Peter LEHMANN of the Barossa

Dear Shareholder 17 March 2010

**Review of operations for the half year ended 31 December 2009**

*Australian wine industry*
In November 2009 the wine industry bodies jointly stated the stark reality facing the industry as "structural surpluses of grapes and wine are now so large that they are causing long-term damage to our industry by devaluing the Australian brand, entrenching discounting, undermining profitability, and hampering our ability to pursue the vision and activities set out in the *Directions to 2025 i*ndustry strategy".

Structural changes are required urgently as at least 20% of bearing vines are surplus to requirements, sales of higher value exports have declined and domestic sales of Australian wine have fallen. The importation of NZ Sauvignon Blanc continues unabated and is decimating sales of Australian made white wines. The problems in the industry are being compounded by an Australian dollar which has strengthened against the currencies of importing countries and made our wines less competitive.

*PLW trading for the 6 months compared with the previous corresponding period*

- Total branded sales decreased by 7% and 9% in volume and revenue respectively.
- Although the Australian market remains difficult as competitors actively promote wines with the retailers to shift volume, the Company's efforts to hold on to market share without damaging the brand image resulted in decreases of 4% and 3% in volume and revenue respectively.
- Conditions in the UK market tightened further and management decided to stay out of the higher volume, no margin sales activity. As a result sales through the UK joint venture arrangement to the "off trade" (supermarkets and high street stores) have declined with the focus shifting to the higher margin "on trade" (pubs, bistros, restaurants).
- Sales to the important continental European market slowed by 26% and 29% in volume and revenue respectively. It has been a mixed performance with the Scandinavian markets proving to be fairly resilient and sales activity in Germany, The Netherlands and Switzerland being quite subdued.
- Volume shipped to North America increased by 20% although the stronger currency meant that revenue only increased by 10% on translation of the revenue into Australian dollars.
- Sales to the emerging markets of Asia, India and the Middle East have been mixed and overall the Company recorded a decline of 40% and 35% for volume and value respectively, albeit off a small base.

*PLW operating profit for the 6 months compared with the previous period*
Revenue decreased by 4% to $26.4M and reflects the difficult trading conditions in all markets where customers continue to keep a tight rein on inventory levels.

Over the 6 month reporting period the Australian dollar appreciated by 15% against the UK pound, 11% against the US dollar, 10% against the euro and 2% against the Canadian dollar. This is in stark contrast to the previous corresponding period when the Australian dollar depreciated 28% against the US dollar, 20% against the euro and 13% against the Canadian dollar. As a result of the exchange rate volatility the Company recorded exchange rate losses of $0.4M (2008: $1.8M gain).

In December 2009 the Company renewed its banking facility albeit at a lower level in line with business expectations. At 31 December 2009 the Company had commercial bills of $19.4M (2008: $20.4M) drawn against the bill facility of $29M with $11.6M swapped from variable rates to fixed interest rate terms. Marking the swap interest rate bills to market value resulted in a gain of $0.2M (2008: $0.7M loss).

Compared with the previous corresponding period the after tax profit decreased by 54% to $2.3M.

*Strategy and future performance*
The Company is expecting difficult trading conditions to continue as the Australian wine industry comes to grips with its oversupply situation, recovery from the global financial crisis in export markets proceeds at a subdued rate, the domestic market remains fiercely competitive and the Australian dollar continues to perform strongly because of the demand for Australia's resources.

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**Condensed consolidated statement of comprehensive income**

**For the six months ended 31 December 2009**

| *In thousands of AUD* | ***Note*** | **31 Dec 2009** | 31 Dec 2008 |
|---|---|---|---|
| **Continuing operations** | | | |
| ***Revenue*** | | **26,444** | 27,576 |
| Cost of sales | | **(13,898)** | (12,776) |
| **Gross profit** | | **12,546** | 14,800 |
| Other income | | **193** | 444 |
| Administrative expenses | | **(1,417)** | (1,375) |
| Marketing and public relations expenses | | **(1,122)** | (1,016) |
| Selling and distribution expenses | | **(5,838)** | (6,146) |
| Other expenses | | **(149)** | (131) |
| **Results from operating activities** | | **4,213** | 6,576 |
| Finance income | | **230** | 1,872 |
| Finance costs | | **(1,158)** | (1,242) |
| **Net finance (costs)/income** | **7** | **(928)** | 630 |
| **Profit before income tax** | | **3,285** | 7,206 |
| Income tax expense | 8 | **(985)** | (2,220) |
| **Profit from continuing operations** | | **2,300** | 4,986 |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | **-** | 10 |
| **Total comprehensive income for the period** | | **2,300** | 4,996 |

Given the difficulties facing the Australian wine industry and the challenges facing PLW, the directors have determined that it would not be prudent to pay an interim dividend. The financial statements are available on request from the company or under the Investors section of the website at www.peterlehmannwines.com.

When PLW became a public company in 1993 it was predominantly a bulk wine producer and in 1993/94 recorded revenue of $13M and an after tax profit of $1.4M. Over the years the Company has evolved into a well respected producer of premium bottled wine and made substantial progress in brand awareness and sales, both domestically and overseas. We've come a long way and in our record year of 2007/08 grew revenue to $62M and achieved an after tax profit of $9.6M.

PLW's development has been made possible by a team effort with all parts of the business – production, marketing & sales and finance contributing to the overall result. I count myself fortunate that the staff, directors and shareholders have provided dedication, loyalty and support throughout my 20 years as Managing Director.

In this fast changing world a 20 year stint as Managing Director is unusual. The travel requirements to promote the Peter Lehmann brand and to manage overseas markets are beginning to take their toll and after a lot of thought and, quite frankly anguish, I have made the difficult decision to retire at the end of this financial year. The major shareholder Hess Family Estate AG has accepted my decision and I am grateful that my association will continue through the board as I will become a non-executive director and deputy chairman from 1 July 2010.

There have been a number of changes on the PLW board which become effective immediately. I thank Kay Carey, Robert Edwards and Paul Young for all their effort and support over the last 7 years. They have been terrific. Donald Hess, Chairman of Hess Family Estate, and fellow director Lee Williams will join their fellow director Martin Kronenberg on the board. Martin has been appointed Chairman with Roger Wilson and me providing the Australian content.

It is with real sadness that I tell you about my retirement but please be assured PLW is strong and everyone here will do what they can to make sure that it is business as usual. I look forward to catching up with you over the coming months to thank you personally for your support and friendship.

Yours sincerely

**DOUG LEHMANN**
Managing Director