strongly this year and MWE is within the 10% band of its full year target. MWE's new products have helped capture additional market share in an increasingly competitive domestic market.

### Future Events

Event	Date
Annual KOM Review and Targets Due	31/08/2017
Full Year Preliminary Result Due	31/08/2017
Annual Report Due	30/09/2017
FY18 1st Quarter Business Update Due	30/10/2017

**ENDS**

**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](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 and MWE is expecting to see growth in bulk grape sales 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. 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 sales. 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 sales 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 increase export volumes to that market and drive growth in bottled wine sales revenue. This measurement will show the effectiveness of MWE's business strategies around increasing bottled wine sales revenues.