

President & CEO's Annual General Meeting Address

Introduction

This year has been something of a watershed for the Foster's Group.

We have faced up to the issues that stand in the way of our success, and made good progress on implementing the changes necessary to shape our future growth.

Following the divestment of ALH, and with the sale process for Lensworth now well underway, we are on track to finally become a pure beverages company by the end of fiscal 2005.

As a substantially new management team, we have inherited a great business, with great brands and great people.

The challenge now is to build one business with one culture, and one that is even better, and more sustainable, than the old business.

In my presentation to you today I'd like to do three things.

First, I would like to talk briefly about the changing beverage sector environment – specifically the attributes that are critical to competing successfully – and to explain how Foster's is positioned to do just that.

Second, I'd like to outline our business priorities and some key changes in execution, which are being implemented under my leadership.

And finally, I hope to demonstrate that the Foster's premium beverage model is capable of delivering a set of financial outcomes, which I believe will make Foster's a highly attractive investment choice.

Critical success factors

The environment in which we operate is changing rapidly and on multiple levels.

To be successful - a number of attributes are critical:

- strong brand equity;
- a portfolio of premium products across a range of beverage categories;
- a solid understanding of today's consumers; and
- the ability to access markets through strong distribution.

Firstly, brand equity is paramount.

There is very strong evidence to suggest that consumers of alcohol products gravitate towards known brands – brands recognised for their quality, reliability and alignment to consumer needs, values and attitudes.

Strong brand equity, and developing “must stock” or “drive” brands, is becoming increasingly important, as both brand and retail concentration continues to accelerate.

Secondly, long-term trends show that as consumers' tastes in beer, wine and spirits continue to move from sweet to dry, the journey takes them from value brands, to mainstream, then on to premium.

While wine as a category continues to show strong growth, premium wine continues to deliver even stronger growth.

Consumers are not only drinking more wine but also trading up – over time and with experience.

In beer, a similar trend exists. While beer growth overall is flat to declining, the premium category continues to display healthy growth rates.

In Australia for example, while premium beer is still a relatively low percentage of total beer sales, the segment continues to grow, at high single digit rates.

Clearly, a portfolio that includes premium products is essential to being a competitive force in the beer market today.

Thirdly, today's drinkers are likely to enjoy a suite of products, not only throughout their lives but also on any one drinking occasion.

Beverage companies therefore must focus on capturing a greater share of widening consumer repertoires, and building a portfolio of products across a range of beverage categories.

Essentially, becoming a one-stop shop or multi-beverage provider.

Understanding consumer trends, not just in terms of what they are drinking, but in terms of what they are eating, what their interests are, how they live, allows us to better anticipate and influence their purchase decisions, and therefore allows us to develop better consumer product solutions.

A fact of commercial life is that our customer base continues to diverge – the big are getting bigger and fragmentation continues amongst the small.

The next critical attribute for success as a beverage company is to focus on achieving greater market access through distribution.

And working closely with customers to help them to drive successful outcomes for their businesses.

And overlaying all of this, our competitors and suppliers are also consolidating and becoming more global – as they too chase growth.

Differentiation on the basis of superior products, people and financial outcomes is critical to attracting consumers, employees, investors, and indeed to surviving.

Foster's premium beverage model

Having set the scene, let me talk about how Foster's is positioned to compete as a relevant and successful player in the global beverage market.

Firstly, Foster's portfolio of premium branded products, across beer, wine and increasingly spirits and cider, represents:

- high product quality;
- strong consumer brand recognition; and
- a clear fit for those consumers seeking premium choice beverages.

Premium products that generate strong margins also provide us with a key competitive advantage - the ability to continue to invest in brand development, in brand extensions or new product development, on a sustainable and long-term basis.

Central to the Foster's business model is the concept of continuous improvement, funding continuous innovation, brand building and new product development.

Through a dedicated consumer insights and innovations team – I-Nova – Foster's is investing in innovation as a core competency across all of our business divisions.

Another Foster's attribute is distribution strength.

In Australia - CUB's distribution network reaches over 22,000 customers.

This provides an unparalleled link with our customers, and a range of opportunities in terms of introducing new products.

And in North America, Beringer Blass offers arguably the best premium and luxury wine portfolio through leading distributors in every major state in the country.

The third attribute of the Foster's business model is diversity.

Having businesses spread across products, geographical markets and production sources balances earnings and cash flow risk.

And increasingly – as we focus on a multi-beverage strategy – diversity will enable us to offer our customers and consumers a range of product choices and cross-promotional opportunities not matched by any of our competitors.

A final attribute is balance sheet strength and flexibility.

While our focus is currently on restoring growth in wine, we also want to ensure that by maintaining a strong balance sheet, generating superior levels of cash flow and improving the group's equity market rating, Foster's is well placed to participate in the inevitable industry consolidation.

Foster's business priorities

As we have already acknowledged, aspects of the group's performance in recent times have been disappointing.

In particular, we have not yet been able to leverage the full potential of the Beringer acquisition.

Let me assure you, that the new senior management team - and indeed the broader Foster's organisation - are fully committed to harnessing the group's strengths and delivering greatly improved shareholder returns.

While our strategy remains unchanged and intact, the execution will be very different.

I'd like to talk today about each of the four priorities that I have set for the group:

1. To maintain and build the momentum within CUB to create a multi-beverage powerhouse in Australia and the broader Asia-Pacific region;
2. To deliver on the initiatives of the recent Wine Trade Review and build a truly global premium wine business;
3. To optimise the strength of the Foster's brand internationally; and finally
4. To adopt a shared and consistent Foster's Way of working across the group.

CUB: a multi-beverage powerhouse in Asia Pacific

Turning firstly to CUB...

John Murphy and his team are continuing to develop the strength of the CUB multi-beverages model in Australia through a focus on building brand equity, investing in innovation and maximising what is the country's very best distribution network.

CUB's portfolio now comprises not only iconic beer brands in VB and Carlton Draught, but a growing suite of RTDs, spirits, ciders and most recently wine through the Half Mile Creek brand.

While beer as a category is mature and relatively low growth, CUB's strength in this area provides a very solid platform to pursue opportunities in other categories, such as RTDs and wine which continue to grow strongly.

We will continue to transform this business into one that can deliver consistent growth in earnings year in and year out.

BBWE: global premium wine

Another priority – not only for Jamie Odell and his team but also for the wider executive group – is the delivery of the financial outcomes associated with the Wine Trade Review that the Chairman has covered already today.

Jamie and his team have set out a clear road map of what we want to achieve.

The focus is now strongly on execution.

We undertook extensive communication to the market in June and at that time we indicated that it would take some months before we would be in a position to see the expected benefits from the Trade initiatives.

I would however, like to briefly comment on the status of some of the main initiatives. I am pleased to say that all aspects of the review are either on track or ahead of plan.

BBWE: wine trade review update

In terms of revenue growth initiatives, the plans to increase brand spend, reinvigorate some of our core US brands, expand the Wolf Blass international platform and build secondary brands are in place.

A major advertising campaign for the Beringer brand is on track to commence in November.

And we have launched a number of re-packaged products like Andrew Garrett, as well as a number of new brands including Eye Spy by Yarra Ridge.

We are making good progress on a number of the main initiatives associated with

- the disposal of surplus bulk wine;
- vineyard dispositions;
- winery consolidation activities;
- outsourcing targets around the Stone Cellars brand; and
- the introduction of a global procurement function.

Organisationally, we have strengthened our capabilities in a number of areas with some key appointments.

As we have made clear, at least 50% of the cost savings of up to \$85 million will be reinvested into brand development and marketing activities.

We expect marketing spend – as distinct from price promotional spend – to double from the current level of around 5% of group revenue over the next 5 years.

BBWE: outlook

It's important to remember that all of these initiatives are set against the context of highly competitive and challenging market conditions in the US.

However we are seeing some very positive signs for the supply situation.

Preliminary forecasts of a lower 2004 Californian vintage is very good news for the surplus supply issues that have troubled the industry over the last 3 years.

BBWE's wine depletions for FY04 grew by 4% during the year in what was an extremely competitive marketplace.

Bulk wine prices continue to strengthen.

Interest in our surplus vineyards continues to be very competitive.

And distributor inventory levels have been reduced to more efficient levels.

As we have said before, we expect FY05 to be somewhat of a recovery year for our wine business, as brand marketing support is returned to normal levels.

However, as per our previous guidance, we expect FY06 earnings growth to return to around the 10% mark.

Wine sector still highly fragmented

I'd like to stress that while we require some time to fully implement our plans, we do not underestimate the urgency and strategic imperative of doing so.

In a very tough market environment, and one that is still highly fragmented, the premium wine category remains in relatively high growth.

In the first instance, we are committed to leading this growth and delivering an improved operational result for shareholders.

And in the second, it's important that we get the operations working before we are in a position to participate in any industry consolidation.

In Beringer we already have a very good business and a strong base on which to build.

I am confident that our plan will enable us to fully exploit, what is today, the very best strategic wine footprint in the world.

Clubs and Services

As the Chairman mentioned earlier, the performance of our Wine Clubs and Services businesses has been impacted by challenging market conditions and business specific issues.

However the strategic fit of both Clubs and Services within the broader Foster's wine portfolio remains solid.

Under the leadership of Neville Fielke, the absolute priority and focus over the next 12 to 18 months is on rebuilding these businesses to produce both sustainable growth in earnings and high returns.

FBI: maximise value from the Foster's brand

Turning now to our international beer business Foster's Brewing International...

Foster's Lager is the 7th largest international beer brand, with sales volumes of over 86 million cases distributed across 150 countries.

In the past 12 months, volumes of Foster's grew four times faster than the global beer market, and the brand already punches well above its weight in the minds of consumers.

However Foster's Brewing International remains a relatively small contributor to group earnings.

Clearly our immediate priority will be to improve the contribution from the Americas.

Beyond that we are looking for new ways to extract greater value from this great brand through:

- working more closely with our licence partners;
- aggressively pursuing opportunities in markets where the licence arrangements do not apply; and
- exploring other avenues across the broader Foster's portfolio of beverages.

Rick Scully and his team are rolling out a comprehensive marketing and product development program that we believe will further improve the international position of the brand over the next 5 years.

Lensworth: sale process

As I mentioned at the start, we are well advanced in the sale process for Lensworth.

The level of interest in the business has been significant, which gives us confidence that we will be able to maximise the value of this excellent asset for shareholders.

Business execution

Moving now to my final priority, which is business execution, or the Foster's Way Forward.

Critical to this approach is the belief that our people remain our greatest asset – one that can be further enhanced if we adopt a shared and consistent way of working across the group.

Working as one company across businesses, processes and regions and sharing our intellectual capital across beverage categories, will allow us to:

- develop a better understanding of our consumers;
- improve our speed to market; and
- unlock the benefits of scale and operational efficiency.

Obviously it is early days but the benefits of this change in approach are already evident.

For example, the launch of Half Mile Creek, a wine brand launched as a parallel effort by CUB and BBWE, is notable in that it represents the first time CUB and BBWE have come together and pitted their combined strengths to tackle a significant market opportunity.

While it's early days, the brand is showing signs of being a tremendous success.

Half Mile Creek also demonstrates how we are innovating based on consumer insights.

The establishment of I-Nova, a global consumer insights function co-headed by John Murphy and Jamie Odell will position us to pursue many more such opportunities, across products, processes and regions.

We are progressing towards implementing a shared back office platform to support this way of working in the regions where we operate a multi beverage business, in Australia and the Pacific.

This will not only lower our total overhead cost but will also give us a sustainable competitive advantage over our single region and single product competitors.

Top quartile performance

The business model and strategies I have outlined today are all designed to improve our financial performance to the point where we can achieve our ultimate objective – the delivery of total returns to shareholders in the top quartile of our competitive set.

Group financial targets

This means the consistent delivery from fiscal 2006 and beyond of:

- Sustainable double digit growth in normalised earnings per share;
- Operating cash flow of at least 75% of EBITDA;

- Profit margins above 20%;
- Significantly improved returns on invested capital; and
- Continuing balance sheet strength and flexibility, demonstrated by an investment grade credit rating.

As I have already mentioned we are already reviewing the efficiency and effectiveness of our back office and administrative functions.

We are striving to achieve capital efficiency improvements in all parts of the business, to complement the stronger focus on top line growth.

Finally, portfolio and capital management remain a key focus as we continue to look for opportunities to grow organically and enhance our business performance.

Conclusion

Foster's is already a good business. Our challenge and mission is to make it a great business, capable of delivering superior long-term returns.

In order to achieve our goal of being a leading global beverage company we must continue to differentiate ourselves through the products we sell, the people we employ to build our businesses, and the financial outcomes we deliver to investors.

This is an exciting time in the group's history, and I am looking forward to leading the company into its next phase of profitable growth.

On behalf of your management team can I thank you for being here today, and for your continued interest and support.