



Foster's Group Limited

Carlton & United Beverages Investor Briefing Sydney 15 November 2004

Presenters

John Murphy – Managing Director

Angus McKay – Chief Financial Officer

Allan Bennett – Director i-Nova

Stephen Tighe - Commercial Insights Manager - Brands

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Edited Transcript

Robert Porter (Vice President, Investor Relations)

Good afternoon, ladies and gentlemen. I'd like you to welcome to this CUB business briefing. I would like to welcome those joining us by telephone dial-in and via webcast. Slides are available on the Foster's website.

Today's session is to be hosted by John Murphy, the Managing Director of Carlton United Beverages. The purpose of the session, which John will outline in more detail, is to provide you with an introduction to John and the senior management team of CUB and in turn for them to provide you with a run-through of the major business priorities and the key components of the CUB multi-beverages model. We have a fair amount of ground to cover today. We request we take questions at the end. There will be plenty of time for questions and answers. Today's presentation is not a trading update. I am pleased to hand over to John Murphy.

John Murphy, Managing Director CUB

Good afternoon everyone. It is great to be here for an update on the CUB transformation to a multi-beverage business. As the slide says, it's all-about building a sustainable multi-beverages powerhouse. Today's session is not so much about figures as to capability and you will hear from the team very shortly, the new leadership team of Carlton United, some of the new skills we have brought in. We also want to introduce you to the journey in terms of where we started, recognise some of the work we have been on for a couple of years, but more importantly, the things that will take us forward for the next couple of years.

In 1 July this year, to set the picture, we changed our name to Carlton United Beverages, reflecting that evolution to a consumer and customer focussed business. Recognising our brewing credentials and our heritage and those things we have done well over many years, in both a beer sense and in an industry sense, but also recognising that as things evolve consumer and customer demand more from us.

The theme of today's presentation is significant in terms of getting CUB close to our consumer and our customer. The statement that we use to bring this to light is consumer-led, customer-driven. We think these two statements together are symbolic in us becoming closer to our customer and our consumer.

If you look on the left-hand side of the slide, the consumers are looking for more from a supplier, a beverage partner. They are more educated, willing to pay. On the right-hand side of the slide are some of the things consumers are demanding. They are more discerning, seek quality, are able to differentiate, seek a greater range, more convenience.

The opportunity this afternoon is to present the credentials of the CUB team as to how we're best placed to meet these consumer requirements going forward. Consumers are also drinking differently - consumers are no longer drinking just one product. They are drinking within categories - drinking a range of products and also drinking across categories, a range of products on different occasions. There is no such thing as the one-product drinker. What we will see will be the continued evolution of consumers towards a greater repertoire, a greater shopping experience, where the bundle of opportunities will continue to prevail. Often not spoken about is that consumers are also choosing to shop differently. One of the key things, the phenomenon we're all facing, is that consumers are time-poor.

The most important thing in a value sense is what you see as you look down the right-hand side of the slide. The challenges that present itself for a retailer and for a company such as ours are around convenience - how we lay out the store; the ranging, the display and the technology that enables that sort of format. Escape - consumers are looking for an experience. They're looking for more than a shopping occasion. What does that mean for the retail environment, for the spaciousness of the format and for the shopping experience? Safety and security – a local profile, community, heritage brands and personalised service continue to be important but in what channels? Finally, consumers are looking for a point of difference. They are looking for a unique proposition, clear positioning, multi-dimensional experience and informed advice. These are some of the trends we're seeing. Consumers are drinking differently, they're shopping differently and they're looking for a greater support in advice and partnering, in both a retail and consumer sense from a company such as CUB is and will become.

Today we want to take you on a journey that will give you a sense of the capability that we are putting in place to enable us to do that and more importantly the skills we have to enable us to be a leader in this growing marketplace. It is about delivering lifetime consumer value. How can we be best placed to support our retailers and our consumers for lifetime value and not just the immediate future?

There are seven critical success factors - some of these will have been heard about in our presentations today, but some are new. You are going to hear a lot today about **consumer insights and innovation** around the consumer and customer. We believe at Foster's we have a unique position in the marketplace to build a sustainable platform and have the leading alcohol-product consumer insights capability. You will hear a lot about our **multi-beverage portfolio** and where we are at in terms of the delivery of that capability.

Brand equity and core brands - the importance of leading brands within categories and across categories. The terminology we want to introduce is the importance of portfolio.

Premium products - the trend we're seeing towards premium and imported will continue. We are well placed with our credentials in the marketplace, with the range we have and the products we're looking at for the future. **Customer relationships and distribution**, which we believe are second-to-none in this sector and we will give you a feel for the practices we intend to continue with and the things we have not done so well.

Lowest cost/flexible supply chain - as we step into a multi-beverage portfolio we believe we can build upon the scale of a network which has a flexibility and capability like no other. There are also opportunities to take costs out.

I want to talk to you now about **best people and capability**. CUB, whilst it's steeped in heritage and has some fantastic people, we have had to bring in new skills. I would like to introduce the people here - to give you a feel for their backgrounds and the diversity of views and experience we have in the room. It may not have been as diverse in the past. Starting on my left. Allan Bennett, the Director of i-Nova - our new consumer insights and innovation team, a total Foster's' unit. Allan has had a range of experience across Foster's in marketing, HR, and research and strategy and in cultural development programmes.

Steve Arthurson is our Director of Consumer and Customer Solutions, sitting on my right. What would have been called traditionally "marketing, "trade marketing", "brand marketing" and "consumer marketing and sponsorships". Those areas would have normally been seen under the brand marketing or marketing umbrella and we have separated insights and innovation to be completely self-focussed and more importantly a specialist team for the whole organisation, bringing customer and consumer insights together across Foster's. Steve's piece today will be around the brand equity and the building of those product segments across the multi-beverage strategy. We have two senior men - Phil Crenigan and Geoff Jones in New South Wales - leading the big channels of the market, being the national customers and the independent customers in Australia.

Rob Rogers, he's not here today. He joins us tomorrow. He is a new supply chain expert, having supply expertise for 17 years across the country and overseas, building on the great work in our team that Michael Brooks has done taking our distribution footprint forward. Angus McKay. He's recently stepped into the CFO role for CUB. He's had CFO roles over the years. He's recently run the long-term planning function for Foster's for six or seven months and will now bring a financial discipline and financial set of skills to the team to help and analyse our numbers and drive cost-reduction opportunities.

Sue Smith, our Director of Human Resources and Geoff Donoghue, our Director of Communications, complement the team. Sue represents the Foster's Australian team, not just the beer and wine business. We now have one HR team supporting all of Foster's in Australia.

So the team has a new set of skills, a diversity of background that we believe gives us the capability. What you will also hear about are some of the new skills and capability they have brought into their teams to take us on this multi-beverage journey.

Today we will focus on our multi-beverage commitment, our capability in terms of people and resources. Angus will take us through our financial credentials, Allan will take us through the i-Nova journey and the innovation team. Steve will take us through the brand marketing credentials in terms of how we structure our capability. Phil and Geoff will take you through our national sales organisation and how we are placed in developing our teams to manage these channels and their evolution for the future. Michael will represent the supply chain and the work we have done there and what we will be doing there. I will come back for a summary and we will open up for some questions. So sit back and relax. Consumer-led and customer-driven is a theme you will hear around those seven critical success factors. I now hand over to Angus.

Angus McKay, Chief Financial Officer (CUB)

Good afternoon, everybody. John has introduced the topic of our move to the world of multi-beverage. I want to cover three facets. Firstly, I'd like to give you some historical perspective on the business. I would like to then address some themes about our financial future and then some themes that I want to introduce as I move into this new role with CUB. I want to leave you with a picture of three things. Firstly, continued delivery - something that we should have as a future hallmark. Secondly, I want to leave you with a view of enhanced earnings potential and thirdly a view of how successful we can be as a multi-beverage business, one that is consumer-led and customer-driven.

Firstly, to our financial credentials. We have delivered strong earnings growth over the past years, between 6% and 9%. From that growth comes strong cash delivery. That is important to our ability to fund other activities in the Foster's Group. We have a very strong market position, one we see as sustainable. We have spent a lot of time, effort and focus on our re-engineering of the supply chain. Those supply chain benefits will bear fruit now and in the future. We are moving into the world of being a multi-beverage player. We already have a number of products and beverages in our business that can be classed multi-beverage. We will continue to extend that. I will talk about our ability to leverage that knowledge, the knowledge of the consumers, our customer knowledge, bringing together a single-beverage solution. Finally, let us not forget innovation. There is no point in doing any of this unless we continue to be innovative around our core brands and those new products we seek to take to the marketplace.

Our financial profile, some history that you are more than familiar with. Overall our volumes have increased over time and that has in recent past been on the back of the beginnings of this multi-beverage process. Beer has essentially been flat over the last three years, albeit that in the face of a slightly declining market over time. Our beverage categories have grown strongly and will continue to do so in the future, driving net sales revenue growth, not just from volume but from pricing activities we have undertaken. EBITA growth in absolute terms and EBITA margin have shown steady growth over those three years. Strong earnings have delivered strong cash conversion, in particular our ability to manage working capital and our ability to manage receivables have been hallmarks of our business. Finally but by no means least, our returns profile, which has steadily increased over the last three years, moving to the 30% level in the FO4 year. All in all, a strong historical performance, one we at a minimum expect to maintain and frankly, one through the multi-beverage move we expect to enhance.

To the future. In April of 2003, we spoke to this audience around the CUB operational review. I'm pleased to say we're making good process on the targets and promises we made at that time. A key step of completing our Kent relocation and Kent closure and the opening and commissioning of the Yatala Queensland facility is in progress. Michael Brooks will address this in more detail later in the presentation. Additionally we have made substantial changes to our sales and marketing teams and to our brand mix, in particular our sponsorship mix.

The world of multi-beverage. Firstly, let me say that this provides us with an increased option set, one that we have not necessarily had at our disposal in earlier years. As we move into this option set we must manage actively all the levers within the balance sheet to help us maintain the growth and drive future earnings. Those levers include everything that is used to enhance revenue, to decrease costs and analyse the effectiveness of those investments that we choose to make, not just traditional investments around capital expenditure, but those that we make every day in our brand portfolio. Price is important and will remain important but we recognise it has a limited life. We must plan to find activities to continue to drive our revenue growth that are outside the pricing arena. The move into the multi-beverage world will facilitate that. Our distribution strength is unparalleled and provides us with a unique opportunity to leverage this strength and bring new customer solutions to our consumers. Our retail relationships are very strong and we must use these major retail relationships and those with the emerging retailers to help us bring full beverage offerings into the marketplace. This consumer-led and customer-driven approach is what is demanded by our customers and our consumers and Steven, Geoff and Phil will address this later on in the presentation.

Foster's Group already has a large share of the value pool. Overall we hold 30% of the value pool in the Australian beverages sector. That is near double our largest competitor. It is a position we wish to maintain. The only way to maintain that, however, is to become smarter in the way we treat price and the way we should approach each of our channels. We must develop better pricing models, understand channel dynamics better and move to make sure we take advantage of the supply and

demand within the market. Equally, CUB as part of its credentials has managed over the last years to maintain an enviable position whereby we have held a greater share of value as we have of volume. This performance has been consistent as you can see from the chart on the screen. Equally, it's a position we seek to maintain.

Moving to multi-beverage margin opportunity. Every case of multi-beverage and non-beer product we sell enhances our opportunity to deliver greater margin and therefore greater value to our shareholders. We must move more in this direction. We must also deliver product to our customers through what is, if you like, the country's greatest distribution channel.

Cost - a theme that many of you have spoken about before. We must maintain our cost discipline. I've talked about leveraging all those levers within our margin structure. Cost is a substantial one. We will continue to drive hard on this front. In order to do so we need to maintain and increase our approach to discipline around the way in which we make investment decisions, driving economic-based decisions not purely product-based decisions. We must look at our A&P ranged against our core or future brands and we must maintain the rigour we employ to capital expenditure. Overheads we will not forget. They must be maintained and any incremental investments in the cost of our people and base must be tested, measured and understood thoroughly. The balance sheet must be looked at in further detail. We must take the same credentials and apply it across every line in our balance sheet. Finally, it is not just purely about more financial margins to be employed, this is about the capability of the organisation to manage itself prudently. We must do that in CUB and work with our colleagues to ensure we impart those skills. Part of those skills are understanding the value drivers within our organisation. By value drivers I am talking about those drivers that drive shareholder value, not just contribution value. We must move from a contribution level of analysis down to one that articulates where we make our money at a shareholder level, by brand, customer and channel. We must understand the trade-offs within those and actively seek to make the right decisions and those decisions are those that enhance shareholder value. This type of analysis will have direct link back to the way in which we spend our money. It will help us to enhance effectiveness and go to market in the most efficient and effective way possible.

Finally, in summary, we have a good history of performance, one we will maintain. We are on track to deliver those commitments we have made. We have a change of team, and more importantly a change of game. That change of game means we will now need to lever those aspects of our business that we have perhaps not leveraged to the full before. Real cost-focus and margin management will be themes within our business and those levels of financial discipline will be brought to not just simply the rudiments of our business but we will look at value-drive analysis, economic-based decisions and how we spend our money.

We have begun a new day. We have become a multi-beverage business and one that is consumer-led and customer-driven we must employ the appropriate financial discipline within the organisation to ensure we learn from the successes we have and

the inevitable disappointments we have as we test our way through the future. I am going to ask Allan to talk about the i-Nova group.

Allan Bennett, Director I-Nova

You have heard John and Angus talk about consumer-led and customer-driven. That is my area. I would like to take you on a little bit of a journey as to where that evolved from and what we're doing to bring that to life. Early in the days of multi-beverage we're starting to realise the consumer is becoming more and more diverse in the way they live their lives and spend their money, the competition for share of dollar, share of throat, share of time, share of space. So we realise that understanding the consumer is going to be a key difference - a key challenge for us - but it will also be a key competitive advantage going forward. This was really where the concept of i-Nova was born from.

I'd like you take you through the concept, through how that is operating and a couple of examples of how we're bringing i-Nova to life. To take you initially through the i-Nova name, to explain it, the "I" stands for "Ideas and Insights". "No" is "New" and the "va" is "value". So it's about how the insights and ideas drive our value growth. I'd like to explain it's not just about a team, it is a way of thinking and working. That is a critical part, I think. John mentioned it's not consciously part of the marketing team. It is a separate entity to make sure we focus purely on consumers and customers as one of the drive values going forward.

I mentioned it's a new way of thinking and working. We will work through that through the presentation. It is a Foster's-wide resource. It is not beer- or CUB-centric, it is across the entire Foster's Group. It is a hub of expertise. We have spent a lot of time thinking about the way this looks and the type of capability and skills we bring into this organisation. We have recruited people from across the country and across the globe, in fact. And we have some specialists and we will hear from one of those in a moment and someone we put into a foresight role which is not just thinking about today, but the future as well. We have also created a team which is really looking at consumer strategies. So again, it's a very, very new way of looking at the way we do our business.

The two key planks in terms of process of the way that this works is 1, the insights platform - I will go through it in detail - and the innovation framework or the process by which we bring that to life. The first part is the strategic insights platform. We heard from Angus that the footprint Foster's have in alcohol in Australia is 30%. That is a fantastic opportunity for us to understand the consumers that fit across all those categories and that portfolio we play in. That first platform about understanding consumers is about understanding their values, their needs and the occasions they drink in. The second key plank in that platform is about how that consumer understanding links with our portfolio. How do we bring that to life? The third one is really about understanding global trends. This is the foresight piece, understanding not only where consumers are today, what they are drinking, but what will they drink in 5-10 years' time?

The second pillar of our insights i-Nova platform is really the process by which we bring innovative projects to life. The key thing is the Foster's-wide platform. We can look at any time which projects are in which stage of this process. We can learn from the process, whether it be Beringer North America or CUB NSW. One of the keys for us going forward is this process is embedded throughout the entire organisation and it is repeatable this is a cross-functional group. It is not about one team operating in isolation throughout the team. You will hear from Steve Arthurson about how we use fully cross-functional teams to bring those projects to life. Again, you will hear an example shortly about the speed to market. Traditionally we spend a significant amount of time bringing an individual project to market. We have a great example soon which shows the speed with which this process can facilitate for us. That last point. This is not just about producing new products. It's about doing business smarter. It's about new services, new ways of working, new processes, it's about extending new products and Steve will take us through a key one with our biggest brands and about how we've used the innovation process to refresh the VB brand. It is also about looking at white space - gaps - in the market and it can be about working with global partners, about taking existing international brands and looking at how they exist within our market.

So rather than talk just conceptually about i-Nova, I would like to talk through a couple of examples about how we've utilised this process in action. I will ask Steve Tighe to talk you through the way we're thinking and how we are putting that into action. Thanks, Steve.

Steven Tighe, Manager – Foresight

Today represents great opportunity for myself because I get to talk about something I've very passionate about, that's the new way of thinking and the new way of working that the i-Nova team is helping to bring to Carlton. What I will also talk about is evolution of society and the implications and opportunities that it offers to CUB as it goes down this multi-beverage platform. I thought I'd start with a very simplistic chart and it's a chart that shows the projection of Australia's population over the next six years. Just going from left to right there, you can see from 1989 the population has gone from 17 million to its current state of 20 million people and we're forecasting to grow that about 200,000 people per year over the next six years. You can see all of that growth is at the upper end, the 50-plus segment and traditionally we would have looked at that from a beer perspective and thought, ageing occupation, increased opportunity for light beer sales.

Let's take a broader view. You have the 18-24s who have grown up in a time where equality between the sexes has been there from the day they were born. This is a different upbringing than the upper end of that growth. You have these 4 million consumers who over the next five years are on the verge of reaching 60, these baby-boomers. They have a totally different mindset to any other consumer that's been aged 60 before. In the middle ground here, between 25-34, you have all these people who are putting off marriage and commitment as they seek to get life experiences. So there's a totally different dynamic that's seeping through society. So if you want to get

a greater understanding of society then you have to move beyond traditional measurements of segmentation. So if CUB is to be truly consumer-led we need to gain a deeper understanding of consumers and perhaps, more importantly, we are focussed on being consumer-leading, not only understanding the needs of today's consumers but the needs of future consumers which have where this foresight role comes into place. There's a lot of mystery around foresight. It's a new area. It's like any skill in the world. It can be taught and it can be learned. Australia is very fortunate in that the premier foresight institute in the world is based in Melbourne. CUB has shown its commitment to foresight by putting two people, one from Beringer, one from CUB through the institute this year and sending another wave through next year. It is committed to foresight and recognises that by embedding those skills into the company, you get sustainable competitive advantage.

Let's look at how you get a deeper understanding of society. As we saw in the previous chart, you had the growing population from 17, to 20, to 21 million people. In our traditional beer-company perspective we would have looked at the 18-plus population. Looking at those numbers is like an iceberg. The top number is like the tip of the iceberg, but it's the depth of understanding that lies beneath that. Understanding consumer mindsets is the key element that drives change and choice and understanding consumer mindsets is the cornerstone of foresight. So don't worry too much about an increasing population at a macro-level - what's happening underneath that surface? What does it mean to society that in 1989 we had 1.5 million consumers with a visible achievement mindset and now there are 3.2 million? These people are really starting to wield influence in the marketplace. I'm not just talking about beverages here, but every element of society. So the key to foresight is to understand how many people are in each characteristic or in each mindset and will that mindset grow or decline over time and what are the characteristics to that mindset. That gives you great predictive capacity.

If you have this socially-aware consumer who is on the verge of being the most influential consumer group and mindset in the next 15-20 years, what are the characteristics to their mindset and therefore, how do we service that consumer today and in the future? I want to bring this chart to life. Let's look at Australian values 15 years ago. There are ten consumer segments. I will draw your attention to a couple. There's a lot to take in here. There are two columns in the middle - traditional and conventional family life, the traditional thinking that dominated Australia 15 years ago. To the right you have three segments, young optimism, which is university-educated, seeking experience, such as travel and so forth. You can see they were about 6% of society at the time. You have the visible achievement group, 12% and the socially aware group 10%. You see social innovation and the searching for quality and experiences is all on the right side of the chart.

You can see where Australia is back, right in the middle of conventional family living. The characteristics that were dominant among those groups there, core values, classic image of middle-Australia, seeking reliability and affordability from their products. When you have a mass of people of that mindset, then that creates an environment for mass brands. You can see these brands have reached these

extraordinary market shares. We're fortunate to have market leadership positions in such a time of a homogenous society. Think about the programme 'Neighbours' which came on TV in 1985. It is set in middle-class Australia, reflecting our own society on ourselves, hence its success. I have there that the homogenous society equals mass brands, but is it more. It's homogenous society equals mass. Think about the Sunday movie. Traditionally, it was the highest-rating show on TV each week because Australians sat down as they prepared for the working week, in front of TV, and watched the movie. So mass communication or advertising was a simplistic procedure back then. If you wanted to get your message across from your brands, if you put an advertisement on television on the right day, the right time, you were largely guaranteed of getting your message across to millions of people with broadly the same values and who broadly made up your table market.

It is a much more complex society today. Let's look at where we are today. You can see the growth, the declining conventional family living and the movement to the right as this - I suppose it's a reflection on the government education policies, a growth in young optimism. The number of kids through university have doubled in the last ten years. They are travelling overseas and coming back when they're 24 having lived for two years in Europe. They are bringing these experiences back and they want those same experiences back in Australia. You see the absolute growth in the visible achievement seeking quality and value for money. They are exerting their influence in the suburbs - think about digital television, home cinemas, 3,000-dollar barbecues, gourmet sausages and cheeses, people entertaining at home - this "premiumisation" of Australia is led by these people.

Then on the right you have this socially aware consumer making up 15% of society and over the next 15 years they will overtake these visible achievers. Liberal-minded consumers, they are seeking innovation, different experiences and more importantly they are willing to pay for more these premium experiences. They are seeking to express their individualism, they're educated and confident. We have a totally different dynamic in the marketplace. The rise in premium beers - people expressing their individualism through fashion. Australia's acceptance of technology is up there with the Scandinavian countries. Outdoor dining, "premiumisation" of the household, and acceptance of individuals which is witnessed through the success in mainstream Australia in programmes such as 'Queer Eye for a Straight Guy', etc, a different dynamic from our consumer. If we were to represent those consumer values, across from left to right it's conservatism to aggressiveness and from the bottom to the top it's individualism, satisfied with your life and quality expectations. If you were to map positive and negative points for each of those elements, in 1989 Australia sat right in the heart of that values cross. Over time we have drifted first of all upwards and now to the right as these socially aware and young, optimistic consumers begin to wield more and more influence in the marketplace. I want to demonstrate to you the importance of understanding and mapping social values. I want you to think of a brand like Carlton Draught. It's 130 years old, a Victorian brand. It has the essential elements when it comes to regular beer of heritage, quality and authenticity. This brand is now the fastest-growing regular beer brand in Queensland and New South Wales. The reason for that is we unleashed those core qualities of heritage and

quality by making the brand more relevant to today's consumer. So effectively we've taken the brand from right in the middle and evolved it with society. So that brand is now riding a social wave of double-digit growth. Steve will talk about that later. We brought the brands alive by bringing in all the relevant cues, making it more unisex, more white-collar, etc.. That's the importance of understanding social values.

Effectively, we've moved away from reliability, affordability and this preparedness to make a price and quality trade-off, very much into this area here - quality - people continuing to make a smarter choice. You can see the longitude study with attitudes to smoking, drink-driving, people who are prepared to pay for experiences. We will continue to head towards that zone in the right corner. A differentiating society demands diversity, both within categories and across categories. I can put up any category in the world here. This is where society is heading as we are seeking the brands whose values best match my own. That is what we're seeking. Whilst these are alcohol-product examples, think about venues from the humble pub to this explosion in theme bars, etc, and then think about you can communicate to consumers in such a society. We've moved away from the obsession with Sunday night movies and next year there is probably the likelihood that no commercial networks will show those. We have SMS, Internet and broadband connections which are climbing at double-digit rates. If you are communicating to your consumers now, an integrated approach is required, just as when you're trying to reach consumers through a multi-beverage approach, a portfolio approach is required.

Let's go through a couple of examples to finish off on how understanding these social values are so important. Let's go back to the visible achievers. I showed you before how these consumer mindsets have grown and will continue to grow as we go forward. If you look at it in a graphical sense you can start to see the influence of these visible achievers. The important thing here is to understand what's in their mindset. Whilst that was niche at a certain period in time, that influence is starting to be felt throughout society, so it makes absolute sense, once you understand which groups are the masses and which groups are growing, to understand what's in their mind. People who focus on quality and value for money. They're materialistic. This group here represents about 30% of the baby-boomer generation. They're very practical people, living white-collared, busy lifestyles, family-focussed with traditional values. When it comes to wine consumption, they drink a lot of wine but don't necessarily have a great deal of expertise around the category. They're put off by the traditional wine-speak and the decision-making tends to be around pricing and brand recognition.

By understanding these qualities we're able to come up with a solution such as Half Mile Creek which was all about providing affordable and reliable quality and about providing a practical solution, taking out the confusion from the wine category and making it easier for people who also have a small base knowledge of the wine category. They're interested in finding out more about the category. Communication through mass media. Brand awareness is so strong in the choices of these people, so let's go through mass media here. Let's make the accessibility as easy as possible so that when these people go to their favourite liquor store they're guaranteed of

finding Half Mile Creek in the store. We have been able to do that through the distribution network. I want to talk you through the successes of this story so far. Total litres, in excess of 1 million in the first six months. Greater than 100,000 cases. We have the fastest-growing wine brand in Australia's history in its first five months. If you look down the bottom there, so far as its commercial wine performance nationally, it's number 8. Annualised volumes are that it will be number 8 brand this year. More importantly some of the relationships we have with our national customers, with BottleMart, our third biggest customer, the Half Mile Creek varieties in Victoria and New South Wales are the number 3. Outstanding performance. Two numbers here, number of stockists, 5,500. By far and away the most stocked wine brand in Australia. 97% of the advertised price points have been within the designated range. I think that is a credit to the capability of our national sales team to deal with the multi-beverage portfolio.

One last example I want to take you through is this socially-aware consumer. You can see how they have doubled in the past 15 years and they will continue to grow. If you think about psychological development, as people emerge out of materialism they start to take a more liberal-minded approach and I suppose if you think about trends in society such as the sea change where people are turning their back on materialistic pursuits, it's being led by these consumers. At the core of their personality is a search for balance. Trends such as yoga, pilates, etc, are driven by these people. Their characteristics will continue to have increasing influence over the next 10-15 years. These people are willing and able to pay for premium superior goods. They're actively seeking innovation. They are informed. When it comes to new products they value diversity and discovery. They're very confident and are prepared to show their individualism through the products they purchase. They also value heritage and authenticity. We're dealing with a different consumer to the visible achiever. When it comes to developing a proposition for these people, a totally different element to the marketing mix are required.

When the product Pure Blonde was designed it was with these people in mind, to design a smarter-choice alcoholic beverage that complimented their healthy lifestyle but didn't compromise on alcoholic strength or taste. We decided to build this brand's awareness through discovery. So getting it into the right venues as opposed to mass venues, that was one of the learnings that came out of Empire. If you think about it, if discovery and diversity is at the core of these people's mindsets, you can't necessarily attract them by going to mass media which attracts everyone. These people discover brands on their own. This was the approach we took with Carlton Draught in 1998 in Sydney. The brand went through great growth with these consumers. The key with this category is to establish the credentials over time with the right consumers. With Pure Blonde we've created a ripple we believe will be a brand wave, if you like, for the future. It just takes time and patience and vision.

Just to give you an update on story so far with Pure Blonde. Total litres - up to 2,000 at the moment, within 2,000 stockists, no need to go wider than that at the moment. On the left, a good guide to the steps in the process before it went to launch. That launch took 74 days and it was a parallel process where several of those steps were

being taken at the one time. I will leave you with this thought here that what we did there was we had a team of people who were dedicated and focussed at achieving a 90-day deadline. They overachieved and I think what that really showed is when we get people internally who are focussed on an outcome, we can deliver speed, flexibility and perhaps more importantly, the right proposition. Thanks for your time. I would love to pass back to Allan. He is going to reiterate the purpose of i-Nova and what we will continue to achieve. Thank you.

Allan Bennett

I think those examples sum up what we're trying to achieve with i-Nova. I think you can see the style of thinking that someone like Steve brings to the team and the passion he brings to it as well. Those project examples are bringing that thinking to life in the way that we work. I want to leave you with six thoughts from here. The first one is the relentless focus on the consumer. You can see all through that presentation that in those projects it was not starting with the end product in mind, but what those consumers were looking for, their values and needs, and interpreting that into brands from there.

Steve's example of Pure Blonde. Seventy-four days is easily a record for us. To go from the very first look at it from a consumer perspective right through two waves of research, all the product development, the packaging, everything, within 74 working days is fantastic, from our perspective. We're not going to get every one right. Empire we did not get right. We have learned from that. Right back at the start we went through innovation and the last step was about the review and learning from there. From that process we have repositioned and relaunched that product. A lot of the learnings that came out of that have been put into other projects as well. Working across multi-beverage - again, we come back to the footprint that we have, that 30% of alcohol share and retail value, which gives us that opportunity to play as no other competitor can play in the Australian market. The ability to launch a wine brand in what was traditionally a beer distribution network and now a multi-beverage network cannot be replicated. We have the win-making technical capability but the distribution and sales capability throughout CUB. We think that model will be highly valued going forward.

The next one there is open to big and small ideas. You can see the Pure Blonde concept in something like the Rooftop Red Lager which we have just launched. They are niche markets. We are causing and creating categories that could be the next wave that comes through. Steve Arthurson in a moment will take you through what we are doing in repositioning, revitalising, relaunching VB. So i-Nova is looking at the consumer total and thinking about how to apply that through the brand portfolio.

The final one is the global capability as well. The exciting thing as this is that i-Nova works across the entire Foster's business but we also work with our global partners. We have a lot of beverage partners throughout the world and we are learning from every market and bringing those learnings back to Australia as well. I hope you got the hang of what we're trying to build here. I would like to introduce Steve Arthurson

who will take you through how we take those understandings from a consumer and customer perspective and put them into action throughout the business.

Steven Arthurson, Director Consumer and Customer Solutions

Thanks for being here this afternoon. Consumer and customer solutions, formerly known as 'marketing'. If you caught up with any of the press the VB relaunch has had this week you will see a number of digs at my title. It is simple when you hear Allan and Steve talk about what they do. Traditionally the insights or research team would have been part of marketing. We have found when we have that embedded within marketing, what marketers are good at is focussing on the brand development process. That's what we want them to do. We want them to be great brand developers and trade marketing developers, but it made these focus on the consumer and the marketplace with blinkers on. The great thing about having i-Nova established is these guys and girls can do it without any blinkers on and get true insights. That's what we're discovering. We're getting far greater depth of understanding about consumers, shoppers and about customers than we've ever had before which is really opening up areas for us to have a look at. So consumer and customer solutions, that's what we're all about.

I'd like to walk you through a couple of key areas to give you an overview of what we're trying to do. We will walk you through some examples of how we're trying to grow contribution by building brand value and equity of our core brands. We take a portfolio approach in each of the categories in which we operate. We have some core brands that really drive value for us. We also have what we call some growth brands where we are attempting to get a real foothold on the market, get some presence out there and grow those brands right across the multi-beverage categories. We also look at emerging brands and work closely with the i-Nova team on that. We will explore those three areas shortly.

The first thing I would like to do is to have a look at the new ways we're going about our business in the marketing or consumer and customer service area. I think there are real changes here to the way we've done business in the past. Three areas I'd like to focus on under this new way of working. The first is structural change. If we're going to be truly consumer-focussed where we would like to get to is a consumer segmentation structure. That's the aim. We're not there yet but we have taken our first step away from a silo-functional structure and moved to product categories. I will explain a little more about that shortly. We have had a structural change in the last few months moving from traditional silos to cross-functional business units which are focussed on product categories. Eventually we hope to get to a consumer segmentation model, so we have needed to up-skill as well. It's not just structural change but we've brought new skills into the team, skills such as more sophisticated marketing skills. We've brought in some real talent from across FMCG that are just more sophisticated than we've been in the past. We've also brought in some more commercial skills. Because these are cross-functional teams, they need to be broader than just a one-functional area and culturally we need to be more collaborative and more able to deal with ambiguity. The leadership style we've

brought into these teams is different to the past as well. So new structures, new skills. There are also new processes and tools and templates in there as well changing capability.

Two areas of working - one is the integrated communications that Steve talked about earlier. One of the things we have not been great at in the past is really integrating all of the consumer touch points. So consumers are saying that they need to get the same message if we're going to be true to equity position. Every time they touch the brand, whether they see it on TV, whether it's in print, on pack, in a store or in a venue, it needs to be the same message. That integrated communications piece is something we are going to work on and we have the most recent example of that that you will see shortly around the relaunch of VB. The third area, in terms of new ways of working, is understanding how we spend or marketing money. In the past we focussed very much on looking at how much money are we spending through TV commercials. As you've seen from Steve, what consumers are reacting to from a communications message is very different, so we need to get far better at understanding how our spend impacts revenue, share, contribution and equity. That is something that we are working on at the moment. A great example is we had one particular brand in one particular channel in South Australia. We had our typical TV campaign lined up. We had a look at two years work of data and put an econometric model together. From that we decreased the amount of money we were going to spend on the TV campaign - same volume, reduced spend. That's an example about where we spend our advertising dollars.

Let's go to the structure, the business leadership teams we talked about. We have a mainstream beer team, a spirits or RTD team, a popular table wine team, a premium craft beer team, reduced alcohol and lifestyle and non-alcohol. All of these teams are cross-functional teams headed up by a general manager. There is a strong traditional marketing focus, so they're very much about brand development, trade marketing development, use of marketing dollars and sponsorship dollars, but within each of these teams there are sales people, operations people, finance people, i-Nova people, commercial people, as well as marketing people. So they're truly cross functional. As I said earlier, that's required us to have a different way of working within these teams.

What we are going to do is to walk you through some examples of each of these teams and the portfolio approach within them. Let's look at mainstream beer. The mainstream beer market is by far the biggest segment but it's been in slow decline for a number of years. It is still 64.6% of the total beer market. We predict roughly about 11% volume decline over the next five years, so while it's in decline it is still a huge part of the beer market. When we have a look at the sort of consumers that are attracted to these products, they're about heritage, quality, credibility and they're about innovation to a degree. When you look at our portfolio in this market we are clear market leader. We have an incredibly strong portfolio. We will go into details shortly. We dominate this share with a 53.7% market share, so a major player in the biggest category by a long way.

Let's have a look at some of the brands in the portfolio. VB is 35.7% share of this category. Overall in beer, VB is one in four beers consumed in the country. It's a long way ahead of the next competitor brand, it's an icon brand. VB has lost relevance to a certain degree in the last decade. We have embarked on the largest research campaign undertaken by this company in the last 12 months which resulted in a relaunch programme that was kicked off last week in the trade right across Australia. It is, as I said, by far and away the largest research programme we've done. The trade response of a series of events has been overwhelmingly positive. Being the icon it is, there are a lot of things about a VB we can't touch. That's what consumers have told us. They love it to death, but they've given us permission to alter the way the brand is being portrayed to a certain degree. What I'd like to do is to give you a bit of a hint of what will be coming right the way through Australia as of next weekend when the new campaign hits. It's a great example.

That was five minutes out of a 15-minute presentation we did last week. If you'd like to see the full thing we will put it on at the end of the presentation. A great example, I think, of consumer focus. For eight or nine years there's been a real reluctance to touch VB, it's an icon. When we asked the consumers, what do you think about VB and how does it fit into your drinking repertoire and where your life is at, they've said, "Look, it's there, it's an icon, but it's lost its way just a touch. If you tweak it a bit, we'd love it." That's what we have done. There are a number of people who took some big gulps in messing with VB but the overwhelming response from the trade this week has been stunning. I hope you like it.

That's not all in terms of mainstream beer. It is actually a portfolio approach. It's not just about one brand in the category. When you look at our core three brands we have VB at number 1. We have Carlton Draught, which is now the number 3 national brand, with an over 20% growth in the last 12 months and Carlton Cold that is number 3 in the 18-24 market - which is a very fickle part of the market and has reinvented itself two or three times - and, overall, a 49% share across this area. I would like to show you a couple of the Carlton Draught ads, again built on consumer insight. Remember Carlton Draught is 130-year-old brand. It's all about heritage and authenticity. In years gone by, in some ways would have been considered to be a very old brand. When we asked consumers, where does it sit, they gave us great insight and the resulting campaign that we launched here about 12 months ago has seen it grow enormously. Here is a hint of what's happened over the last 12 months.

A great example again of a consumer insight piece. I don't think we knew the latent potential of Carlton Draught until we asked consumers. We thought it had enormous heritage. But consumers said "It's okay to take the mickey out of that as well. In fact, we'd love it." It's come across as the smarter person's beer, a reel while-collar position. It's going with a bullet. We have a range of growth brands in the core three there, the more heritage and some consumer brands like Carlton Dry which is establishing a footprint and has some legs, hopefully. You have heard about Pure Blonde and Empire, they are examples of brands we will continually seed into the portfolio and some will stick some won't, and we will communicate it into a way that is for the target market. Pure Blonde is about discovery, so it's more about a seed in

strategy. Half Mile Creek in the wine portfolio is certainly about mass media and TVC.

So with that approach it's important to not lose sight of the fact about how we're being successful here, but it's about understanding the consumer, shopper and customer. This is the way we're thinking about each of our business leadership teams' product categories. We thought we'd try the premium leadership team. Premium beer is a growing part of the marketplace, a greater-than-25% volume increase in the next five years, we think, albeit with a changing mix. We have typically differentiated between domestic and imported beers and called it domestic and imported premiums. That is now changing, it's really premium. So whether it is domestic or imported will become less relevant going forward. The growth is significant in terms of the business. We are a market leader, we have a 55% share. Unlike mainstream, where Lion are a major player, our number 2 is less than 25% and a number of players are coming into this category because it offers good margin, not only to us but also to our customer partners. So we're clear market leader.

One of our advantages is our strong global relationships, particularly given our Foster's relationships around the world. So let's look at what's in the portfolio. At the top of this slide again it reflects the consumers' experiences, diversity, discovery, heritage, authenticity. They're different beasts to the mainstream people. In the portfolio, Crown has the 26% share, it's four-times the size of the next biggest competitor and we also have the numbers 2 and 3 in this category. Stellar and Corona, major market growth, good profitable growth for our customers, for ourselves and remember, consumers are happy to pay a premium in these areas. So our core four at 43%, Stellar and Corona, very, very strong growth. When we look at the growth brands coming through, some of the brands here are currently 35% volume, off a low base, admittedly. Asahi has been around for a while. We introduced the draught recently with limited distribution in premium venues and it's gone through the roof. It's taken the "premiumness" of the brand up another step. That's purely in the way we handled the distribution of that product. So things like Asahi and Kronenberg 1664 we see as potential growth brands for us and again seeding in at the small niche end are a whole range of things like Newcastle Brown and a range of other brands we have in the portfolio. The real key here for long-term success is leveraging our global partners. We will continue to drive our domestic portfolio but make sure we have strong relationships and access to leading brands around the world to bring in the business.

We thought it would be worthwhile, seeing as we're talking about premium, to look at the other component of this area, the specialty in craft beer - it's a different category, but it's in line with the values if terms of consumers. There's a lot of growth in this area. It's only 6% of the premium but we think that will get to 10%. It's grown 50% many the last year. Again, portfolio approach here, we have Redback, the number two in the category, it's regaining momentum after we had not put a lot of focus on it in the last three years, but in the last 18 months we put significant activity around it rebuilding the equity and distribution again through discovery. This is word-of-mouth, seeding strategy in this particular category. In terms of rapid growth, we are building

distribution across things like Bohemian Pilsner and Beez Neez. A few years ago Beez Neez wasn't in existence, now it's in top five craft brands in the country and growing strongly. At the other end, things like the Cascade seasonal range, summer, autumn, that sort of thing, the newly-launched Rooftop and a range of Matilda Bay Reserve brands are things that we will seed into this market that is focussing on a desire for taste experiences, that is really what these consumers are telling us. In that area Redback is going well, number two in the category, Beez Neez is number 5 with strong growth and we will continue to seed in those distinctive flavoured beers.

We thought we'd look at ready-to-drinks. These drinks have exploded, as they have around the world. The last 12 months has seen a decline in growth, but there's still growth. We're seeing 13.8% volume growth in the last 12 months but there's been a change in RTD mix in favour of dark spirits RTDs. You will see the numbers there. On the dark side we have Cougar and Black Douglas as you see there and the Skyy Platinum and Skyy are an example of the ranges there on the dark spirits RTDs. We've seen in the category volume growth our share has grown to 9.7% over the last 12 months. We've seen this enormous upside there for a range of brands. The key for us to continue to build the credibility of the Cougar brand. We think the Black Douglas brand is something we have not given enough attention to, so we will renew our focus on Black Douglas and we're trying to get growth and expand the portfolio.

We think the key to long-term sustainability of equity and RTD is a strong parent brand. I think that's been shown around the world. There is a place for brands that aren't linked to a strong parent brand but the history is that their product lifestyles are short. So you want to get in there and get out quickly with not a lot of money spent on them. If you want a long-term sustainable RTD we need a strong equity in the parent brands. So we see the spirits piece and the RTD piece, the glass spirits piece going hand in hand for Cougar, Douglas and the light spirits side, particularly in Skyy - we're spending quite a bit of activity and money on the Skyy working-parent at the moment.

Briefly, we thought we'd finish off the business leadership examples by looking at table wine. You have seen Allan and Steve talk about Half Mile Creek. This particular category sub-\$10 is 80% of wine volume but 38% of wine value. Foster's didn't play strongly, if at all, in the sub-\$10 category. When i-Nova went out to see what is happening in wine, to see what consumers would like to see, consumers said "We find it a bit pretentious. We'd like to see a great value, unpretentious, easy-to-understand product." Hence Half Mile Creek. The relationship with Beringer, using their wine credentials and expertise combined with CUB's distribution strength, enabled us to get Half Mile Creek out there. We've leveraged our distribution, a real win for us. We've used tastings and in-store execution to cut through the clutter but we've hit mainstream with the Half Mile Creek TVC. The TVC is unpretentious, it does not trade on wine credentials anywhere near as strongly as most TVCs for wine. We're trying to demystify wine. Where to in this category? We think we need to increase the varieties in the brand of Half Mile Creek but we also need to grow our brand range in the sub-\$10 category, and we've recently done that with one of the Rothbury brands, an event-based wine we've established. Geoff will talk about that in detail a little later.

To sum up - four key elements. One is driving contribution and building equity in our core brand range across the multi-beverage platform. For our growth brands it's about getting distribution and creating awareness. For the emerging brands it's getting growth through seeding and distribution. The real key is how we go about it. How do we actually develop brands and grow brand equity when the marketplace, the consumers, are fragmenting into a range of different segments, all requiring us to communicate with them in a different way? That is our biggest challenge, I think, to work out how to communicate in the most cost-effective way. It won't be just about TVCs. They have a place, but what about SMS, viral email, the use of online technology as marketing communications? A great example, I think, is a Vodka brand we now distribute called 42 Below. The only marketing they've ever done of that brand apart from a little bit of print-based PR was viral email. They spent virtually nothing on their viral email campaign. If you haven't, I encourage you to get on their website. It's the most politically incorrect outrageous viral email anyone has seen, but it built a cult following around the world in a matter of months and made 42 Below one of the hottest Vodkas in the world. A very different way of targeting specific consumers. The viral email campaign worked for them - a great example of how we need to target our messages different going forward.

So, that's what consumer and customer solutions is trying to do. It's about core brands, growth brands and emerging brands but it's also a matter of doing business different. What we're trying to do is to create solutions for customers and consumers in a way that they want it, that they can shop for it easily and consumer when and where they need to. You can't do that if it's not executed and we can't put it in their hands. That's what Geoff Jones and Phil Crenigan are going to talk to you about.

Geoff Jones, Director National Sales – States

Good afternoon, ladies and gentlemen. The CUB sales organisation is structured to service the current and future development needs of our customer base and to execute across our multi-beverage portfolio. As our customers have evolved, so have our teams and hence our capability. You see up there that Phil and myself are doing a job that John earlier said was done by one person. That is all part of what we're doing to subscribe to our customer-driven focus. My responsibilities as Director of National Sales for States are to look after the independent retail liquor trade, the On Premise customers, our regional sales network, the state marketing functions which include the trade marketing of our products to our customer and our people working hand-in-glove with Steve's BLT people and Allan's i-Nova staff and the draught beverage service team. Phil is looking after our national customers looks at after the national chains, wholesalers and banner groups and a variety of the customers who do their business on the national scale.

You can see we're located in Sydney. Why Sydney? I suppose the obvious things about Sydney as opposed to Melbourne are weather, the sport and our love of real estate. However, the real three reasons I suppose we're in Sydney is the recognition of the size of the Sydney and NSW market as the predominant market in this country, the fact that many of our key customers are located in this market and I suppose,

finally, it allowed Phil and I and our management teams the opportunity to work collaboratively, located in the same place.

The guiding principles that Phil and I and our respective teams adhere to are these. Clearly we aspire to be the leading industry multi-beverage sales force. That goes without saying. But I'd like to focus on the bottom one there, the evolution of our sales team. We consider that evolution as a vital component. We desire to invest heavily in our people as you will have heard about numerous times today. We want to delight our customers. All the time we want to focus our sales commitment on creating growth for our company and adding value for our customers. What about our customer productivity? I suppose many of the features up there of our sales force, our market positioning and our customer landscape may be things that are familiar to you. However, I think they're worth reiterating. We do have the largest sales footprint throughout the value chain in this country. We have unmatched coverage, dedicated national teams world-class credit telecall and telesales departments and we can access directly over 22,000 customers. We have a leading portfolio brand, as you have seen from Steve. We have a growing expertise right across our sales force, both in my and Phil's team in people who have worked in multi-beverage before and are developing capability in our people who have been with us for a while.

I'd like to focus on evolution. I will talk about the premium On Premise team in a moment. But we have a host of consumer influence executors, a job that if I were to be reincarnated, I would like to come back as doing myself. These young people work in the big cities, the capital cities of this country and they work mainly at night. Their job is to interact with consumers, interact with the bar staff and all the venues and to work out what opportunities exist there and to feed back the market intelligence into Steve's team and Allan's team so we close the circle and have a seamless fleet of information. We have a wide range of non-beverage services. One in particular that is fairly new is our retail hospitality group. This provides an On Premise and Off Premise consultancy to our customers and all the time looking at adding value to them.

Philip Creningan, Director – National Customers

Good afternoon, everybody. Geoff talked around our organisational capability and the strategy we're working with. Let me give you some high-level themes today and over five years time in the Australian beer market. Essentially an Off Premise market, 65/35. It is quite unique to all the beverage businesses in the world. We service, on a weekly basis, 90% of our customer base, our top-three customers - I will include the three major retail chains - but a strong retail national banner group. Let's look at the world in five years time. The big will continue to get bigger. That includes the supply base as well. Future growth will come from Off Premise channel, though we would anticipate modest growth in a reinvigorated On Premise channel. We think that some of our customers will be self-sufficient over the next five years in their own supply chain and we will see a continued consolidation in the rest of the marketplace, in line with that being led by other avenue the chains.

We will see a lot fewer stronger banner groups. In the On Premise channel the tail will get longer and be more fragmented. We will see an increase in licences consistent with Northern Europe for an increase in mid-week occasions and drinking. These customers will require from leading suppliers different solutions. Not just different retail solutions, but one-size-fits-all will simply not be acceptable. They will need higher levels of servicing. We already have the capability to deliver to most of our customers within 24 hours, which I can tell you in places I work around the world is absolutely extraordinary. But in the future delivering refrigerated cold product just in time for immediate serve may well be a demand. This will always be a fundamental channel where brands are built and therefore the kind of capability we're building now and expertise will be critical in the future.

We will also experience significant legislative change. Our role as an industry leader is to work closely with the industry on working through those issues together so that the On Premise channel in Australia is strong and vibrant. In summary, the ability to serve, to have strong brand equity and a broad portfolio will be critical components to winning in the On Premise channel. In the Off Premise channel the ability for businesses to partner with key retail players will also be critical. This is not simply about being the biggest, which we are, but it's also that you have to be relevant and have the approach, the insights and the information to share with our major customers.

We will begin to see - and we will see evidence in Geoffrey's section in a minute - very different ways of working with independent channels. We will look for the best people in the country and import international skills where we need them. We will see a general theme of differentiation by channel, by retail format in how to bring our offer to market. This is a fundamental change in the way the business has been done in this country and by the retail suppliers and is a huge change process that we're leading, but we're convinced it will pay dividends in the longer run. Now, a lot of themes are around the national players but one of the great things about consolidation is it has actually raised the bar in the performance of leading independents in the country.

I would like to hand over to Geoff Gledhill, President of the Master Grocers Association. We have a short video tape.

Listen to what he's saying and the way that the challenges of the change has raised the game in the bar as to how this particular retailer is responding to his consumer challenges.

Transcript of Video

We've been here 16 years. When we started we shut at 1 o'clock on a Saturday afternoon and couldn't sell liquor on Sunday and it was about 6 or 7 o'clock during the week and getting a liquor licence was reasonably difficult at that time and there's been a number of changes to the legislation since then that have meant, I think now it's sort of, pay your \$500, go through some stat industry requirements and you have a liquor licence. The whole thing has become more competitive. In the past it was close

lunchtime Saturday, not open Sunday. Obviously the push with the chains, selling liquor is a growth area for them because they seem to be scratching around looking at where they can grow and liquor seems a soft option for them at the moment. They're bringing a lot of resources into it. But we don't see ourselves competing head to head with them. They've got their market. Obviously people like Murphy's and that are quite decided on their market.

We are very much convenience, consumer-focussed. Basically everything we said that should be cold is cold. It's competitively-priced. We don't run out of stock. When people come in here they can get what they want in the condition they want at a good price with good service. We're fortunate, we're in a very good demographic area. We've spent the time here trying to find out what it is our customers want. We focussed very much on that. That's how we drive the business. There is no magical retail solutions. It's commonsense, seeking the advice of others, obviously, but finding out what our customers want and doing that within the size or financial restraints that we might be operating at the time.

So, as far as why we have a digit that's still showing double-digit growth at the moment, that's all we can put it down to. There's specific things at work, there are things that don't work. We listen to our customers and we try to work very closely with our suppliers. We don't get to do that with everybody because suppliers take a decision to push their business in a certain direction and in a lot of cases that hasn't evolve involved independent operators over the last couple of years as the chains have tried to get bigger and put demands on suppliers, but some, such as CUB have changed along with the changes they have occurred in the industry and have changed for the better.

The CUB guy comes in here and is talking about different categories, cider, wines, mixers, pre-mixers and all this sort of thing and beer of course, but he's not just the brewery rep, he's from a company that satisfies a lot of customer needs and obviously has some terrific brands in amongst that. So we work with them. We work with people who will support us and we're very supportive of them. That's one of the things that independents have really got to do and get behind, especially if they're in a banner and the banner's running promotional activity, they have to get behind the to support them. If they wonder why some suppliers are hesitant to spent as much money with some of the banners, you have to look at your performance in that area.

Geoff Jones

Let's focus for a moment on the developing of a viable independent channel. We have moved from being silo-based product sales to a fully integrated partnership with our customers. We have done that by deepening the partnership from being one based on transactional dealings to one of total solution delivery where we have developed customer-driven partnerships by extending the various touch points through each other's business and across the whole multi-beverage portfolio. We have done it by working with key independent customers in a variety of ways.

Let me focus on four examples on how we have done this. The first one, the key customer manager, has been physically located with large customers. Let's look at a Crown Casino complex in Melbourne. Some of you will know the Crown is the biggest single licensed venue in Australia. We have embedded our Foster's account manager with that business. He has an office at Crown and resides at that office all of his working time working on over 46 separate licences within Crown. He works across Beringer as well as the CUB beverage portfolio and has made great inroads. We've had a whole range of workshops with the most senior Crown management and ones that John and myself attended. We have our retail and On Premise consultancy working they're looking at the redesign of a number of Crown's major bars. We've had a great win earlier this year in that CUB provides all the on premise house wine to Crown Casino, the single biggest On Premise wine in Australia - over 20,000 litres of wine.

Secondly, we offer back-of-house operations and consulting services to our customers. BottleMart is Australia's largest group with over 1200 members all around Australia. With BottleMart we've added a multi-layered preferred supply partnership arrangements, we've offered our telecall function to BottleMart to their fledgling wholesale HLW, so our people take calls on behalf of HLW. We have added our advertising branding expertise to help with the formulation and growth of the BottleMart label and brand. This partnership has come to fruition in many ways. Steve mentioned earlier that Half Mile Creek was number 3 white wine and number 7 red wine across the range and in such a very short time that is a great win.

The third example is we give access to the consumer focus groups at every level to our customers. We don't hoard the information and the great intelligence and insight we get from i-Nova and from the consumer and customer solution teams we share actively with our customers at a state level and nationally. We get them in to listen to our focus groups and to work with us across that.

Finally, I'd like to talk about a multi-beverage partnership. The example I use is of the Bickle Group, a CBD Brisbane-based family group, which encompasses a backpacker hostel, couple of hotels and family nightclub voted last week at the Australian Liquor Industry Awards for the third consecutive year, Australia's number 1 awards. You will hear from Mr Bickle who will talk to CUB in a multi-beverage partnership.

Transcript of Video

This is the family nightclub in Fortitude Valley. We have been with CUB for the last 13 years. We have recently signed an agreement, a multi-beverage agreement, right across the whole range of CUB products. We have been with CUB beer, the beer side of things, for 13 years now. We were with Continental Spirits when it first opened six years ago and when they lost Absolute Vodka we needed a premium Vodka and we moved over to another supplier. CUB then picked up Skyy Vodka and we signed a multi-beverage agreement with Carlton United Beverages.

The advantage, I believe, in doing this is we've had very good service from the Carlton beer people for the last 13 years. We had a very good relationship with the people from the Continental Spirits when they were supplying our spirits here at the hotel. Carlton, right down from the top to the sales reps, have had a very good understanding of our business and what we're about. This has helped immensely with promotional funds and it's made a huge difference having a company that tries to understand and does understand how our business works in utilising those funds to best benefit our business and the business of Carlton. At the end of the day our business is about consumers coming through the door and having a fantastic experience. CUB assists us in delivering that experience to our consumers.

Geoff Jones

Let's look at couple of customer innovations that are showing great return on investment for us. The first is the retail liquor development foundation. This was an initiative done in concert with ALSA, the Australian Liquor Stores Association, whereby we looked to create a long-term sustainable improvement to the independent customer profitability. We wanted to develop modules that retailers undertake. Today over 600 of our customers have been through the RLDF programme. The second is the Draught beer academy. The Draught Beer academy is an equity profit designed to grow On Premise sales. As you should know, Draught Beer is the cornerstone profitability on the On Premise channel and it's been vital for us to have these two fully decked out mobile training facilities traversing Australia educating in excess of 5,000 bar staff and publicans and people that work in the trade. There's been a great initiative that's really making a sales return on investment. The sales of Draught before have been some solid and up and I think the academy in no small way contributed to that.

Looking at future retail developments. We have to focus on the next generation of retail solutions of the four listed there the first involves such things as the development of a 20-litre reticulation system. The IT service-driven initiatives, reticulation. Plasma screens On Premise, we will provide an integrated marketing proposition for the consumer and our customer. Some of these are up and running with a couple of the smaller groups and we look to develop this in the future together with SMS and telecommunications-driven solutions, as well.

I have spoken about the development consultancy. I won't dwell on Pure Blonde or i-Nova consulting but we're continuing to develop in the product and services framework. At the bottom there are two projects that are going on, looking at our excellence in in-field and store execution, and in our strategic account managements that are vital and pivotal to our future and the creation of growth and our customer-driven agenda.

I would like to talk to you finally about the premium On Premise team. You may ask, what is a premium venue? There is no definition. A premium venue is not defined by channel or by clientele. It's defined by its "premiumness". It could be a pub. It could be an upmarket bar, it could be a cafe, it could be anything. This premium On

Premise team - we looked to establish a new generation solution here. This team was formed on 1 October and it is working very, very well. We developed it because there was a customer demand for it. Customers didn't want four or five different reps coming to visit them from Foster's. They wanted one rep and one single point of service. It's working well. Our customers at the moment are Sydney and Melbourne CBD, but we look to further down the track to expanding that team. The structure is a combined CUB and Beringer organisation and we're also engaged some external expertise - vodka ambassadors, Beer ambassadors are going to create the theatre of vodka and beer. The portfolio is significant by its "premiumness". We heard of 42 Below Vodka, the hottest on the market and we've engaged some of the sales staff of the 42 Below company. Progress to date is very encouraging, we're getting great feedback on the premier On Premise team and look forward to developing it into a significant plank and part of our sales force in the future.

Phil Crenigan

A few more points. We are continuing to grow our revenue and our share and relevance within that particular customer base. Hopefully what's been an emerging theme of this afternoon is our consumer solutions, the very assets upon which we're all driven continue to grow and are relevant to drinkers and to shoppers. Also consolidation is not new, we can learn from other international markets and trends. We've done that. There are some things which are certainly worth sharing today. As the big get bigger, that is also for suppliers as well as retailers. Having consumer-relevant brands, going forward will be absolutely non-negotiable and the factor is that smaller number 3, 4 or 5 irrelevant suppliers will be those under the most pressure.

Today one third of all products consumed in Australia is a Foster's product. We will work hard to make that 1 in 2 to the best of our abilities going forward. CUB must stock leading brands that have substantial and substantive investment and make a critical and important share of every single retailer's profit up and down the country in every channel.

Going forward, the ability to understand shoppers and consumers and customers is going to be absolutely critical. Be very clear this information is not understood by leading retailers. They have not got the resources or the capabilities and there is this huge demand for us to work in collaboration together to generate those insights. Therefore the way we work going forward will be critical and making it a total business-system effort will be the way going forward. Managing customers and being customer-driven is far too important to leave to the sales division, it involves every single one of my co-directors. So in that sense we can exercise our different skills and capabilities.

Examples of current position. We have strategic agreements in place with all of our key players over a range of years. Also, in terms of our capabilities and people, immediately Coles declared they were moving to Melbourne we moved our entire business team to Melbourne from Sydney where they were previously based. We recruited externally where appropriate and we now have great leadership in our

four business channels, dedicated managers, business support people and dedicated customer solutions executives. We can get exclusively in and on best specific customers. Examples there of some of the tailored national work we've done from national retail groups through to banner groups, whether the issue is how do I move consumers from my shopping experience into my liquor barns, or separate liquor venues. Examples of where we're able to leverage our national sponsorship properties in a tailored way. We're able to tailor our premium beverage portfolio, which is strong, on an exclusive with a leading premium type of retail venue, or, if we want to develop and launch new brands, with the massive distribution clout of the bottom mark group - interesting, varied and different.

One of the key questions, I think, as anybody that's worked in many businesses where the portfolio is growing at the rate it is, is our ability to execute. Here is a really live example of something we believe gives us a point of difference. 9-12 months ago we set up our national merchandising force to support the increasingly organised national trade. We have an organisation that's calling on over 1,400 customers every week, some of them more than once a week. It's a highly-flexible mobile force. We're able to increase the frequency, time or day of call, including weekend calling. It's just a great example of mobile, nimble execution that is right and appropriate for a growing channel. I expect this type of servicing will increase in the future, not decrease. More importantly, this is put together in consultation with the customer and they have helped frame the type of service offer going forward and they regularly provide us feedback on how it's going.

Also we talked a lot about partnering. I think generally increasingly doing business will be that of doing beyond the deal. Our ability to provide revenue, I think, is beyond debate, but we will continue increasing to share work closely with our colleagues in many of the skills that my colleagues have shared with you today. Typically those experiences, that knowledge, would have resided inside the marketing department in the past. We're saying that information insight is freely available to all of our customers. We have dedicated teams in Michael's area in supply chain working closely with retailers who have a deep interest in evolving their supply chain offer. We have colleagues working in communications to corporate affairs departments on the social agenda and responsible drinking in bars and responsible serving of alcohol in shops. We internationally partner with our customers to explore the world together to see if we can generate insights. We regularly review, weekly, fortnightly, monthly, on how we're doing and we have open and adult conversations with each other.

Let me try to summarise. We've talked about being consumer-led and customer-driven. Whilst Geoffrey and I have to deliver the mantra of being customer-driven throughout the organisation, it is exactly that. It's not just in the sales department, but throughout the entire organisation. The key drivers are that we want the best people. We feel we can demand the best people in Australia and the world to come and work with us. It's an extraordinary portfolio and a fantastic business. We have the ability to serve every customer up and down the nation from Mount Isa to Launceston in deepest Tasmania, from Bondi to Broome, with a service covering every single channel and a physical distribution model that is, frankly, outstanding.

We've also demonstrated we will be flexible going forward. We will constantly iterate and review and challenge our organisational design, whereas I think in the past the one-size-fits-all solution was the industry model. We are challenging that and will continue to do so. We have a hugely powerful beer portfolio where we are able to leverage other categories. The most telling chart in Angus' session was our ability to generate revenue, earnings and profitability above those of beer in all of the categories with a huge existing capability that we have.

We will also not rest on our laurels. We will not take the quality of our portfolio for granted. I think some of the work Steve was demonstrating is we will be restless about growing our consumer base. That will continue. Most importantly of all in this industry more than other, relationships are important. There is purpose to our relationships. There is a business rationale and we are developing models that create not only lifetime relationships with consumers, but lifetime-relevant relationships with customers. Let me hand over to my esteemed colleague Michael Brooks. It all begins in manufacturing and supply chain. Here is a great professional to talk about it.

Michael Brooks, Director Supply Chain Management

You said it begins with supply chain - I have ended up, though, on the tail end of this afternoon's presentation. We will make the most of that. There is a story emerging here. What we have heard Steve and Allan talk about is how we can generate consumer insights and turn those into ideas. We have heard Steve talk about how we can take those ideas and turn them into consumer and customer propositions. We've heard Phil and Geoff talk about how we're going to engage with our customers and in the last part of the puzzle, or the last piece move in the puzzle, is making stuff and delivering it to those customers so that they can sell it on to their consumers.

Being consumer-led and customer-driven certainly has implications for the supply chain. You heard Steve talk about core brands, growth brands and emerging brands. CUB traditional business has largely been set up around providing those beer brands. Relatively few SKU's, very high volumes. So the challenges for us in the supply chain as we move forward are about achieving flexibility and agility without affecting our cost effectiveness as we make that change and become capable of producing more SKU's, much smaller run sizes to a far more diverse range of customers. We need to remain least cost producer and we need most importantly to provide the lowest cost supply chain. That does not automatically imply we have to make everything we sell from here going forward. If someone can do it better because they have a better competency set or were going to be an initially small player, let's partner with someone else to make the stuff for us, but we will take it through our supply chain.

In filling in the story, I'd like to cover a bit about what's been going on, what we're currently doing and where we see things moving as we go forward. We already have a multi-beverage supply chain. You will see from the list of facilities up there, at the most we have quite a diverse range there. The three large breweries, the Yatala

brewery in Queensland, the big one, currently our biggest plant in Abbotsford in Melbourne and the Kent brewery in Sydney due for closure in the end of January 2005. We have smaller plants, one in North Fremantle near Perth and one in Hobart. We have two cider plants, one required as part of the Cascade acquisition, and more recently the cider acquisition. The bottling plant came as part of our acquisition of Continental Spirits. The bottled at source water plant is our recent acquisition at Cottonwood Valley near Ballarat. We service or approximately 20,000 direct customers and the same amount indirect from nine warehouses throughout the country and 21 regional warehouses. That is a big network and the challenge for us as we go more multi-beverage is to make this far more integrated and make it work more efficiently.

I will take you through three graphs now. There is a common theme in these three. The first one is that they cover the period '97 through to either this year or next year. The second one is that during that period our business has seen a shift from draught beer to packaged beer. Secondly, within the packaged beer category, we've seen a shift from regular beers to premium beers. I think it's important to understand that because those changes have significant ramifications for us supply change and that is that packaged beer costs more to make than draught beer and premium beer costs more to make than regular beer. So what you can see there at the moment is our major raw material input costs and how they have tracked between 1997 and today, and I think if you do your sums you will see that the real value has been created there. What's brought that about is that we really sat down seriously started working with our suppliers and put long-term plans in place and longer term agreements in place that allowed them to invest with confidence going forward and that has driven value for us jointly as we've moved forward over that period.

The second one I put up here is around greenhouse gases. Greenhouse gases is an indicator of how we are using the energy we are buying into the business. Energy management, if it is done properly, makes good sense for business and for the community. You can see through in that period from '97 to '04 we've had about a 20% reduction in our greenhouse emissions, a good solid story. On productivity, across the network, we've moved from around 8,500-hectolitres per person in manufacturing through today to about 9,300. Those other changes I talked about mask some of the real improvement in the background there, but I want you to notice the outlook there as we go to 2005 and '06 when we have the Yatala plant fully on-stream and we will pick up a 25% increase in productivity across the network then.

So we are dropping out a less efficient plant here in Sydney and upgrading the one in Yatala. That is a significant improvement in productivity. All of these operating facilities are driven around a range of performance measures but we also place a lot of precedence on health and safety, on driving the quality agenda, quality of both our products and our service offering, and then also our customer service. So we're not just cost-driven but we are driven around those other programmes as well. That's very important in a manufacturing and supply chain environment.

So what's been going on? Since we last briefed the investment community, we have upgraded our North Fremantle facility to 500 million litres, and our Abbotsford plant for additional products and improved flexibility and prepare our network for the closure of the Kent brewery. So through those facilities we talked about with the cider, spirits, RTDs, juices, water and CSDs, we've started to integrate more completely those businesses into the main business as we move towards being multi-beverage and away from being a series of separate businesses. It's easy to write down in a single sentence like that, but a lot of work goes behind the scenes to make it happen. We are well down that track. We have commenced the shutdown of the Kent brewery, it is half-speed and will shut down completely in January and the employees will leave at the end of January. We are well advanced with getting the Yatala plant up to its 450-million litres a year. I will give you a couple of pictures of this. Some of you will see it at the end of the week and I will be a proud gent when I show those people around because we as a company and as a team are absolutely delighted with where we've got to with this facility.

This is the brew house and one of those big metal things that appeared in the earlier ad there around Carlton draught. It's a twin-stream, state-of-the-art brew house, 10 brews a day, around 850-hectolitres. It's a lights-out facility. There will be no operators in that building when you get to see it. That is now operating. We took the opportunity to take as many big metal things from Sydney out of the Kent brewery up to Yatala as we could. You will see two, but there's four fermenters on that barge. We have, where practicable, taken gear out of Kent. We've taken the opportunity of being in the winter lull to, whilst we have spare capacity, pull that stuff out, get it reinstalled before we crank up for summer. That's what it looks like when it's refurbished and reinstalled. Those are the fermenters on the left. At Yatala today we have a bottle line we relocated from Sydney which is now commissioned, which came in our service in January and we had it going by the end of August. A fantastic effort by the team. We have built a 20,000-square metre warehouse to supply Queensland and a fair chunk of New South Wales.

Now, the last point on this slide talks about implementing a distribution network, a multi-beverage distribution network. That has a lot of challenges for us, especially for something that's been able to handle large volumes for a small amount of SKU'S. SKU'S are 'Stock Keeping Units' - I'm talking jargon - and we also have to be very mindful of the major customers, namely, at this point, Woolworths and Coles in terms of the changing delivery requirements they have flagged that they with time will want to pick up from our facilities. We've had to plan with all of that in mind.

I want to take you through how we will supply customers in New South Wales. The blue boxes are warehouses or sites where we will stock all our SKU's. We're now sitting around well over 600 SKU's and that number will increase with time. We will hold all SKU's at Abbotsford, Yatala and Sydney. You can see the hubs there, Newcastle, ACT and Albury. The ones coloured red are cross-docks. Hubs will hold the top 30 SKU's in inventory. They at the moment represent about 90% of total volume. They will carry stock. The remaining SKU's will be picked to order one of those warehouses daily and shipped overnight to one of the hubs. Now in the case of

stock that is going on to a cross-dock customer, the cross-dock load will be picked at the hub and be sent out to the cross-dock to be sent out for delivery. What does that mean? It means that every truck leaving Yatala or Abbotsford, we will be able to guarantee it will be full. It will be doing some transfer work and some work to order. The second thing that is more important is we will be able to offer any SKU to any customer in New South Wales overnight, without holding all that stock in all of the sites. That is a significant point of difference and we believe that will give us a significant advantage moving forward.

So what does all this mean moving forward? We are working towards having a fully integrated least-cost sources manufacture and delivery network. Flexibility and responsiveness without compromising efficiencies is the name of the game going forward. So we have to be able to do rapid changeover. There will be systems enabled from end to end. At the supplier end our suppliers have full visibility of what we're doing, at production planning our orders are placed automatically to suppliers. Their scheduling is automatic. Their materials are receipted into our plants automatically and we use evaluated receipts. That's at that end. You can go right through the chain. At the other end, what we have here is something we recently used, which is electronic point-proof delivery, a radio device that the driver takes out to the customer. The customer can sign off and we connect our proof of delivery when it is delivered. It sorts out inventory out, it makes sure the customer account is updated, it puts our excess liability records into alignment and fourthly it allows the contractor, the carrier, to be paid. So we've taken all of that paperwork and effort out and we've have a single source of data and a far more efficient system. These sorts of things are going on right through the supply chain.

Also within the supply chain - innovation. It's not just supply chain - you've heard that from everyone - innovation is core to the whole organisation. So we are building the plant with an approach towards reliability assurance. We want to throw the word maintenance out, because maintenance involves something breaking down and change the whole mindset of operating facility into one of reliability assurance and making it maintainability, building in maintainability so basic diagnostic work can be done by operator. Another example of innovation is at the Yatala plant we expect to be down to 2.3 litres of water in the gate to a litre of beer out the door. That is absolutely world class, we believe no-one will get anywhere near that number. So we're very pleased with that. We will have that on-stream in January. That is an example of innovation as working with the guys at the site to get that to happen.

Another one that I think is worthy of mention is, because we will have to take more mail into Queensland from New South Wales than we have in the past and we're going to have finished goods going the other way, we've worked with a supplier to build a truck that can do both. So this particular truck here can take bulk grain up and it can take finished-good, palletised goods, back. It has a walking beam on the floor there. Clever stuff. So it's an example of innovation at work in the supply chain.

Enabling multi-beverage, we have a number of leadership teams. From beer and beverage leadership team, product and packaging, systems and tech, these are

teams that work across all our sites and their role is to drive knowledge development and rapid deployment of that knowledge across our network. We don't want innovation in this site not getting to another site. We have this whole network operating really well to get that stuff happening. We have direct connectivity with our suppliers to take on board rapid new development. The connectivity with suppliers is crucial to deliver on multi-beverage. Within our business the direct connectivity between planning, production, inventory and deployment is all in place. These things don't happen in five minutes. They take a lot of planning, work to get them happening.

So I have taken you through how we are going about driving the flexibility and agility within the multi-beverage supply chain but not affecting our drive towards least cost producer and lowest cost supply chain, all of which are essential for us to deliver on our overall objective. I'd like to hand back to John who will wrap up.

John Murphy

Thank you, Michael. Thank you for your patience and time today. We went a bit over time but I hope you found the sessions were educational and balanced in their field towards the issues in some of the things we're doing. We don't profess to have all the answers, but hopefully you got a feel for the issues that are there and got some underlying confidence in the capability that what we're building is at least understanding those issues and moving forward with some aggression and passion. Thank you for the team for presenting today. I think they did a great job.

Some take-outs for today, statements and issues in thing we're doing. The first point is we touch more consumers in this country in the liquor category than anyone else. Through more touch points, Foster's is an organisation that with our products we touch and talk to more consumers than anyone else. We are nearly double the next supplier. We don't set sit up and crow about that but that gives us an absolute right and challenge to understand the consumers and supply solutions to our customers that are leading in themselves. We want to maintain that. Hopefully you got a feel from today it's a new field and a new game. It's evolving. It's as much about cultural evolution as it is around the things you've seen today. The capability we've brought into the business, new skills and new people. Geoff and Sue from a HR perspective, who didn't get to present - but two critical parts are the cultural innovation, how we communicate that externally and internally to the organisation. Having a reason to change from a beer company to a beverage organisation takes time and communication from many different points. It also takes a different focus in the level of performance coaching. Our key area of HR development this year is we have not done well enough management of our people, clarity of what we want them to do, in the field force or in the role definitions and in a lot of ways we may have performance-managed out of the organisation in some places. So in the next two years we have a focus on middle management and team leaders being able to coach and develop our teams and our people in the field so they know what we want them to do and, 2, we're able to manage their development going forward and, where we can, we don't have the down-the-track performance issues where you have to manage them out of the

business at some cost, so we can develop for the future.

Consumers are drinking differently and shopping differently, which presents challenges and opportunities for Foster's, but it also presents issues, and some of the issues and questions you may raise and some of the things we've talked about are the complexity and they're around the whole chain of things we've done very well. But we want to lead the game and we want to be a player who's called on for advice and support. If you get on top of that game in the complexity, whoever does will have the advantage in this marketplace.

We see that consumers and customers are demanding and looking for choice and differentiation from us. You saw the Empire example Allan talked about. Innovation in some ways will not always work. We will always aim to get the innovation hit-rate greater than the speed to market as we always do. But there will be failures. The i-Nova talked about the Foster's-wide resource. We think that is a competitive edge. A repeatable formula, one of the things we have not done well enough, we're not saying we're there yet but Pure Blonde and some of the things mentioned today are about a repeatable formula in the innovation process. We don't need to be ad hoc. We've seen from our customers in some of those things that we are doing that. Speed-to-market will result out of that.

Consumer segmentation. Portfolio management – it is critical to have leading brands in the portfolio, absolutely critical. Our customers and consumers are telling us that. It is critical to reinvent product solutions relevant to channels around different pack formats, different formats in terms of consumer propositions. Global partnerships are critical and we're delighted to have some of the leading partnerships in the world today with Corona, with the Stellar range and the opportunities that presents.

The sales organisation for many years in CUB wasn't close enough to our customers and hadn't listened and in some of the markets we dominated we were too aggressive or seen as too arrogant in some ways. From those two videos, and we thank those customers for what they said, hopefully that was representative of what you now hear in the marketplace. We're evolving and we can be much closer and fleet-of-foot and provide customers with solutions. We're move attuned to where they're heading than we ever were in the past.

Some of the capabilities we put in have not been without some cost in the short-term. As you're building for the longer term gain there are costs we've put in the business to build new skills - the i-Nova team, a Foster's' shared resource. We've had to bring in new skills we didn't have. The branded consumer teams that Steve talked about – has brought in new skills in what was brands marketing in the last 7-8 months. In our premium beer team, our national account team that Geoff talked about, our shared services team, we not only have brought in FMCG skills but best-to-breed wherever we source them from. So we've developed a substantial amount of new skills in the business and some costs come with that. This will support us in the next couple of years by getting our footprint into other beverages.

Michael talked about our manufacturing and distribution. Our most important area for us in terms of management is the cost base, managing the complexity, having the ability to have shorter runs, less lead times for our major customers in terms of production scheduling. They want to hold our stock and we want to do the same getting close to our raw material and partners. We think we're on top of the complexities. We don't have all the answers but are looking at the issues.

We thank you for the opportunity today.

We'll open it up for not just questions but also for thoughts and ideas. Thank you.

Questions and Answers

Question

Just a quick question so far as the multi-beverage strategy is concerned. If you could touch on how far you would go in the schedule of non-alcoholic beverages. Do you want to produce milk? How far do you want to go? What core distribution skills do you have given that a lot of those products go to different channels?

John Murphy

Certainly our step into non-alcoholic beverages is early days. We don't see it going to soft drinks and milk and in the route trade area we're not professing to have a distribution capability of any note there. What we see plain to our fundamental distribution strengths we have today and our customer relationships that we have and no doubt we can extend those, but that's the breath of it as this stage, but early days.

Question

The competing interests of equity and contribution in respect of the VB programme and core programmes. Building equity costs money. Contribution is a return you need. You painted the picture of full strength and regular decline of a the category of 11% of VB share, which was 26. So the two questions in the context of the brand, I'm wondering if your immediate expectations might be in the return of brand share or growth in the context of declining category issues there and secondly how do you measure your investment, and you looked into equity improvement, but I wonder how you process the cost and justify the investment?

John Murphy

The regular category has declined for some years. The first question about the investment in VB is a lot of it is a reconfiguration of spend. Part of the profit improvement programme was a reinvestment of funds away from some of the sponsorship activity, away from the promotional activities we've done and purely using those funds more efficiently. So the investment we see in the core brand range is more in the portfolio and we at VB's position, we see it always been being the leader

in that category, it delivers substantial revenue returns to retailers and we see the investment being done accordingly. So in terms of the measurement of effective spend, it's something we're getting better at. What we do know is our ability to manage some of the traditional drivers which has been advertising weight, some of the promotional effectiveness and some of our measurements around category with our retailers we've certainly got behind. In terms of those other pieces, more to do.

Question

Two things, a general comment I would like your reaction on and the second a specific question. The first one is, listening to you today you seem to be wanting to be all things to all people, which is causing a lot of conflicts and complexities. The first one is you want to be with the bigger retailers who are consolidating, you need big runs, like VB is a long production one, then you want to be smaller, you want to be niche. You seem to be wanting to be everything to everyone. That, following other businesses, like, say, Blackwoods or something like that, when they try to do all things for all things they end up losing what they're on about and ultimately the business goes backwards. I'd like to know your comment. The second question. I think it was Michael Brooks, he said you want to have your trucks leaving Abbotsford and Yatala at 100%, always leading full. Can I get an idea of what that is different to today in terms of utilisation of the trucking fleet, what is currently your capacity, what is currently utilisation of your trucking fleet compared to what it will be, which is 100%?

John Murphy

Maybe Michael can answer that piece. But the first piece around the smaller runs and the larger runs and the complexity of big customers and the smaller customers, where we would have seen in the past a one-size-fits-all solution, you're not necessarily using the same resources for the same efforts and the same channels. What we've done is clearly identified the drivers of each of the channels and as Phil and Geoff talked about the way to go to market, the national customers, the effort in execution and delivery on the ground is done by a merchandising team.

It's not the traditional sales force that will be going to the independent customers or to the local locality. So we're not trying to be everything to everyone. We're saying in those specific channels we're providing a different solution. Where there's some commonality such as the call centre, where it takes the inbound calls, processes the inquiry, takes the order and allocates it, there are some areas that makes sense, there are some areas we can be specialist. We don't think one takes away from the other. We can vet our resources. What you wouldn't be able to do - and we stepped into this in some way the wrong way - is trying in a traditional force to do everything. That's what you said, trying to use the old call methodology to go into a national retailer and then deliver to the smaller end of town. The tail will get longer. They will want more intensive and friendly evaluated service. That local core could take 2-3 hours to sell a range. We're prepared for that.

But the execution to the major retailers - they may want a Saturday morning, or Sunday afternoon - that will be a hit squad. The key account management will be a specialist key account team probably 60 people at this stage. The easy way is to say you can't handle it. The thing is to think smarter. We're not trying to use the same resources. In these other categories we brought in skills. We don't profess to understand all those pieces. Neil Grant from Southcorp now leads our Victorian team. So we're bringing in the skills we need.

Michael Brooks

Thank you. Look, what I was explaining when we talked about that work before was transfer work, not delivering as final customers, so transfers between Queensland down to NSW. And our point of difference is that we've devised a mechanism that will allow us to do overnight delivery keeping the vehicles full and we're not having to hold all of the SKU's all over the country. Another thing worth mentioning is most of the vehicles coming south from Queensland will be vehicles that are travelling south empty. There's an imbalance currently between New South Wales and the border into Queensland and we are taking advantage of that and we will use some of that current free capacity on the way back. We are pretty pleased with the deals we have been able to negotiate with the big carriers for bringing that volume down. Once we can guarantee them work a certain number of loads per day and lock that in, we've been able to get extremely competitive weightings.

Question

Angus said that he thinks price is important as a limited life in terms of a profit lever, could he expand on what you mean by that and what the drivers are, and second one for Steve - who I think brushed over the premium category in terms of import v domestic premium brands - can you comment on what trends you've seen there and if there's a difference between the contribution of your domestic brands, obviously, and what you're doing under licence?

Steve Arthurson

My comment is that we've been fortunate to keep the price lever pretty hard. We recognise, as many of you do, our buildings continue to do, that those levels going forward will be limited that. Limitation is probably in terms of what we are trying to do with our core brand exercise. We will not take our foot off our price, we want to be conscious there is a life to it and find other ways to grow the top line. In terms of the premium, we have a range of different relationships with our overseas principles, anything from a straight distribution arrangement right through to the other end where we're actually spending more money in the terms of marketing. So it's a real mixture, the contribution that comes from those brands varies depending on that relationship. In terms of domestic and imports, both of those different products or product groups, if you like, are great contribution earners for us and our customers. It's a matter of managing that portfolio going forward to we can maintain that contribution going forward.

Question

You've obviously managed that contribution well in the past. Are you finding that difficult to do that, i.e. consumers favouring imported beers?

Steve Arthurson

It's not more difficult to manage the portfolio and the contribution, it's there are more players - it's becoming more competitive. So it's not depending on import, it's all coming into the one bucket. But it is becoming more competitive. So that's the piece we have to manage in terms of contribution going forward..

Phil Crenigan

Consumers of Crown Lager are by far the biggest consumer category, but if you go back five or six years, the choice of consumer category was limited. One of the nice things is we're all consumers, and the reality people will migrate for different choices and that's okay because we cover a lot of those choices as well.

Question

I want to ask about costs. We heard from your guys that there's been increasing invest and increased cost. I think generally your reputation in this community - generally what I've heard is that CUB tends to have a high-cost structure, in fact somewhat regal. We've heard that there's been an increase in cost and I thought maybe coming out of that it might be something to address. Two specific questions. In FO4 we heard at the analyst brief that beer pricing rose about 6% which would have added, if it was straight price, \$90 million in EBITA. EBITA only grew by \$45 million. Given some of the comments Michael has made about raw material savings, processes efficiencies, where did that \$45 million go, to the increased investment in marketing and selling or are there some other areas? That's the first question. The second one I guess pertains to Trevor's comment which identified \$200 million of shared service cost. How would that impact your organisation?

John Murphy

The first piece on cost is we've built our brand equity, some of it is around innovation, the Carlton Draught campaign, Half Mile Creek, Empire, a range of issues we undertook last year that are purely sales and marketing. There's been some one-offs in there around some specific costs, what you would call shared office costs are now sitting in CUB. So the net of those - as we said before, everything we won't deliver everything in a year - is you get some things that won't stick. The brand-building campaign on such things as Carlton Draught has - the price increases in the equity building has worked.

There have been redundancies and outsourcing of people who are unable to make the journey for the next wave. As I said, performance coaching is critical, because we want people in the company to be successful, firstly, but when they're not we don't want to move to the measure that you find out after the event where you have to manage them out through costly measures. There's been some of that as we move to the new team. Some of it is around building the new capability, skills we never had. What we have to do as we build a new team is we have to not just downsize but sift through the other elements where the value isn't being created, some of the brand equity, things we've done we know haven't worked. But we get caught up in some of these measures around advertising weight and some of these measures. As we bring the game along, the customers of the trade will evolve in at a certain pace as well. As we move some of our practices we know won't work we have to bring them along as well. Some of it takes a little time.

Phil and Geoff talked about the relationships. They're just as critical. So, yes, we're prudent on cost. Angus talked about the new capability and skills we're bringing in from a financial viewpoint and these savings that Trevor talked about last year will be delivered. We're on track. There are some things in there that won't be delivered. There will be areas that we did have in the review. The overall sense of numbers will be delivered. So we're feeling very comfortable. We'd like to stand up next time saying these are other ideas we have found where more value can be added.

Question

On shared services?

John Murphy

We're not here to talk about corporate activities but yes, the benefits of putting the back-of-house together will have benefits for us. The first things it will do is customers will say to us in terms of the system, connectivity, "You have to make it easier for us to deal with your business, simpler for processes to happen." So some of those immediate low-lying things will happen very quickly. There will be benefits financially and customer value out of those. But we're also, in that area, looking at improving the capability there for the longer term, the IT platforms in some of these services around communication, some of these services around i-Nova are shared services as well. So yes, it will be unquantified at this stage.

Question

Three questions, if I may, you recognised Empire didn't work as well as you wanted. Does that suggest a change from the product programmers per annum? If you can describe a little more how you will look at the flu product development going forward and give an indication of whether the spend will be a percentage of sale or how you judge what is satisfactory to spend in the budget? Following on from Larry's question on costs, could you give us an indication as to once the CUB savings have come in, how far down the form of best practice or optimum route you are, because after taking

those costs into account I still don't think you're as close to lowest-cost producer as you could possibly get to, so is there a second tranche we should be looking for in 3, 4 years time of significant cost savings to come out? The third question is in terms of regulatory environment. We are seeing a significant increase in regulatory messages and communications from particularly the New South Wales Government, but also other governments, as far as opening times of pubs, etc, etc. How do you think that will affect your business? Where do you think that will take you over the next couple of years?

John Murphy

Starting from the last first, the regulatory changes, changes that we see coming. We don't see any immediate concern to On Premise retail value. We see more upside there. Angus answered about pricing before. You could almost make a subpoint about On Premise pricing, we don't see the same issues. When we talk about package pricing, the On Premise will continue to be profitable, as customers are seek an experience. We will see consolidation of venues. Those which are providing a point of difference and those that have been struggling to survive will go by the wayside but the tail of On Premise venues we see increasing and looking for different solutions about how to provide consumers with more premium offers. We see that happening. The experience we've seen of some of the legislative changes, such as non-smoking, as long as that is phased and done with some sensitivity, the customers that are able to do so and those that will be around that have been able to build their businesses for the future. Anything brought in short term will create a problem if it's just brought in one hit. We don't see any legislative changes there that will be influenced that way.

Question

What about the move to curtail drinking hours in certain areas - Manly is one that springs to mind, where they are looking to close pubs earlier that will curtail the number of hours you have available to sell alcohol?

John Murphy

We see other opportunities. You see isolated examples of more pressure being put on, but we don't see that affecting our overall performance. We will see more drinking occasions happening mid-week as we've seen around the world. That is the trend now. We are getting them on the weekends now. Our customers will look for opportunities to provide differentiation and an experience mid-week. The second question, do we see opportunities to further reduce costs going forward - we'd always look for that. In terms of comparing ourselves to someone, we're really building a unique model. This is a multi-beverage model we're building. We're building a multi-beverage relationship with our customers. When we deliver on one truck we see us putting a range of products on there. So we see in some ways the value we're providing will be unique and unmeasurable. What does that mean? Customers have told us in some areas they want a choice. They want to either buy direct from the

brewery, the opportunity of having a truck with this total beverage range on the product, or they also want to buy a direct product range through a wholesaler. So we see some of this capability we're building is to give them a choice. So there will be nothing to compare to.

Within some of our production areas I think Michael talked about the re-engineering as a step 1 and with Rob coming on board, our new supply chain guy, we will really take that forward. What was the first question? NPD. Yes, we want to increase our hit-rate target or two new products per year. In some instances it won't always be product we create, we will look to solutions. It will depend on whether we find a consumer need. In the past where we've found that we've put into place a target and gone with it as manufacture-driven. It doesn't work. The Empire one, it's fantastic enterprise with our customers. We brought all these leading On Premise customers in early and they had as much buying-power in terms of how we launched it. For Pure Blonde, they said, CUB is doing something they never did. They are engaging with us much earlier. They're asking for our views and they're prepared to come along and listen to them moulding it. You talk to the customers involved, we've built fantastic good will.

Steve Arthurson

If I could add to that. Two components are significant in going forward. One is the way NPD is identified, and that's through the cross-functional leadership team. Remember that Allan Bennett's i-Nova team are embedded inside these leadership teams. It is constantly looking at the marketplace and developing opportunities and bringing those opportunities from an NPD perspective to a communal table and, saying, how do we now prioritise our resources to target the most appropriate NPDs depending on what is available? The second piece is how do we then go to market the with the product that's been developed? If it's a mass market opportunity that will require a fair degree of expenditure on marketing, because TVCs as we know are expensive, if it's a niche market, it's a different proposition. You can go out there with \$20,000-worth of PR and seeding, and have a successful brand launch. That takes more time. It is word of mouth. It is a bit of stealth but that's the way those consumers like to be communicated with. So it varies.

Phil Crenigan

I do a lot of work in progress which are projects and initiatives. All the different stages of thinking, whether it's new concepts on beers, brand extension, evolution, we have a process that in addition to the teams is all about generating ideas throughout the organisation. Often it's a manufacturing line that has produced a beer for 20 years but we've just never asked him. We have 27 PhDs in Michael's team, which is extraordinary. Unleashing that talent, they're all part of the innovation pool.

Allan Bennett

We launched a cider product in Australia. At the last Beringer product update they're pursuing that same product to be launched throughout North America through the wine distribution process. So it's not just about creating every wine in every market, but it's about synergies that can work from one market to the other and Beringer in particular looking at global concept brands as well.

Question

Hi, just a couple of questions. The first one is with respect to brand loyalty, the comments and the extent it runs through how consumers are changing, could you give us some insight into how the loyalty of that consumer is changing? I would have thought 15 years ago that people were very loyal to the VB brand but because of the changing nature of the consumer I would have thought that the product lifecycle is shortening. If you perhaps comment on that. Does that therefore mean that the cost of business is going to escalate going forward? The second question is more with respect to pricing and what is going on in the retail side of the world with the big retailers. Specifically I'm intrigued as to what is happening with premium beer pricing. What does this mean in terms of your business model building brand equity? I mean, you put money behind the domestic premier brands, the imported brands, and in retail cut the price by \$10 a case. How much control do you have over that and does it therefore narrow the price ladder in terms of products that you can release into the market - in other words, if it's harder for you to increase price of mainstream beer because the retailers are discounting the premium beer brands, how much control do you have over that? A long-winded question. The third point to add to that is that I think you could do more for beer for women, and that is my insightful marketing contribution for the day.

Steve Arthurson

I was writing your questions down. I think I will combine you with my sales colleagues on the pricing issue but clearly, how much pricing control do we have at retail? None, is the answer. That's an easy one. Going back to the brand loyalty question. It's a really, really good question because you're dead right, years ago drinkers drank, firstly, category - so you were a beer drinker or a wine drinker or a spirit drinker - and then you had your brand and you are fiercely loyal to that brand and that category. These days we're seeing all consumers or many, many consumers broadening their repertoire, so on a Saturday night you might start with a bourbon, have some beers, have some wine over dinner, kick on with some spirits later on in the evening. That's very, very common - and hopefully get a taxi home. But the broadening of repertoires is a key component. There are still people who favour one category and the people who favour one category tend to favour one brand in some areas of the market.

If you go back to Steve Tighe's market segmentation model there are segments in there that are fiercely brand-loyal. We're seeing the change in the number of people in each of those market segments but you are definitely getting less brand loyal people as a broad generalisation. So I agree with that and that really is a challenge for all of us to make sure that we are being absolutely relevant to drinkers of our brands, whatever category it might be in. I think the changes you've seen in VB are a great example where we need to maintain relevance to those loyal VB drinkers. We ask them, what can we change, what can't we change and they told us very clearly - don't change the beer, obviously, keep the tag line, keep the music, keep the same authenticity, keep the same gravelly voice, they love that earthiness and richness of the Australian male voice. We kept all of those things in place. They did give us permission to change some of the imagery around it and broaden it a little bit. That's on the broad loyalty piece.

The pricing piece - you're exactly right again. In terms of the premium beer pricing, it's becoming more competitive. There's more players in the market so there are more overseas brand principles. There's more local production of overseas product under licence these days, so there's an attempt to change the market economics, and that's certainly making life interesting and again we just have to make sure we're communicating with the consumers of these products in the most appropriate way. When you go back to Steve Tighe's analysis of these drinkers, the socially-aware people are not necessarily about being sold to. They're about discovering the brands, so it requires a different way of approaching them. But pricing is tough. We're seeing pricing of premium brands come down and almost approach the off-promotion price of some of the more mainstream or sub-premium brands now, so there is a bit of compression there. It's really livening up.

In terms of women and beer, I am not sure if you've had a Pure Blonde yet, but the traditionally females don't like the very strong bitterness of Australian lager. That's why products like Corona are far more unisex in their appeal, they're much lower bitterness and much more palatable for most Australian females. In you like Corona or Miller, I think you might try a Pure Blonde and you might like that, too.

Phil Crenigan

A couple of comments on price. Let's put the premium boom into some sort of context. It is 7% of the market. It's had air time recently but in the context of the markets, whilst it is set to grow, it will take time, maybe over 5-15 years. Also, the reality of looking at huge mainstream brands that have that reach over consumers, it's not real. In a previous life I was privileged to work with Guinness. When I say that Guinness has been in decline in Ireland in the last 23 years, people deny that's true. The fact of the matter is other people have started to drink other things in other markets, but the change is very slow. The numbers in the regular category are very high. In terms of retail behaviour, we do not control the retail prices in the marketplace. We're not allowed to do so. If retailers consistently behaved in a way that was consistently below cost over time there are some actions you can take. The reality is there happened to be two or three spikes in a year, often driven by the

spike the previous year where the retailer is compelled to behave in a retail year. We don't encourage that behaviour. It occasionally provides trade sales between channels and it is not something we encourage. With regards to our ability to take prices in the long run that is the combination of a number of business measures, our business costs, investments into the market and our ability to create value in a category. Retailers do understand that, most of them.

Question

Just looking at the percentages of multi-beverages relative to beer, it's still fairly small. The first question is, do you have a vision as to where it will get to, and leading on to that, maybe looking down the track, is really this multi-beverage strategy, which I actually see is limited in scope, in particularly the categories of cider in RTDs to a degree because market share is pretty crowded and glass spirits is again another crowded and immature market so the scope might not be there, but wine is the one where there's lots of scope? Do you think this multi-beverage strategy is somewhat of an experiment of perhaps the bigger picture of creating a Steve Arthurson functional management umbrella to include the old Beringer Bass today, so you have a Foster's Group split into functions to include premium wine, Half Mile Creek-kind-of-wine, including Rothbury labels, beer, RTDs, etc?

John Murphy

No, not at this stage. We have plenty of potential in the RTD category and the sub-\$10 wine category. We're not professing to do everything to every channel. In our stepping into the wine category with Half Mile Creek, the last thing we want to do is over-promise and under-deliver. We have customers who are continuing to order - 90% of the customers are reordering. We want to establish our credentials. We have an RTD category which is the fastest growing in the Australian marketplace. We want to accelerate Cougar Bourbon and Black Douglas and Skyy. We've come a long way in momentum. We can see success. The most important thing is customers are saying they're helping us to fine tune the model. So there will be more fine tuning.

We will take the same examples as Phil talked to in the Off Premise and what we're building on the On Premise team. We've got enough to build an integrated premium On Premise team for Australia. The guy in the nightclub earlier in the ad, he loves the chance he can now have to have one consultant but you have to have the range. It's not on the horizon at the moment.

Question

Where do you see the multi-beverage relative to beer?

John Murphy

We don't want to put figures out yet, but the projections we have seen, we will see that we'll continue to do that and accelerate by 50% again. We've clearly positioned a

limited range well in the category. We're testing the mechanics, some of the things that Michael talked around. The last thing is where we find is that we can talk to our customers and bring stakeholders along it's a better way to be. So we'll be able to provide an update.

Question:

A quick one. You've alluded to factory gate pricing twice. Can you say when and what impact that might have on your business? You said something about customers wanting to pick up.

John Murphy

It's around the ability to have a customer choice. It's more with the flexibility of the product range. The point is some customers today already have the choice in some of our states. What we're building here is the litmus test in the market that will we believe we'll have the least cost distribution and production system out there for the value it adds. I will give you an example. Of the three-quarters of the customer base of the major chains outside of supermarkets, it will be small stores, 500-square metre type stores that will not want to be like a storeroom who will want potentially 1.5-2 times a week delivery, with efficient staff structures. They're telling us this - one person on the cash register who will top up the shelves and restock. Where we lose the value at the moment and they lose value is out of stocks - the ability not to have the product there, not to get it when you need it and not to replace the shelves because they're working the cash register. Our aim is to deliver a solution that suits the challenge for those smaller stores that want to top up two times a week and that want the carrier to restock the shelves with our merchandising team. We will offer that service.

For the guys that want the delivery for the big supermarkets - the pantry-fill into the adjacent store from the supermarket - they will have that flexibility, and for the mum and dad who want to buy small quantities and they made an error in the quantity, they may want to go through a wholesaler. We want to be the provider that enables them to have the choice and we don't think you can see out there that anyone else is. That will be the unique system.

Thank you for your time today. Hopefully you found the session valuable. We look forward to the next update.