



Corporate Perspective of Wine Industry

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Corporate Perspective of Wine Industry



- ★ Industry Climate
- ★ Global and local impacts
- ★ Future Warm Region Grape Supply Base
- ★ Opportunities for growing grapes in a hot region
- ★ 2009 Vintage Outlook

“Changing Shape for Changing Times”

- **The Australian wine industry needs to change shape**
- **The sooner the better**

Factors impacting Wine Industry Performance



- ★ A\$ Foreign exchange rate
- ★ UK Import Duties
- ★ Australian Wine Oversupply
- ★ Drought-related 2008 vintage grape costs

Australian Wine Exports



Impact of Foreign Currency Movements since FY03-4

TOTAL (all currencies)	FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	TOTAL
AUD'000	Actual	Actual	Actual	Actual	Actual	FY03-08
AUD at March 2003 spot FX rate	2,699,820	3,072,429	3,232,507	3,302,652	3,561,903	15,869,310
AUD at annual average spot FX rate	2,459,620	2,745,796	2,797,022	2,903,933	2,896,522	13,802,892
Gross Impact (excluding hedge cover)	(240,200)	(326,633)	(435,485)	(398,719)	(665,381)	(2,066,419)

Notes:

- Base Spot FX rate is rate at March 2003
- Annual average spot rate for FY04-FY08 is average CBA rate for the year (taken from daily rates).
- TOTAL export value based on AWBC Data

UK Duty Impact on Australian Wine Exports

Year		FY03-04	FY04-05	FY05-06	FY06-07	FY07-08	FY03-FY08
Duty per bottle		-£1.20	-£1.24	-£1.28	-£1.33	-£1.45	
% increase		3.4%	3.3%	3.2%	3.9%	9.0%	
Duty increment per bottle		-£0.04	-£0.04	-£0.04	-£0.05	-£0.12	
Industry Volumes (9LE '000)		25,000	29,220	29,889	31,222	29,333	
Duty at Prevailing Rate		-£360,000	-£434,794	-£459,095	-£498,303	-£510,394	
Duty at FY04 Rate		-£360,000	-£420,768	-£430,402	-£449,597	-£422,395	
Annual Duty Impact	GBP '000	£0	-£14,026	-£28,693	-£48,706	-£87,999	-£179,424
Annual Duty Impact (at FY03-4 FX rate)	AUD '000	0	(34,192)	(69,950)	(118,738)	(214,527)	(437,407)
FY03-4 average spot rate		0.4102					
FY03-4 Duty per bottle		-£1.20					

Base costs of a bottle of Riverland Chardonnay



	2007 Vintage	%	2008 Vintage	%	% Change
Grape Cost / Tonne	\$400		\$556		+ 38 %
Grape Cost / Bottle	\$0.41	27 %	\$0.57	34 %	+ 39 %
Production costs inc packaging	\$1.11	73 %	\$1.11	66 %	
TOTAL	\$1.52		\$1.68		10 %

The Future Warm Region Grape Supply Base

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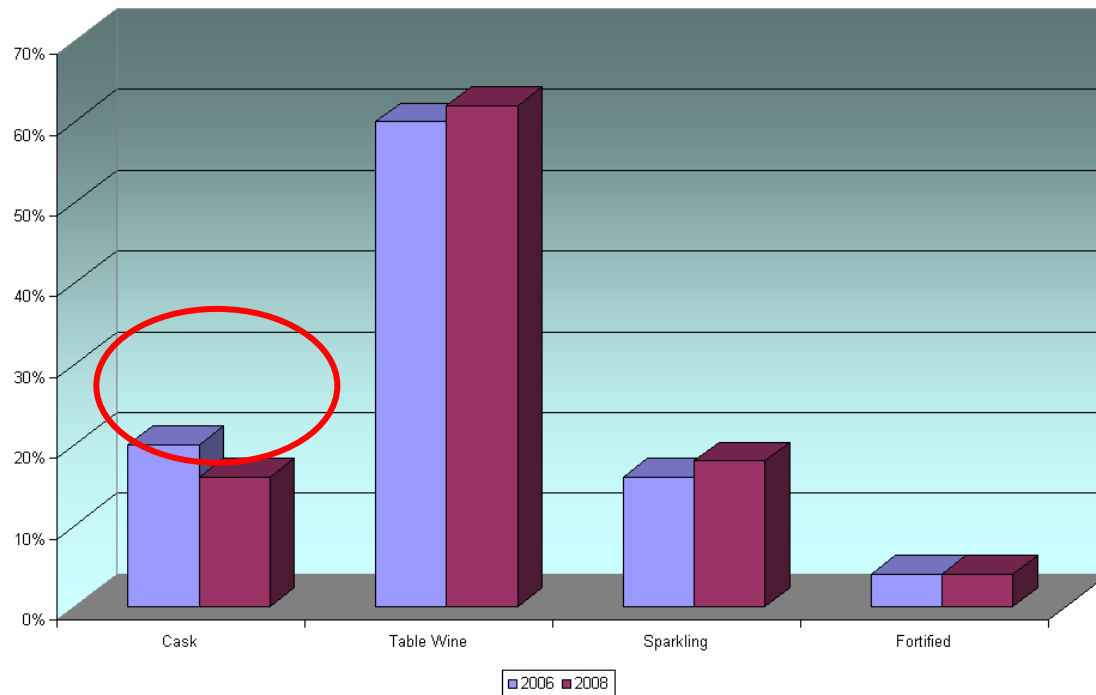
A reduced grape supply base should:

- ★ Return value to grape and wine prices
- ★ Lift the centre of gravity from a quality perspective
- ★ Reduce use of water from the MDB

Future Opportunities for Growing grapes in a warm climate

1.1 Demand trends - domestic

Consumer "trade up" includes continued shift away from casks towards bottles

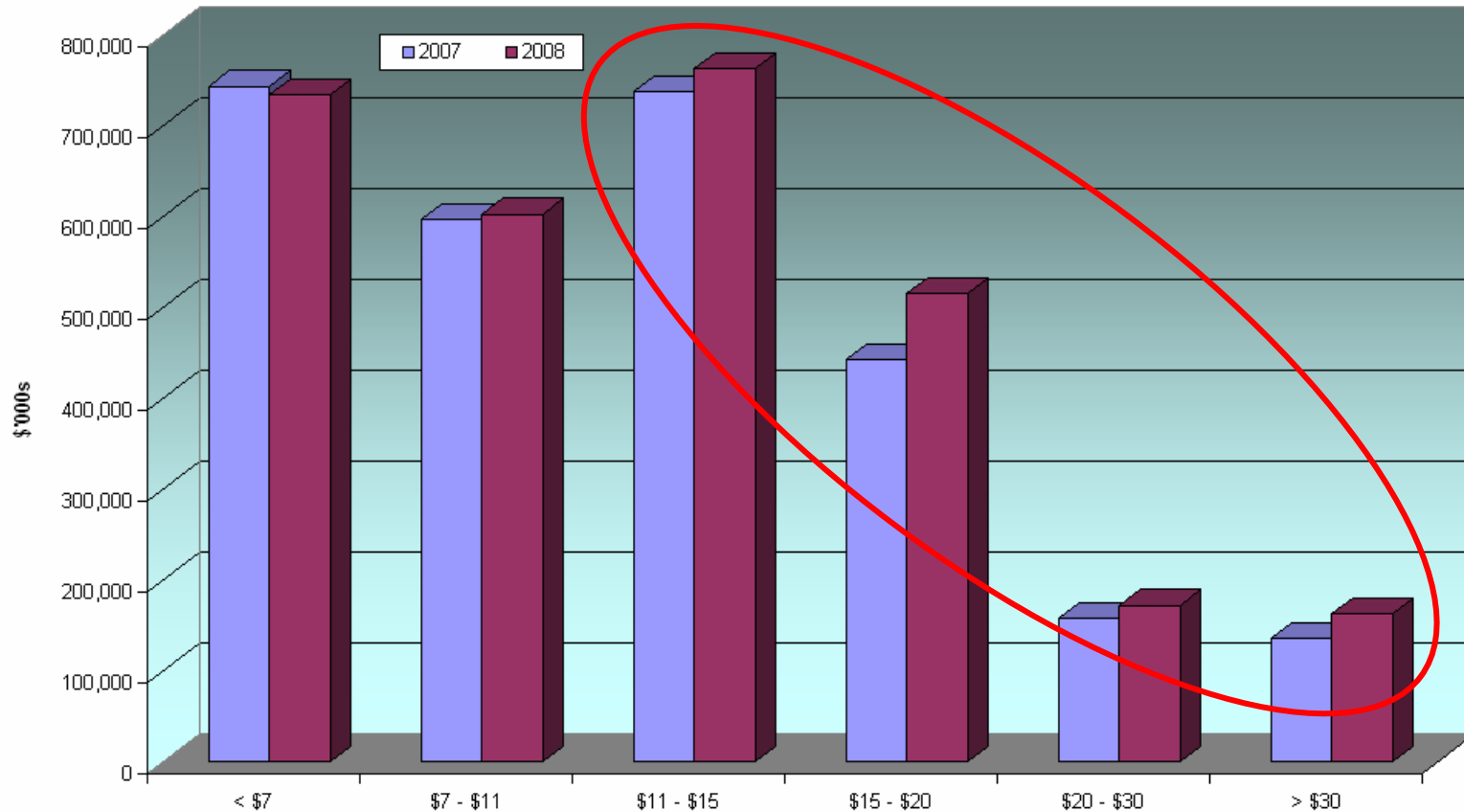


- ★ Casks 43% total Australian still wine sales
- ★ Casks have higher brand loyalty
- ★ BUT
- ★ Under threat from volumetric tax

Source: Nielsen Full Market Read, MAT Aug 2008

1.1 Demand trends - domestic

...BUT value up as consumers "trade up"



Source: Nielsen Full Market Read, MAT Aug 2008

Australian Export - Situation Analysis



Less is More – investing for long term growth

- ★ **Global Trade-up yet to be tapped! Trading up trend evident all major markets (MAT August 08)**
 - UK Aust wine £5 above +23% (Nielsen)
 - US Aust wine \$15-\$20 +38% (IRI)
 - ROW Aust wine \$7.50 - \$9.99 p/L +28% (AWB shipment)
 - CANADA Aust wine \$15-\$18 +231% (AWB shipment)
 - NZ Grocery sales growth \$15-\$20 +12% (Aztec)

Hot Opportunities



- ★ Target production to higher price points \$7 – 15
- ★ Quality based grape pricing
- ★ Strategic approach to growing for end use
- ★ Grower – winery relationship
- ★ New Mediterranean varieties

2009 Vintage Outlook

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- ★ MDB inflows well below long term average
- ★ Temporary water reduced cost compared to 2007 / 08
- ★ SA and NSW grape growers can access sufficient water
- ★ Victorian irrigators short?

2009 Vintage outlook



- ★ Chardonnay crops very big with winged bunches
- ★ Colombard and Gordo extremely good
- ★ Cabernet and Shiraz looking better than average
- ★ Big unknown is who and how many have sufficient water
- ★ Outlook for cool regions another fruitful season
- ★ Current outlook for vintage to exceed 1.8 million tonnes

Riverland Shiraz Canopy – October 2008



Riverland Shiraz with 20 cm and long bunches – October 2008





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