

Martinsborough Vineyard

Handcrafted Excellence in Wine

EXECUTIVE CHAIRMANS REVIEW

WINE INDUSTRY OVERVIEW

The year ended 30 June 2011 has been another challenging one for the industry in general and your company MVEL in particular. Quoting the Chairman of Winegrowers NZ in the 2011 Annual Report “profitability in the wine sector is under siege on all fronts. Prices across the board continue to be squeezed as a consequence of the perceived oversupply and proliferation of retailer brands and fierce competition is an increasingly limited number of distribution channels.”

The 2011 New Zealand vintage produced 328,000 tonnes of grapes of which 206,000 were Marlborough Sauvignon Blanc. 157 million litres of wine worth \$NZ 1.094 billion was exported. New Zealanders consumed 66 million litres of wine of which 27 million was imported. There are 698 registered wineries in New Zealand but the industry is now dominated by a few foreign controlled corporates producing predominately Sauvignon Blanc under a plethora of brands. There is no problem with this as the industry has benefitted enormously from their supply of capital marketing investment and distribution channels especially in regard to low value, high volume product. However, it is clear that this is not the industry sector that MVEL neither wishes to be in nor can compete in. Our position is clearly in low volume, high value and high quality world class wines, especially pinot noir.

FINANCIAL RESULTS

MVEL has not been immune from the global and domestic market turmoil. Our margins were 50% lower than budget despite a good first half year start. In addition, the sector turmoil has had a further flow on effect in the value of our vineyards which is reflected in the financial position. Despite these pressures MVEL has been able to improve slightly on the 2010 EBIT and operating cash surplus whilst at the same time repay some bank debt. I am of the opinion that subject to no further seismic shifts in the wine industry and global financial conditions that MVEL can steadily improve its financial position over the medium term once some material debt reduction is achieved. The company sustained a loss of \$1,368,640 for the financial year ending 30 June 2011. The two overwhelming factors leading to this result are financing costs of \$815,672 and the revaluation of assets of \$482,815. EBIT was \$177,606 and EBITDA was \$552,393. Expenses were reduced by \$243,000 compared to 2010. Our bankers remain supportive of the company but the situation has not changed from last year wherein both they and the Directors are keen to materially reduce overall debt.

SALES

Gross sales were \$3,410,820 down from \$4,526,635 last year. The company made a strategic decision early in the year to rationalise sales to some export markets in which adverse movements in exchange rates and prices had materially affected profitability prospects. Most of this stock was not able to be immediately placed in alternative markets. Overall however our brands remain strong in all of our regular domestic and export markets. Special thanks go to Emma Levins & Paul Mason for their great sales and marketing effort during the year.

2011 VINTAGE

The 2010/2011 growing year had an above average GDD of 1230 (average 1140) but a wetter colder April made harvest difficult. Despite the tricky end to the season 245 tonnes of grapes were harvested from the company's vineyards. A further 74 tonnes of local fruit was purchased making a total of 328 tonnes processed in the upgraded winery. The one site operation this year enabled cost and control efficiencies. We are very happy with the resultant wine quality produced for each marketing channel and as I write this review I have just been advised that MVEL has won the trophy for the best Riesling at the Air New Zealand Wine Awards 2011. Congratulations to our growers Bernie & Jane Jackson and the winemakers Phil and Paul. The company has previously won this trophy for the 1988 Riesling.

MANAGEMENT

During the year the accountants position was disestablished and the new position of Finance Manager was established. As a consequence, Bridget Williams left the company and Louise Davies was appointed to the Finance Managers position. Subsequent to the end of the year, Pete Wilkins - Viticulturist resigned and a Vineyard Manager has been appointed to replace him by December.

The Current Staff are;

Louise Davies	Finance Manager
Emma Levins	Sales Manager
Paul Mason	Winemaker
Phil McArthur	Assistant Winemaker
Belinda Lau-Young	Cellar Door Manager
Paula Namana	Vineyard Operator
Hudson Rurai	Vineyard Operator

CURRENT YEARS OUTLOOK

The primary focus remains achieving a profit before tax whilst at the same time reducing debt. The company has budgeted for a modest profit based on a more rigorously constructed budget. I know this time last year I reported that we were achieving budget only to fall well behind in the last few months but with the benefit of the past two years restructuring, cost efficiencies and market rationalisation, I am cautiously optimistic that we will get over the line this year. Albeit with the proviso that there are no further adverse events in the world financial situation in general or the wine market in particular. There are things we are in control of and things over which we have no control. I believe that we are now on top of the factors within our control.

Finally, on behalf of the Directors, I wish to thank all the staff for their efforts during the year.

As Executive Chairman, I thank my fellow Directors for their support and guidance during another difficult year.

Duncan Milne
Executive Chairman