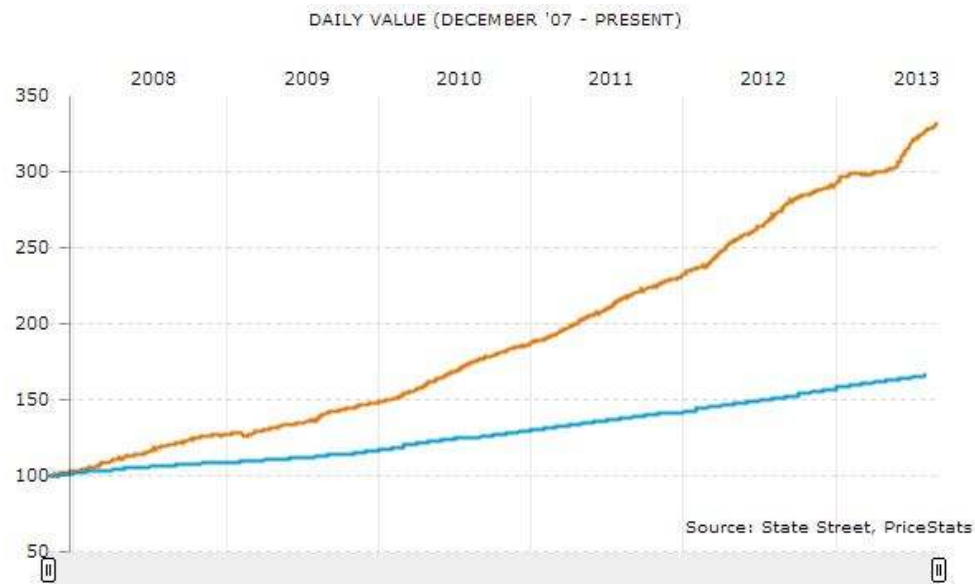




**Farming, Winemaking & Inflation**  
Private Vineyards Owners' Conference - 2013

# What We Are Dealing With

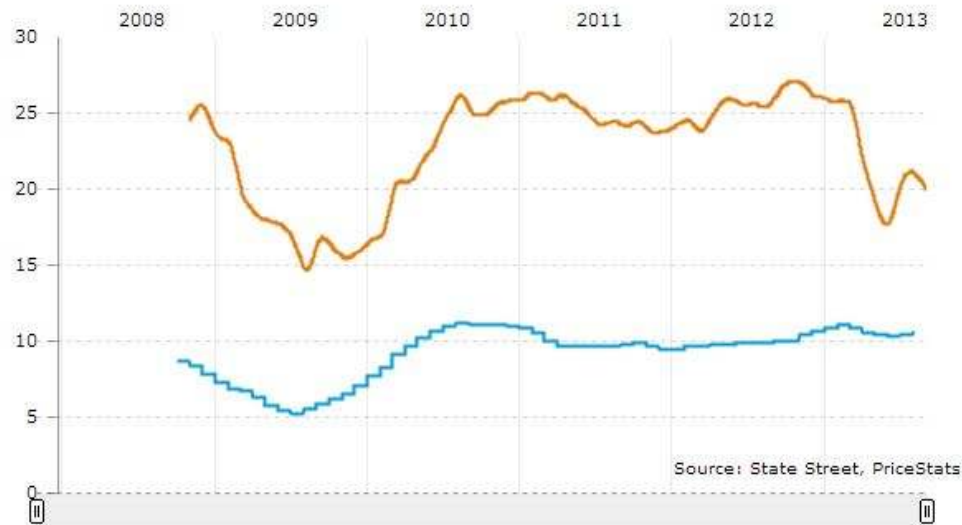
## Price Index



# What We Are Dealing With

## Annual Inflation

ANNUAL RATE (DECEMBER '07 - PRESENT)



# Nathan's Inflation Index

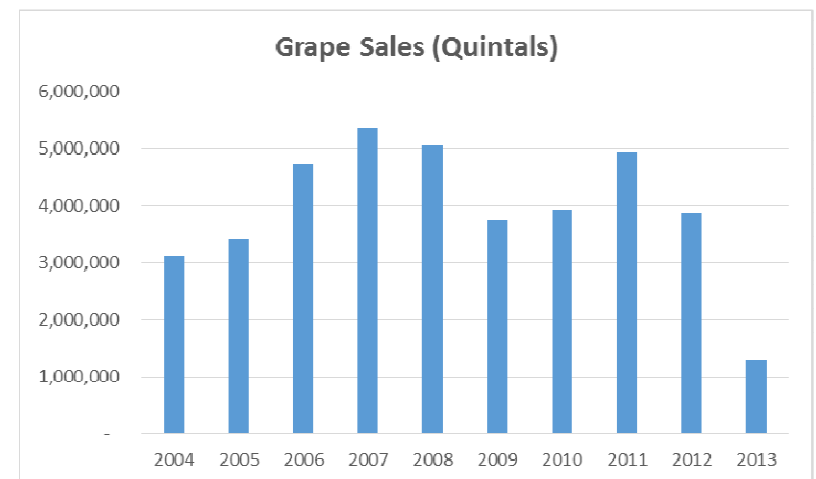
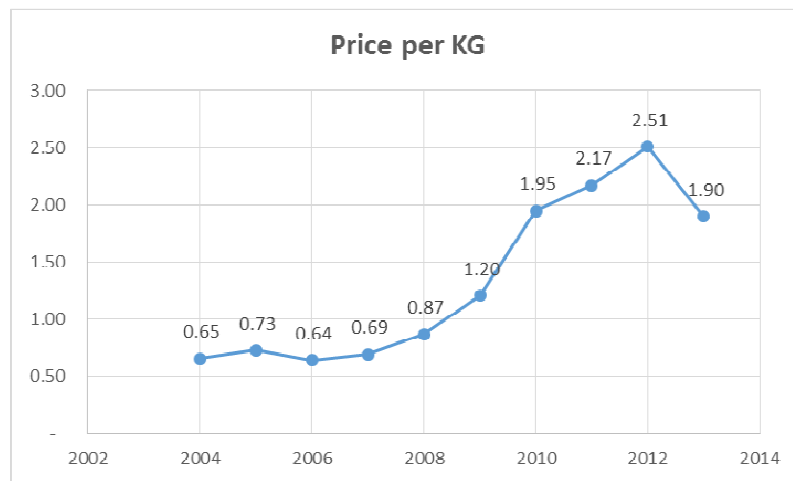
Doble Quatro Libre, Large Index						
Date	USD	Pesos	Annualized Real Inflation Rate - From Start	Annualized Real Inflation Rate - From Prior Period	Annualized Peso Inflation - From Start	Annualized Peso Inflation - from Prior Period
15-Nov-09	\$ 7.29	27.00				
20-Jul-10	\$ 7.76	30.50	10%	10%	20%	20%
29-Oct-10	\$ 8.34	33.00	15%	30%	23%	33%
10-Sep-11	\$ 9.52	40.00	16%	17%	24%	25%
16-Nov-11	\$ 9.40	40.00	14%	-7%	22%	0%
4-Feb-12	\$ 9.94	43.00	15%	29%	23%	39%
18-Apr-12	\$ 10.48	46.00	16%	30%	25%	39%
21-Apr-13	\$ 11.05	57.00	13%	5%	24%	24%
30-Jun-13	\$ 11.16	60.00	12%	5%	25%	31%

# Farming

- Farming Year is from May to April
- We prepare budgets based on Premium Farming.
- Budgets are based on our actual costs plus a Vines service fee.
- In April/May, we ‘true-up’ the previous year of farming.
  - Super-Premium costs
  - Any special services
- We provide an invoice –includes (i) new year’s budget, (ii) previous year’s reconciliation and any grape revenues/harvest costs.

# Grape Sales in 2013

- Price and Sales Volume Dropped Significantly



# How We Control Costs

- Advance Purchases
  - Beating Inflation
- Alternate Payment Mechanisms
  - US payments
  - Barter
- Economies of Scale
  - Acres coming online
  - Increased winemaking

# Winemaking Program (“WMP”)

- 2013 was our 4<sup>th</sup> year of winemaking!
- Variety of winemaking options
- Premium Level options (no barrels) and Prestige Level options (barrels).
- Premium pricing is based on a per-bottle basis. Prestige pricing is based on per-barrel basis.
- Each year in Oct/Nov we start planning the following year’s WMP. Clients pay in 2 installments.



# Winemaking Costs

- Winemaking
- Dry Goods
  - Bottle
  - Cork
  - Label
  - Capsule
  - Box
  - Tissue
- Oak

# The Challenge of Argentina

Highly educated and resource rich country.

Incredibly mismanaged government/economy.

# Exchange Rates

## USD - ARG



**17.1% 2013 to date.**

# Why are there 2 Rates in Argentina?

- Exchange Rates move when there is demand for one currency over another
- In Argentina, there is demand for dollars. People want to sell Pesos and get dollars. This pushes the peso down
- The Government is buying pesos with their USD reserves to strengthen the peso
- BUT the Government is also trying to prevent people from selling their pesos – this will never work, as people will find ways to sell. And thus: 2 exchange rates.

# How a Strong Dollar affects You

- Lower costs:
  - In 2012, farming hourly wage was 40.55 pesos. In 2013, 50.29 pesos, a 24% increase. Because of the stronger dollar, we kept the 2013 farming increase to under 6%.
  - We use alternate payment mechanisms to capitalize on the blue dollar rate.
  - We track our expenses in USD terms on a monthly basis. As the peso depreciates during the year, the USD cost of farming lowers. These savings are reflected in the end-of-year farming true-up.

# Current Events

- Elections
  - Change in Leadership
  - Stability?
- US Legal Problems
  - Losing in courts.
  - More instability

# NOBODY KNOWS ANYTHING

Will Gov't Keep Supporting the Peso?

- Large – but Limited – Foreign Currency Reserves
- Reserves under pressure from currency intervention
- Reserves may be drained from legal ruling repercussions.
- Will election results change the gov't behavior?

What will happen?

- Normally, drastic devaluation = drastic inflation
- But Christina has partially isolated the country (import restrictions, capacity controls)
  - limiting the impact of devaluation on inflation.

I BELIEVE THAT AFTER THE OCTOBER ELECTIONS, WE'LL SEE FURTHER DEVALUATION, WITHOUT ANY SIGNIFICANT CHANGE IN INFLATION