

Wednesday  
23 August 2006



**McG U I G A N**  
**S I M E O N**  
*Wines Limited*

ACN 052 179 932

**McG U I G A N S I M E O N W I N E S L I M I T E D**  
**ASX ANNOUNCEMENT AND PRESS RELEASE**

**Full year results for the year ending June 30, 2006**

• Revenue	\$ 360.8 million	down 1%
• EBITA <sup>#</sup>	\$ 34.4 million	down 40%
• NPAT <sup>#</sup>	\$ 17.5 million	down 54%
• Cashflow	\$ 32.9 million	up \$30.8 million
• Gearing	42%	
• Dividend <sup>^</sup>	5.0 cents	
• Earnings per share <sup>#</sup>	15 cents	down 54%

# Pre-writedown

<sup>^</sup> No final dividend; interim dividend 5 cents, paid 10 March 2006

McGuigan Simeon Wines Limited today released its results for the financial year ended June 30, 2006.

**Key points**

- Sales down 1%, with significant increase in export sales offset by a decrease in vineyard contracting revenues and domestic sales
- Results affected by global oversupply and margin pressure
- Following a detailed review, stock written down by \$29 million after tax increased from previous estimate of \$20 million provided in May
- Cash flow from operating activities up \$30.8 million
- Net debt reduced by \$22.7 million
- NPAT (pre stock write down) down 54% to \$17.5 million
- No final dividend.

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## Operational review

### *EBITA*

- EBITA decreased by 40% to \$34.4 million due to reduced margins in all divisions resulting from oversupply, retail consolidation and severe competition.

### *Sales*

- Double digit volume growth to 187.1 million litres, up 10% on the previous year with significant increase in export volumes and contract processing.
- Domestic volumes fell 6% to 74.0 million litres. The Australian retail environment is extremely competitive with wine companies fighting to clear stocks on the domestic bulk wine market. The brand market was characterised by discounting and cleanskins. Continuing retail consolidation has further pressured margins.
- Contract processing increased 27% to 36.4 million litres due to the establishment of further processing agreements.

### *Export*

- Export volumes improved 21% to 76.7 million litres and underpinned McGuigan's result.
- Sales into the UK were up 69% to \$145.8 million based on strong brand growth into major retail outlets. Bottled growth was up 100%.
- Sales into the US were down by 50% to \$25 million, partly as a result of a change from bottled to bulk supply arrangements for Black Swan.
- Sales into Europe and Asia were below last year due mainly to reduced volumes of bulk wine shipments.
- Sales into New Zealand were also lower due to a reduction in bulk wine sales and as a result of the competitive market.
- Australian dollar strength increased export attractiveness of producers from other countries including USA, South Africa and South America.

### *Vineyard development and management*

- Revenue from vineyard management fell \$6.7 million reflecting a reduction in vineyard development income.

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## Comments

McGuigan Simeon Wines Ltd Chairman, David Clarke, said that while the company's 2006 results were disappointing 'McGuigan Simeon was in sound financial shape'.

"The Australian wine industry is going through one of the most difficult periods in its 200 year history. Over the past three years, Australia has built up 1 billion litres in excess wine. We don't believe balance will come back into the market before 2009.

"While we were comfortable with our stock levels in December, the size of the 2006 vintage simply put even more pressure on bulk prices. Following our announcement in May on stock values we undertook a detailed review of market conditions. It became clear that bulk prices have been dropping significantly as wine companies try to move stock. Prices have moved further downward in the past six weeks.

"Given the importance of the bulk wine market we needed to further adjust the value of our stocks to reflect that reality. We have written stocks down by \$29 million after tax.

"Before the stock write down our net profit was \$17.5 million.

"We are particularly disappointed that for the first time in the company's history we will not pay a final dividend to shareholders.

"Given the instability in the industry and the intense competition McGuigan Wines is in sound financial shape. Our cash flow is very strong, increasing to over \$30 million, enabling us to cut net debt by over \$22 million.

"There are some significant opportunities opening up for companies like McGuigan that are low cost producers by international standards. Looking at our results you will see that while sales were flat, volumes were up 10%.

"We continue to build a company that has management, financial strength, products and the flexibility to endure industry downturns and grow when conditions improve.

"The transition between Brian McGuigan and our new Chief Executive Dane Hudson has gone very smoothly," Mr Clarke said.

Chief Executive Dane Hudson said 'the opportunities are clear'.

"We are and will continue to respond tactically to the current challenges in the market," Mr Hudson said.

"That means managing our stocks sensibly and using our flexible and low cost wine making and bottling facilities competitively.

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“The new Merbein packaging plant has come on-line successfully and will streamline our packaging operations and reduce costs.

“To succeed we must grow. Our biggest opportunity is export. We are confident we can maintain our growth in the UK, and North America is a significant opportunity for us.

“Exports to the UK were up 69%. We were named the fastest growing wine brand in the UK and this coming year we will sell more branded cases in the UK than in Australia.

“This confirms that we can grow our branded business. I am confident we can do more of the same in Australia, and around the world.”

## **Outlook 2007**

McGuigan Chairman, David Clarke, said that the company didn't see any upturn in the cycle before 2009.

“We believe that market and industry conditions will continue to be very competitive.

“In the 2007 financial year we are targeting net profit to be similar to the 2006 year, before significant items. But we are very cautious given the rapid weakening in market conditions that has occurred in the past four to six months. Thus we see downside risk which could impact our targets.

“We will update shareholders with our latest views at the Annual General Meeting in November.

“We will continue to focus on things we can control, driving costs down and building on the core strengths of the company.”

*ENDS*

## **Further information:**

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