



# **Foster's Group Full Year Results 28 August 2007**

## **Investor Briefing Sydney**

### **Edited Transcript Question & Answer Session**

- Question:** Morning Trevor, morning, Pete. Pete or Trevor, can you explain please on your 4E the cash flow, why there's a 10 per cent reduction in your cash flows from operating activities, please? Further to that, could you explain in your 4E why receivables have jumped up by around \$322 million, FY07 relative to FY06?
- I suppose if you could give an explanation as to the movements in the inventory, why your entry has fallen by \$140 million. Is that a reflection of the lower vintage that we've gone by or have you been able to reduce some inventories in the last quarter?
- Pete Scott:** Just a couple of points on the receivables balance. I presume you're looking at the receivables balance out of the 4E?
- Question:** Yeah. I estimate (an) 89.9 (million increase) to 1211.4 (million).
- Pete Scott:** I would note that included in the \$1.2 billion receivables balance at June 30 is the receivable for the tax payment, \$257 million. The balance is reasonably normal growth associated with growth in revenue, by and large.
- Question:** Is that right though? Because in page 16 of your cash flow reconciliation, you had a fairly significant increase in working capital of around \$86-\$87 million. Inventory has fallen by about \$100 million and payables haven't done much, which would explain the receivables are up pretty close to 25, 30 per cent.
- Pete Scott:** I wouldn't come to that calculation. I think receivables are up; they're up I think under 10 per cent from the prior year balance.
- Question:** Why has working capital increased? Inventory is down \$100 million and yet, your working capital has consumed \$86 million of cash. So that means receivables have got to be up around \$150 to \$200 million.
- Pete Scott:** Well, we just talked about receivables being \$1.2 billion less the \$257 million.
- Question:** That was in your working capital, and I'm assuming that the tax payment is outside the working capital calculation.
- Pete Scott:** Receivables are up, I'm not debating that they're up, even when you take away the tax payment. Inventories are slightly down and payables, I think, are up slightly, if I remember properly. The quantum of inventories or finished goods inventories on hand at 30 June are about flat with where they were in the prior year. The average cost per finished case is down slightly versus the prior year which was mixed primarily. And obviously the biggest component of inventory is bulk wine. Bulk wine volume is down from the prior year, so there's a modest, but a real reduction in quantum of bulk wine inventory on hand which reflects, I think, primarily the Australian 07 harvest. Now while we have contracted to meet our needs, not all of that inventory necessarily would have been delivered as of 30 June, so there's more bulk wine to be delivered associated with the 07 harvest in fiscal 08.
- Question:** Getting back to my original question, I'm just so very curious as to why you're operating cash flow on your 4E has fallen by 10%, I think your receipts from customers are up by 0.25%, your payments to suppliers and employees are up by 1.94%. You've just reported 17% increase in NPAT and yet when you look at the business on a cash flow basis – cash is basically, I mean your profit

can be whatever you report it, but on a cash flow basis your business has gone backwards in 07 relative to 06.

**Pete Scott:** Look, two things on the 4E, I presume you are addressing page 21 which is our cash flows from operating activities. You will see if you look at the net impact of receipts from customers, less payment to suppliers a reduction in operating cash flow of about a little over \$90 million?

**Question:** Yes.

**Pete Scott:** A little over \$90 million is made up of a couple of key components. One is in this statutory presentation our discontinued ops are included in the 06 number, so roughly half of that, a little less than half of that difference, that \$91 million reduction is associated with discontinued operations which are included...

**Question:** In your profit that you reported that includes the discontinued items too. So I'm trying to reconcile how you can report a 17% increase in profit yet your cash flow's down by 10%.

**Pete Scott:** Sorry David, I'm in the middle of this right? So we're talking about this cash flow statement, we have a reduction because wine clubs and services are included in both years and there was a reduction in operating cash flow in wine clubs and services in 07 versus 06. So that took of the \$91 million, I don't know, help me out, it took \$30 million or \$40 million out of that number. The balance is the remaining business and the remaining business if you will recall, does have an EBITDAS conversion ratio this year of 93% and last year it was over 100%. We had very, very strong cash flow year last year.

So we are seeing a reduction in cash flow, it is real, but it is real because we had such a very strong operating cash flow result last year. We have what I consider to be a good cash flow result this year but it is not at the same level that it was a year ago. A year ago it was over 100% and I certainly don't, and I don't think you guys will expect us to be generating 100% plus EBITDAS conversion year over year. We do have a delta in cash flow conversion ratios 07 versus 06, which makes up the majority of that difference.

**Question:** Getting straight to the chase – you had very strong growth in volumes in the fourth quarter. There's been innuendo made by competitors, did you trade low in the fourth quarter to get these results?

**Trevor O'Hoy:** The answer is no.

**Question:** Categorically no?

**Trevor O'Hoy:** Categorically no, and we're flying in July.

**Question:** Okay. Capex also fell by fairly – I think your comment was that it reduces back to depreciation this year. A lot of your assets are fairly old, fairly mature, which the depreciation probably doesn't represent replaceable value. Are you under investing a little bit in your business to set yourself up for future growth?

**Pete Scott:** I think I'll ask Michael to comment on this in just a moment. But we have been signalling, I think, for some period of time now that we should see a decline in capex profile in the upcoming years. We've done quite a bit of work in the last few years with the construction of new facility or refurbishment of facility.

Obviously the Wolf Blass winery is new; Yatala Brewery is new; Abbotsford has got some years on it but by and large, our facilities are not weighted to older facilities. We will continue to maintain those facilities but the big infrastructure projects that we've engaged in this last several years are winding down, with the only real large scale infrastructure oriented project that we have in front of us is the remainder of the Australian logistics transformation exercise which does require a fit-out for the remainder of fiscal year 08.

So I'm not concerned. We manage it pretty tightly. I mean, you know, it is sometimes a difficult conversation when we talk about capex internally. We manage it pretty tightly. But I think we're in reasonably good shape maintaining existing facilities and importantly we don't have new expansion projects in front of us.

**Question:** And finally, Trevor, in the last two years you have been very specific with regards to future earnings goals, you're very specific with regards to the synergies that you would be taking out, and very clear hurdles, you gave very specific targets to where you would be in 08, meaning the cost to capital. And all you've said today is that you're not going to meet the cost to capital in wine. Why the very opaque guidance for 08 given in the past you were very specific with regards to what guidance would be with regards to profit?

**Trevor O'Hoy:** Firstly, in relation to synergies, just over two years down the track they are virtually impossible to track. They've just got lost inside the business, so if we want to put on a couple of hundred people, to try and follow them we'd probably have more costs. So that's the reason on synergies, and I think I said last time, I wasn't going to mention the word synergy, and I probably have now, but I haven't given you a number. So that's the last you have heard on synergies.

But we're not giving guidance. We've given a range of all the key drivers in the marketplaces and in terms of the volumes and all of that. It is a complex business.

**Question:** Can you do 10% EPS?

**Trevor O'Hoy:** Look, all I'm going to say is, I'll say two things. We target sustainable 10% growth, an underlying target, that's not guidance. Have a look at our three year track record. So, we've said look to 08, it will be higher profits, we haven't given a number. You'll see higher margins, you'll see better returns and you'll see outstanding cash flow again. Just have a look at the last three years, but I'm not going to set a deadline or a target.

**Question:** I guess, you obviously can't track synergies, but if they have been put in place then is it fair to say that you would target \$160 (million) next year and if you thought you were going to get \$100 (million) at the first half this year and maybe \$10 million less than that, there should be an uplift next year despite not being trackable, of \$60 million in synergies?

**Trevor O'Hoy:** Look, I think the reality is I can't be too precise. I'd suggest we've delivered just about all of those synergies, but I can't be exactly precise to millions of dollars. But what we have done, because of those complexities we incurred in the packaging and export, probably created dis-synergies, so the more important question is how long does it take for those inefficiencies to spin off

and actually, as I sit here, I think its one to two years. It's not going to be a quick turn.

One of the really good things I'm pleased about, which I think will make it sooner rather than later, but it's going to be a long process, we started the year with 4,200 stock keeping units. That's a hell of a lot of stock keeping units to produce, distribute, market, forecast and warehouse and whatever else. We finished the year with 3,800 off the back of probably the most aggressive innovation program we've had in many years, which created stock keeping units. So we're on a path to reducing complexity within our business and taking stock keeping units out. When we go on that path you will find our operational efficiencies get to the level they should be. So I think it's a one to two year exercise to get those overruns back.

**Question:** And just on that. You were looking at selling some brands, could that be spun up – that's obviously still there and can you get your capital employed down further? Are your brand sales of significance?

**Trevor O'Hoy:** A few, but I wouldn't say they were material. What we are finding is that we're probably better using the portfolio, and I think this is across all the regions, but it's come home really in Australia where we've probably got more brands. I think we had 60 wine brands and I'm not sure how many beer. But Jamie has done a fantastic job in streaming those brands into channels, as much as you can. And that's been, as well as getting the sales force stability back, which he's done in absolute spades, I think he's also had a portfolio where it hasn't crossed over channels as much as what it would this time last year, and I think that's significant.

So the thing that says to me, that we're not going to dump too many of these brands. We might shelve some, they come and go, and I'll let Jamie maybe speak first hand about what he's doing. But I don't think there's any panic or need to sell any brands at this stage. We may shelve them, we may put them in specific channels etc. And I think we are today better at using the portfolio. But again, to pick up Jamie's theme, we want to do fewer things better, bigger things better.

One of the brand highlights, and remember, we've got 60 wine brands sold in 100 countries around the world, there's only eight global brands; it's the Lindemans, Penfolds, Wolf Blass, Rosemount, Yellowglen. You've got Beringer out at California, you've got Matua out of New Zealand and you've got Gabbiano out of Italy.

So they're our eight global brands. They jumped to 75 per cent of our total volume. They're doing 30 million cases out of roughly 40 (million) and their share of the total jumped about three percentage points in the year. So we're doing fewer bigger things.

But having said that to your question, I think we still want to keep hold of the tail for tactical reasons.

Jamie, did you want to talk about channels?

**Jamie Odell:** Yes. We have been focussing on the bigger brands, and some evidence of that is the top five brands in Australia, which are Wolf Blass, Yellowglen, Lindemans, Rosemount and Penfolds. In the second half they grew revenue

by 16 per cent versus the total wine category for the same period grew revenue about five per cent. So that's the first thing of our focus. That's led by the things when you're talking about brand focus and innovation.

Secondly as Trevor said, we're getting smarter about the way we use your sales force. In other words selling the tail portfolio, we talked about the introduction of wine specialists and the Premium on Premise team who are particularly focusing some of the brands further down the line on those channels. They aren't the high volume channels, but they play a particular purpose for us in terms of building brands.

So we're just getting smarter in the way we use the portfolio these days, and frankly I think most of the brands are finding a place, and there'll always be a few at the tail which have less relevance. But the focus on core brands and using the specialised sales forces to manage the portfolio further down.

**Question:** Lindemans in Australia continues to decline. Can you explain that? And is there some kind of negative correlation between some of those top five brands? I mean Rosemount's now in growth, Lindemans is not. Wolf Blass has turned.

**Jamie Odell:** Lindemans no, I think Wolf Blass and Rosemount have always played in similar territory and we've pulled those apart a little bit by giving Rosemount new packaging and the stylish fruit driven style of wine which there's a differentiation there. And it's great to see both Wolf Blass and Rosemount get sensational growth in the last six months.

Lindemans I think for this new market has been the one in the big five that we struggled to get back into growth. I think that's largely affected by the fact that it's played at the bottom end traditionally through Cawarra and Bins and that's been the part which has been most impacted by cleanskins and private label.

Secondly we haven't done as much innovation. Globally Scott and Peter have been innovating by using country of origin. We haven't done that over here in Australia, and that's one of the reasons. One of the products that we have here today and you should have a look at, is the Lindemans Early Harvest, playing on the health and wellbeing trend. Have a good look at that because that's really the first innovation we've done for some time in Lindemans.

I think the key is, of those core brands, it's the one which plays at the lowest value point, and that's the point of true competition in a time of oversupply.

**Question:** And quickly, expectations for beer volume growth or decline given smoking bans, what have you seen so far? What are you forecasting?

**Jamie Odell:** Overall there are some good articles on this. It's netted out overall. Some places have increased and some have reduced, but overall what the trade is telling us, if you take a balanced view is that the effect is it's pretty marginal.

It certainly seems to be restaurant revenue seems to be increasing which is interesting, and I think some of the gaming areas and other areas are perhaps suffering a little bit. But overall the figures are pretty balanced, and we're encouraged by the reports we've had back from our customers.

**Question:** Firstly coming back to that receivables issue, you're saying that you've got the tax payment in there. But you've said in the accounts, actually it's saying \$244 (million) in the accounts as being paid on the 3rd of August post balance date. So why is that actually incorporated into the receivables line at 30 June?

**Pete Scott:** Well the assessment was received at the very end of June and we reflected the assessment in our financial accounts by reflecting a tax payable of \$257 and offsetting that in the receivables line. I mean we got the piece of paper and there was a need to reflect it in the June 30 accounts.

**Question:** Looking at the US marketplace, you're now going to go down the path of potentially rationalising or at least altering your distribution structure. We've seen historically that when companies have attempted this, there's been enormous amounts of disruption for a sustained period of time as that occurs.

You've now flagged it in the marketplace, so obviously a number of distributors out there will know they're on the chopping block at some point in the future. How do you actually minimise that disruption over the next 12 months?

**Trevor O'Hoy:** I think that's one for Scott Weiss.

**Scott Weiss:** Thank you Trevor. While we have flagged now publicly something that our distributors have known for over four months, that we are entering a very thoughtful review period in selected states to try to optimise performance. Most recently as you would recall in the prior fiscal year 07, we did execute a distributor shift in the very important state of California.

And while it was and remains somewhat disruptive to our overall business, we're very pleased that we've already seen a return to growth and superior performance now just three months post that change.

So we're doing this hand in hand with our distribution partners. They know who's involved, they know which states and they're helping us through it.

So I'm hopeful that we will get through with minimal disruption, if we choose to make any changes at all.

**Question:** Just on the North American side, when you look at the second half margins, they fell by around about 230 basis points year on year. Now obviously some of that was associated with the Napa bottling issues which would account for about 180 basis points of that. Is the residual 50 basis points purely just currency and therefore the impact of margins on the export side from the rising currency?

**Pete Scott:** Yeah, I think there are two primary influences on second half performance in the US. FX was an enormous second half influence, and I think both the translation and transaction impact of FX were marked in the second half. And I think you can do a constant currency EBITs calculation that would probably add – I think we've suggested something like \$22 or \$23 million the EBITs in the second half if we didn't have the currency disruption that we had.

In addition to that, we obviously have the negative impact of the Napa Bottling Centre, which was worth I thought over 200 basis points in margin in the second half, but I'm prepared to stand corrected on that if that's not the case.

**Question:** Just looking at the bottling issues, at the half-year you said that you expected a \$20 million impact in fiscal 07 falling to less than \$10 million in fiscal 08. You've had an additional \$10 million added on to the 07 numbers; shall we take it as being a \$30 million impact across the business for 2007, and how does it look going forward, given those previous projections?

**Scott Weiss:** Well, I think we talked about, at the half-year, a \$30 million problem for F07 relative to our plans. What we're suggesting today is that there's an incremental \$10 million on top of that is affecting the 07 results vis-à-vis our plans. What I've tried to do in our earlier comments is to give you some visibility, while I don't really want to be specific about components of our unit costs, the aggregate of our packaging and warehousing and logistics costs will continue to decline. They declined on a unit cost basis in 07; they will continue to decline in 08, but I am highly hesitant to deconstruct our unit costs beyond that point. So yeah, we will see improvement, but I'm not going to be specific about the magnitude of the specific improvement.

**Question:** Looking at the Australian business, as you said you've implemented a price increase in the wine business. First of all, how has that gone and how well has it been taken by the trade? How well has it stuck, and where that puts you in terms of price increases relative to competition which have all been raising prices over the last few months? But also, looking at the implications for margins over the next 12 months. Obviously, prices are going up more immediately than COGS are going up. COGS won't go up until the 07 vintage is really sold, which is in the back half of the year, so is it fair to say that you should see some sort of margin improvement in the next 12 months before you see the COGS then catch up subsequently in fiscal 09, for instance?

**Trevor O'Hoy:** Is this an AAP question?

**Question:** Yeah.

**Trevor O'Hoy:** I'll get Jamie to talk specifically about the price rises because he's closer to it, but we would expect rising margins.

**Jamie Odell:** We haven't seen it across the market places; we've seen a few others move; the whole industry hasn't. We've seen cleanskins still available out there, but we're seeing that the quality is decreasing and the price is increasing. All of these are good factors for the future as we get back to supply/demand balance. The key benefit we'll be seeing going forward will be our focus on premium bottled and value, and this move away from cask, and that should continue to have a positive impact on our mix and therefore our profitability for the next 12 months.

**Question:** A couple of questions, if I may, probably more for Jamie. Can you give us an indication now of the size of your cask business and what you are looking for it to be by the time you've reduce the volume in there? Secondly, can you give us a quantification of the price increase that you took? Associated with that probably for the other two regional directors, what price increases have been taken in the overseas markets in wine in the last couple of months, and what the outlook is for price increases both in Europe, the US and also in Australia?

**Jamie Odell:** Sure. Cask is now down to well below 1 million cases, well below 10% of our volume in this region, and we continue to see that as a staggered decline. Ultimate end gain we'll determine as we continue to keep some flexibility, but

clearly cask is not as profitable as the premium bottled business. If you go back historically, where we've been most successful building wine businesses is around the premium bottled category. So it's not overly material in that respect.

Price increases – we took a number of commercial brands up, around 4%, and that's not across the full range at this point but on a number of key SKUs, and that's holding in the market place.

In terms of some of the ultra premiums, they went up significantly more than that as we looked at availability and as Trevor mentioned in his presentation about allocation of product around the world, at the higher end in a position where we have, in some cases, more demand than supply. So that's an opportunity for us as well.

**Trevor O'Hoy:** If Peter or Scott have something about pricing in their marketplaces.

**Peter Jackson:** I can kick off just talking about Europe. In continental Europe we've announced 3 to 4% price increases to all distributors, but most of that will really start to kick off from January 08. In the United Kingdom we have taken a number of price increases on the top end wines on the ultra premiums, however, I think it is fair to say that the United Kingdom market will continue to be extremely competitive, but we'll look for any opportunities possible to increase price in that market.

**Scott Weiss:** From the America's perspective in fiscal 07, we priced 14 different brands, 40 some odd items within those 14 brands. We tie our price increases to the marketplace at vintage changeover, so the bulk of that benefit will fall into fiscal 08. As Peter and Jamie have outlined, we also continue to look, based on constrained supply on fast growing varietals, and the ultra premiums or the luxury brands opportunities to price reflecting demand, and that also will occur in fiscal 08. Again, the bulk of the benefit will probably fall into the subsequent fiscal year, giving pricing patterns in the States.

**Question:** So if I look at the rationale behind the price increases you have taken so far over the last three or four months, I'd argue that your ability to take further price increases in FY 08 is probably pretty good in all three markets. Would that be correct?

**Trevor O'Hoy:** We'll review that position as we go forward.

**Question:** Can you just confirm, it looks like the capital management, the \$350 million will be paid out before you have a resolution on the ATO dispute. Do you have any further update on the timing of that ATO resolution?

**Pete Scott:** Yes. It's our expectation that the off market component of capital management initiative would take place in the first half. The on market activity would commence after the off market is completed. Our expectation is that we will be – I don't think we expect any meaningful activity with regard to the ATO issue until the second half, and most likely fourth quarter.

**Question:** Secondly, could I just ask for your comment on Woolies taking beer through its DCs, what you think the timing and impact will be of that?

**Trevor O'Hoy:** Unsure of the timing. We're about to go into discussions on that. So we're a little way off. But we'll start discussions I think later in this coming year. And of course, I'm unsure about the impact, except that it is going to be probably a lot more efficient for us to be able to – it's consistent with the way we actually move goods around to fewer points and by the pallet load. So I think that it is something that we can accommodate, but we can only accommodate it providing the customer can order within our sort of scheduling as well. So there is a lot of discussion still to go on. But if we can get product at lower cost to any customer I'm quite happy about that.

**Question:** Maybe one for Scott. Scott, just on US demand, in particular on-premise channel, how did that channel track in 07 and are you at all concerned, given a tougher consumer environment going forward that you might see some slowing growth there? Can you just comment on the demand outlook and why you're confident you will continue with what have been pretty strong levels?

**Scott Weiss:** The overall US market remained pretty much 80% off-premise, 20% on, with broadly similar growth in both channels. I think, looking forward we continue to expect sustained growth in both channels. Within the on-premise channel the largest concern is the mid priced restaurant family chain business has slowed down significantly, largely due to over-building by that industry. So we're likely to see a positive mix shift in the on-premise channel in the near term as the restaurant industry sorts out some over building issues.

So yes, we'll see broadly the same thing with a positive mix shift in the on premise.

**Question:** Can I just return to the issue of business health. I know we were pursuing that line of questioning earlier, but collectively in this room, analysts go out and kick the tyres and make observations. I think that it would be unanimous to say the feedback coming back from that process has been fairly negative and yet, the commentary we got from you guys today was lots of confidence. I'm not sure where the disconnect is; maybe it's a matter of timing. Maybe earlier in the first half negative commentary arose and things improved in the second half. But I'm just wondering if you can comment on where you think the disconnect was in terms of investor observations.

For example, the Gomberg data showed very strong shipment growth in the US, suggesting that there might've been some trade or maybe that data was inaccurate, but it's nevertheless the data that's widely used in this space. So that's where I'm getting, just comment on why you think there was a disconnect in the investment community versus your confidence about the health of your business.

**Trevor O'Hoy:** Are you talking specific regions or...?

**Question:** I think predominantly, Jamie, it would be Australia and then to a lesser degree, the markets probably in the US next.

**Trevor O'Hoy:** Okay, well I'll let Jamie talk about the stats that we have and his discussions with customers. But I've got to say, I spent an awful lot of my time out in customer-land and there has been a sea change in attitude towards the sales model and that's got to convert to sales.

I think the stats that Jamie will talk about will show that conversion, but certainly an amazing change from the customer base and will have seen personally hundreds of customers in just about every state. But Jamie, you might want to talk about Nielsen and things like that.

**Jamie Odell:**

Sure, Trevor. I guess we've been focusing on getting the job done, really in the first half as I said, it was challenging because we were going through significant management change. The business was very complex, so we set about simplifying the business, and the second half results are encouraging, as we see that. We need to continue that.

Underlying the beer and wine portfolios, we have the strongest brands in Australia by a mile and we need to recognise that consumers have those relationships with that. We didn't really break those relationships with the consumers. I think we complicated them with customers and by simplifying the sales structure that helped us get around that.

I've got lots of Nielsen data up here and it is encouraging. I'm ready to continue on this path because we understand we're in a competitive environment and it will continue to be. But I look at the last quarter on wine in Australia and Foster's Australia's performance, this is value again, out-performing. It's very encouraging. I wouldn't want to put more out on that, it's really encouraging.

Focus on beer, you know we've got a fantastic portfolio and we talked about innovation. Again in the sales force, frankly from the old CUB legacy business back we're doing what it used to do very well – building relationships and doing powerful, big events behind beer. So we've really gone back to a lot of things we used to do well and it's about focus, simplification, fewer, bigger, better. We need to continue that gain.

To Trevor's point, we spend a lot of time talking to customers. I was literally first three months of this job continually talking to customers and I think we've been guilty in the past of talking, but not listening. Now we've got some pretty strong feedback and the trade have a lot of goodwill towards Foster's and I think we're starting to see that come back.

For a period of time, we probably disengaged as we broke a few relationships, but we understand the importance of relationships and listening to customers. We feel that's an area which is a whole lot healthier now as well.

**Pete Scott:**

Now excuse me, this is an important topic and you brought up Gomberg. You may want to just get some insight from Scott on the US because it's an awfully big market for us and I want you to be comfortable with the health of the business in the US. Scott, I know Gomberg just came out today, do you have any insights there?

**Scott Weiss:**

Yeah, Pete. Well, first up, let me just echo very briefly what Jamie said. The core focus is on brand health and enterprise health, and the overall trends are encouraging. Now, specifically to your question, on Gomberg relative to Nielsen. I think it's very important on which lens you look through.

So Gomberg released today the six months ending June and on that six-month half, our shipments, as reported in Gomberg, which isn't entirely accurate, show an increase of 10 per cent. If I stretch that out over a 52-week

period, it's a five per cent increase. So on a fiscal year basis, that's five per cent increase as reported in Gomberg. Nielsen over that same period showed volume consumption up 5.4 per cent.

I think it's important for the US to go back to December. As was reported at the half-year results, we were struggling with service disruptions and we had challenges supporting our distributors and our retailers with product at the end of the first half. We talked about the increased cost of that, as well as some lost sales opportunities. So what we've been seeing and feedback we're getting from our customers is we're basically right-sizing the inventory levels in the US so that service levels can be sustained.

The July Nielsen came out last week, which you all would have seen, as did the July IRIs. I'm very pleased to report that the four-week results, we showed 7.7 per cent growth in volume in July. So we thought the inventory was right at the end of the year, we thought it supported a very strong start to fiscal 08. We think on a 52-week basis, we're pretty much in balance.

**Question:** So just to sort of conclude from that, it seems to be more a matter of timing. A lot of the observations we're making perhaps are looking backwards, reflecting the anxiety of customers and consumers going through a change and then going forward we should start seeing some – get some more positive anecdotes coming out of the marketplace?

**Pete Scott:** I think we saw some of that in the second half.

**Jamie Odell:** I hope so. We're a whole lot better set than we were 12 months ago, there's no question about that.

**Question:** Okay, on the second question, specifically on vineyard health, Coonawarra. You guys have 70% of the vineyards there. Can you talk about what's going to happen in that region in terms of irrigation, your exposure, is that vineyard region still going to have access to irrigated water in the next few years?

**Trevor O'Hoy:** I think at this stage it's far too early to make a call on that. The whole industry is having a bit of a rethink and a recalibration on the impact of what's going on more holistically around global warming and those sorts of discussions and what that might mean for us in the short to intermediate term. My short answer is, too early to call.

Yes, we're a big player in that area, so it's a very key focus for us.

**Question:** There is already some commentary around the industry in Australia about heading into a 08 harvest that might be 900,000 tonne or somewhere around that sort of vicinity, so well down on the 07. Can you comment on how well placed you will be to maintain volumes into the European markets, in particular, as we head into a much tighter supply situation in Australia?

**Michael Brooks:** I think it's a similar answer there. It's too early to make a specific call. The big question is between now and the end of the year, is it going to rain more or not. Based on where we are now and how the industry is seeing things today, it's expecting a vintage around the size of last year, sorry, around the size of V07. On that basis, we're confident we've got it covered.

**Question:** Well, I will make it easy then, if it is 0.9 million tonne, how well placed would you be?

**Pete Scott:** We will be short of fruit, just like everybody else.

**Question:** So would I conclude from that then what would your response be in terms of maintaining supply to a market you obviously have spent a lot of time and effort developing? Are there some other strategies such as alternative sourcing that you've been able to develop that might help mitigate that?

**Michael Brooks:** Yes, we've developed a competency to supply wine out of Chile and potentially out of Argentina, although we don't use that at this stage, and South Africa. So those sorts of sources would be brought into play if necessary.

**Trevor O'Hoy:** I think that question probably strikes at the long term strategy of our group, not so much today, but I would hope that as we develop our 40 million cases into 80 million that it's not locally sourced and owned vineyards and all that. We want to use out intellectual capital to source product from regions all around the world, and maybe brand over the top of them, so you can get your brand equities, similar to what we're doing with Lindemans. And I think that's the ultimate in a wine business to be able to do that.

So I think that's a good thing, have less capital in there. And there's another issue coming down the pipeline and it's the environment that's not going to allow you to cart low value bottles of wine in glass around the world. So I think this whole thing about sourcing, virtual sourcing and local bottling, is going to be another development that wine makers or wine companies are going to have to watch into the future.

**Question:** Yes, I guess it's an area that I'm surprised you don't talk about more in terms of diversifying the sourcing opportunities out of some of the other new world production areas.

**Pete Scott:** Well, we did last year with the introduction of Lindemans country of origin and I think that has been successful, certainly in their current fiscal year, and as Michael points out, every opportunity to expand that into other regions.

**Jamie Odell:** I'll just make a couple of comments, at this time last year there were people talking about 900,000 tonnes for vintage 07, and it ended up at 1.4, so it's very, very difficult to gauge.

The first thing we think will dry up will be cleanskins, because that's been good quality wine which hasn't had a home to go to. So we see that as an opportunity, as we particularly want to look at value. So (the vintage) getting that low it could be an issue, but cleanskins will be the first to dry up and that moves people back into brands and then it comes back to the question about Lindemans etc, and we do see that as a trend which is going to happen.

**Question:** You've mentioned a number of times today, fewer, bigger, better. Now, in terms of global wine, you do see an acceleration through the second half, some of that I guess is to do with Rosemount in particular with regards to the top five brands. The top five brands are up 7% for the full year, accelerating I think 10% in the second half. Is it a trend that we can see being sustainable, i.e., those top five brands driving growth ahead of the overall wine portfolio

and driving the portfolio forward, or should we expect growth within the top five brands in line with portfolio growth?

**Trevor O'Hoy:** Two things, I call it the top eight because of the top eight wine brands we source from four different regions, and we take them through our distribution network all around the world. So they're our eight global wine brands. They certainly grew in volume and revenue terms, greater than the average for the whole portfolio.

This time last year those eight brands had about 72 per cent of our total volume. They've climbed to 75 per cent. So the fewer bigger things that are happening in a branding sense as well as what's happening in the production sense in terms of number of skews and number of production facilities etc.

Just about everything you look at, every stage of the process will have fewer things. I think in Australia we'll be going to about 10 or 11 warehouses by the end of next year which was barely two years ago, 40. We'd be down to two or three breweries and it was five.

So it's happening in every line of our business.

**Question:** Which leads me onto a second question just in terms of Australia and logistic transformation. You talked about a national network in place in the second half of 08. Can you just talk about the potential cost benefits and timing of those logistic transformations taking place?

**Trevor O'Hoy:** No. The cost to implement will be in the twenties which we picked up some in the year just reported, and there is about \$15 million more to come. The benefits will more than cover the costs.

**Chris Knorr:** Thank you everyone, I think we might have to finish up now and if there's any follow up questions, we'll be around for a while afterwards. Thank you again for your time.

End of Transcript