Mr Ted Kunkel
President & Chief Executive Officer, Foster's Group

Citigroup Australia and New Zealand Conference
9 March 2004

Good afternoon ladies and gentlemen.

On behalf of Foster's Group, I am pleased to be speaking at the inaugural Citigroup Australia and New Zealand Investment Conference and I would like to congratulate Citigroup for their initiative in developing this forum. I also thank you for your participation – as investors – in a conference I am sure will further increase the knowledge in the Northern hemisphere of the attributes of Australian and New Zealand companies.

This conference is a special one for me. In all likelihood, it will be the last major conference at which I will present, having announced my intention to step down after twelve very eventful, stimulating and satisfying years as CEO of the Foster's Group.

One feels tempted to reminisce.

Perhaps one also feels tempted to gloat that I fall into that rare category of Chief Executives leaving of their own volition.

However, I'd prefer today to provide my perspective – as a departing CEO – on what I consider the great strengths and attributes of Foster's. Attributes, which I am confident, will provide the new CEO with an excellent basis to continue to build this business for the benefit of our customers, consumers and shareholders.

Many of you will be familiar with the Foster's business model built over the last decade. There has been further progress in the evolution of this model over the last 12 months. Most notably, we have disposed of one of the legacy assets of the past – our retail pubs business, Australian Leisure and Hospitality.

We have done so to the benefit of all shareholders – in terms of the proceeds generated. We have also established a new major Australian listed investment entity in the Australian pubs, gaming and leisure business. I have full confidence that ALH will grow and prosper in its new, independent status.

If I look at the Foster's business model, identifiable are a number of key attributes. These attributes – perhaps expressed using different phraseology – are common to the best investment grade companies.

These attributes are:

First, in Foster's case a portfolio of premium branded products. Our brand portfolio – across beer, Australian wine, US wine and Italian wine, and increasingly spirits and cider – represents high product quality, strong consumer recognition and acceptance, as well as a clear fit for those consumers seeking premium choice in beverages.

As with quality assets in any business, you cannot underestimate the strength that superior, premium brands provide in generating high margin, profitable growth.

I would also add that one of the real strengths of the Group is in brand management, and brand development.

Reference Wolf Blass – one of the wines you are enjoying with lunch today and now Australia's number one wine by value – as a testament to what this company can do to build brand recognition and momentum.

Second, Foster's provides the benefits of diversification – or as we refer to it balance. I refer here to more than the benefits of mitigating cash flow and earnings risk by having a business spread across products, production sources and geographical markets – as important as these are.

This balanced business model – combined with Foster's scale - provides the benefits of offering retail customers, and ultimately consumers, a spread of product choices; cross-promotional opportunities and – increasingly in the future – the ability to utilise our knowledge and insights into consumer beverage preferences to develop new product offerings; to innovate in packaging design and in marketing execution. That is, to capture the benefits that global market presence can offer.

Foster's third key attribute is its exposure to organic growth. For some, this may sound strange coming from a company that is involved in beer – a category which is often seen as displaying, at best, GDP or lower growth attributes. As you will appreciate, in beer we have a strong presence in a well structured, domestic market – as well as an international presence, through Foster's, in over 150 countries with one of the fastest growing global beer brands – and in fact the number seven premium brand globally.

However, it is in Wine – and in particular premium wine – that we have a great position for growth. Despite the vicissitudes of market cycles, the dynamics are overwhelmingly positive. And I say that recognising that the cycles in wine are often exacerbated by its agricultural base and its relatively under-consolidated industry structure.

Whether it be the UK, the US or Australia – and I would also suggest Asia and Japan - increasing affluence, increased female participation in the workforce and an ageing demographic profile are all factors driving wine consumption.

Within this dynamic, it is essential to recognise a key factor. It is not the quantity of wine consumption per se – even though this is increasing in the US, in the UK and in Australia. In some countries, like France, Italy and Spain per capita consumption is actually declining. What is key is the clear trend to premium priced wine. This is the trend of trading up – which is a powerful dynamic for the Beringer Blass Wine business.

Another attribute of focus for the Group is capital efficiency. It is clear that through the major operational efficiency programme being undertaken in CUB beverages that this business is further improving its status as a low cost and capital efficient producer. With a 30 per cent return on capital, granted on a well-depreciated asset base, CUB exceeds the Group's requirements by the proverbial country mile.

Beringer Blass has not progressed at the pace expected in achieving and exceeding the Group's cost of capital. At 8.2 per cent return on capital for fiscal 03, the wine business remains around 150 basis points below the cost of capital.

Beringer Blass has hit a strong headwind with the US oversupply situation. This has been the principal factor in setting it back in achieving returns above the weighted average cost of capital. I'll comment later on some of the activities being undertaken to address this situation.

Finally, a key attribute is balance sheet flexibility. With the current low to moderate gearing – less than 30 per cent - and strong interest cover, Foster's has significant balance sheet capacity to supplement organic growth with appropriate acquisitions when identified.

However, you will be aware that the current focus is upon capital management or capital return activities.

Ten per cent of Foster's stock has been bought back in the last 5 months. It is the company's intent – subject to shareholder approval next week – to buy-back a further 6 per cent. All of this, with a dividend yield of just under 5 per cent, should provide confidence to investors that there are sound underpinnings for the stock.

These attributes referred to account for little, however, unless they reflect in the requisite operational and financial performance outcomes.

Most of you will be aware of the details of Foster's recently announced half-year results. I'll refer today to a few key elements.

Foster's normalised earnings for its continuing business – that is excluding the impact of the divested ALH business – increased by 2.9 per cent on the corresponding half. That lower rate of growth was achieved in the context of the toughest wine market conditions in North America for decades, plus a 24 per cent appreciation of the Australian dollar against the US dollar half on half.

It is clear that the business was heavily impacted by a confluence of events one would not expect to see repeated. On currency Foster's operate on an international basis and as such accepts currency impacts. But it is noteworthy that Foster's earnings were impacted half on half by the tune of Australian 17 million dollars or 550 basis points associated with the appreciation of the Australian dollar.

Earnings per share at 15.1 cents was flat – the beneficial impact of buying back just fewer than 190 million shares or just under 9 per cent of shares on issue prior to the year end did not have a noticeable impact on the average share count, given this exercise occurred in late December 2003.

Cash flow generation continues to be a key strength of the Group – and a very strong feature of each of the main parts of the business – wine, as well as beer. Normalised operating cash flow increased 35.4 per cent to 287 million dollars.

CUB Beverages generated a normalised operating cash flow (before interest and tax) of 275 million dollars, a 16 per cent increase. This cash generation represents 89 per cent of EBITDA. Beringer Blass Wine Estates, despite a 28 per cent decline in EBITAS, generated a 0.2 per cent increase in normalised operating cash flow (before interest and tax). On a constant FX basis, this would translate to a 12 per cent increase in cash generation. This represents 62.5 per cent of EBITDAS.

A key differentiator for Foster's is the margin structure of the business. Despite the highly challenging market conditions, Group earnings margins were down less than 100 basis points at 24.9 per cent. CUB margins increased to above 30 per cent. Wine Trade margins, despite declining by 550 basis points as Beringer Blass was hit by what is considered the low of the Wine cycle, ended the half at 23.3 per cent. I would suggest that you would be hard-pressed to find this margin strength in other wine companies at the top of the cycle, let alone the nadir.

In summation, Foster's generated flat earnings per share for the underlying business for the half.

I would ask you to consider that this was achieved in the context of:

- unprecedented Californian wine market conditions
- no beneficial impact in the period from the capital management activities, and
- the significant quantum of the appreciation of the Australian dollar.

The results reflect the underlying strength in the business which emanates from the key attributes referred to at the outset.

Pleasingly, Foster's has recorded encouraging underlying business outcomes and increased evidence of the strength of its brand portfolio.

The Wolf Blass brand, which I referred to, grew 25 per cent in volume terms on a global basis – or to 1.5 million cases at the half. A quite remarkable achievement. It has an excellent market standing in Australia. It has made very encouraging inroads in terms of listings in the UK market. It maintains its position as the number one selling wine in Ireland and is showing good momentum into the US.

Stone Cellars, Beringer's United States 6 to 8 dollar offering, has generated strong volume growth, up 18 per cent half on half to well over half a million cases for the six months. Significant further potential exists as distribution arrangements roll out and as this brand is marketed in the UK.

The profitability contribution of Stone Cellars continues to be adversely affected by the decision to blend some excess higher priced wines into this product. When Stone Cellars moves to the outsourcing model for this key brand, it is expected that its strong market presence will ensure a robust earnings contribution.

In terms of beer in Australia, CUB has continued to benefit from the mix shift to premium products – an area it dominates with CUB's brands, such as Crown Lager, Cascade Premium as well as the distribution of international brands such as Guinness, Corona, Stella Artois and Miller. The Ready to Drink category, while still a relatively small part of CUB's business, grew at a multiple of the market, with a 47 per cent increase in volumes. The ability to grow this category speaks to the strength of CUB's national distribution arrangements, enabling new product offerings across beverage categories to be efficiently marketed to a retail customer base in excess of 20,000.

The recent launch of the international brand – Skyy Vodka – is another brand expected to benefit from the leverage of our distribution base and meet ever changing consumer preferences.

In global beer, Foster's continues to build its brand strength and to capitalise on consumer and distributor recognition of this brand. Foster's grew volumes by 9 per cent for the half – an outstanding result by any comparison and certainly compared to its international competitive set of brands.

Let me now turn to the future – what investors can expect from Foster's. I would suggest that – as it currently stands – there are three factors that will influence investors' perceptions of the company. These factors are:

First, the outlook for the North American wine market and most importantly when the inflection point for this market can be expected to become evident.

Second, Foster's capital management activities.

And third, the new Chief Executive Officer and his priorities for the company.

Undoubtedly, the most common question we are asked is when do we expect the supply/demand imbalance in the North American market to turn – when will we return to the more normal level of growth in premium wine consumption which has been a hallmark of the US market for the last decade?

This reflects an appreciation that events in North America as they have impacted the Beringer Blass business have been largely outside the company's control. Just as importantly it also reflects a recognition that with Beringer's product portfolio, distribution strength and margin structure, it is as well if not better positioned than others to reap the benefits of a recovery in North American wine.

Turning now to Beringer's recent North American trade results. The supply/demand imbalance is well understood. This situation of oversupply has generated the advent of a new category of wine – Extreme Value Wines. Until now these have been reasonable quality wines at extreme value and have generated a consumer attraction. It is important to remember that this has been a phenomenon mainly restricted to California, given the ability in this State to bypass the distributor channel and supply what have been relatively low margin wines direct to retailers.

My colleagues and I have been quite clear that we are not going to call the timing for the inflection point for the North American wine market – although as you would expect, we have as good an insight as anyone.

We continue to be enthusiastic and confident about the long-term fundamentals for the premium wine market in North America, most notably its margin and profitability characteristics.

While extreme value wines have given Beringer Blass and other premium producers a headache, perversely this category reflects not necessarily a shift down in quality, but a shift by consumers to capture quality at lower prices – courtesy of the oversupply situation.

We see no reason why the historic shift to premium wines, and up price points will not to be restored. Associated with this, we also expect that the history of retailers actively supporting a trading up by consumers in wines – and by definition their own margins and the effective utilisation of their floor space – to become again an important feature of the wine landscape.

We continue to see brands – brands backed by strategic marketing support – as the key ingredient to success in the premium category.

As such, the situation in California has been generated predominantly by cyclical and, by definition, temporary factors.

If our call is right and this is the case, then you have to look at those factors which will indicate a recovery in: supply/demand balance and in a reduction in the heightened levels of price and promotion discounting.

On the supply side, there are reasons for confidence.

Just as the current over supply situation was brought about by a level of plantings in the last 1990s designed to support high single digit market growth, the evidence is that there have been minimal new plantings in the last 2 to 3 years in California.

Bulk wine prices, which 12 months ago were 50 cents to one dollar a gallon, are now at one dollar to two dollars a gallon putting great pressure on the returns of two dollar offerings. While the excess continues, extreme value wines have played a role in burning through the supply excess. Obviously, the outcome of the Californian harvest – in the third quarter of this calendar year – will have an important impact on bulk wine prices.

On the demand side, there are a number of factors we observe. Extreme value wines, according to industry data, reached their market share and shipment highs in the mid part of 2003. Since August they have been scanning in stores and shipping at substantially lower levels. We are not calling the disappearance of this category, but the evidence suggests they have peaked and the growth is abating. This change in dynamics may reflect a number of factors – a peaking of the natural growth momentum of a new wine category; a decision by retailers to de-emphasise this category in favour of higher margin products so as to rebuild their category profitability; and a recognition that the economics and potentially the taste and quality profile of the category is decaying.

Beringer – as with other premium wine producers – has also seen a pleasing recovery in the on-premise market in the US. This category – restaurants and hotel chains – accounts for about 20 per cent of Beringer's total business. It is, by nature a more premium to luxury product offering. Its recovery, while not necessarily a lead indicator for the off-premise or grocery channel – certainly reflects an encouraging restoration of consumer confidence and the level of business travel and corporate entertaining activity. All are factors that are inherently favourable to premium wine consumption.

Beringer's own depletions – what is shipped from distributors to retailers – increased by 5 per cent in the last half. Walt Klenz, the head of Beringer Blass Wine Estates, has indicated that with the abatement of extreme value wine, a depletion growth rate of 7 to 8 per cent over the next 12 to 18 months is certainly feasible. This is not at the low double digit levels of recent years, but nonetheless, a sound rate of category growth.

So, as previously stated, we are not calling the inflection point, although there is a reasonable basis to be confident that the market has seen the worst of the conditions.

Beringer Blass has recognised, given the magnitude of the factors affecting the US wine market, that it needs to operate its business as if there has been some level of structural change. Structural change to Foster's means a change in consumer behaviour.

While it is expected that consumers will trade back up in price points, it is prudent to plan on the basis that this may take some time to occur. As consumers have been used to purchasing two to three dollar wines, there may well be some resistance to moving back to six to eight or eight to ten dollar wines. Accordingly, Beringer Blass is seeking to ensure a new level of efficiency and flexibility in its business to accommodate the potential continuation of tough trading conditions but also to position Beringer in the optimally efficient manner for the recovery in the market.

It needs saying that this exercise does not reflect an inefficient business. We have been asked who Beringer should be benchmarked against in undertaking this operational review. The truth is that with plus 20 per cent margins for Beringer, and a major outsourcing component already in place for Blush and White Zinfadel products, there are precious few companies that come to mind as benchmarks for Beringer Blass. The benchmark will, in many cases, be an improvement on Beringer Blass' already high standards.

The trade operational review announced with the half-year results is a major exercise to improve the operational cost and capital usage efficiency of the Wine Trade business. The review is being conducted under the direction of

Jamie Odell – who successfully ran the Asia Pacific business, a business with plus 30 per cent margins and a return above the cost of capital.

The review will focus on a number of key areas. These include better aligning input costs, in terms of grapes and bulk wine to all products within the portfolio. The focus will be to attempt to ensure that mid 20s margins are delivered across the product portfolio, so that if we find that 6 to 8 dollar wine is selling stronger than 8 to 10 or 10 to 12 dollar categories, the financial outcomes to the total business are still being delivered.

Conversion or wine production practices and costs will also be closely reviewed. In this regard, with Beringer having a great internal benchmark – the world class Wolf Blass winery in the Barossa Valley that has demonstrated that cents saved in production costs can make a real impact in terms of margins and profitability.

Packaging, storage and distribution arrangements are also being reviewed. In this regard, we indicated at the full year that a number of projects are under way in both California and Australia to consolidate packaging, distribution and warehousing facilities. Given Beringer Blass' scale, these opportunities are real.

We have indicated that we will communicate the outcomes of this review before the end of the financial year, with details on expected cost savings and capital efficiency measures. Any costs or investments required to be made will be made explicit as will milestones for the implementation and capturing of the identified benefits.

Let me now briefly refer to the second area – balance sheet utilisation or capital management.

I would expect that Foster's will remain oriented to identifying and where the strategic and financial criteria stack up – being a participant in industry consolidation, particularly in wine. While the portfolio is well rounded and has sound organic growth potential, the Group certainly has the capabilities to integrate brands or new sources of production or distribution to enhance the profitable growth of the premium beverages model.

As we have made clear, despite the stage of the cycle for the wine industry, we cannot see compelling value that would cause us to be acquisitive. Clearly, some owners of wine assets, as well as the market I might add in some cases, have a rear view mirror perspective of valuation. Likewise, the generally robust margin structure for premium wine cushions many producers from the financial imperatives that often stimulate consolidation activity in other industries. So be it – we have no imperative to engage in

M&A activity that does not stack up strategically or in terms of the strict financial criteria we apply.

As such, Foster's is implementing a major capital return exercise. We have done what we said we would do – purchased 10 per cent of shares since October 2003.

With shareholder approval we will be back in the market in a little over a week's time to commence the purchase of up to an additional 125 million or 6 per cent of the company's issued capital. The company intends to move on this exercise as quickly as practicable, dependent on market conditions. Subject to such factors, it would be expected that the Group will be well through this buy back by the end of this calendar year. To the extent that the company has the additional capacity to purchase above the 125 million shares, and cognisant of its intent to retain a pristine balance sheet, as measured by the company's triple B plus credit rating, I am sure this will be considered by the Board.

Finally, the appointment of the new Chief Executive Officer, and my departure, opens up the next era for the company. Trevor O'Hoy, who I am sure will be familiar to many of you, will be the next Chief Executive of Foster's, taking over the role from 4 April. Trevor has worked with Foster's for 28 years.

He is currently Managing Director of CUB Beverages, where he has commenced implementation of a major operational review as well as innovated in product design, packaging and brand development. Prior to this, he was CFO. Trevor is exceptionally well qualified for the role and, I know, has a very strong focus on shareholder value creation.

Not that it will really be required, but I will ensure the appropriate transition for Trevor into the role. I have made clear I will be leaving both the company and the Board of Foster's.

Any new CEO will have the appropriate degree of latitude to review all aspects of the business, if necessary to enhance the strategic direction and select his own management team. The Directors and myself clearly expect a smooth transition and the continued evolution of the Foster's business.

If I could say, without false modesty, I think Trevor will take charge of a powerful business for growth. CUB's domestic beverages business is fundamental bedrock for low volatility earnings and cash flow. Foster's Brewing International provides all the hallmarks for stable double-digit growth.

I believe that the Beringer wine model is the superior international wine model and one that can only be enhanced by the review process we are undertaking. Its ability to participate in the strong organic growth profile of premium wine is undoubted, and its capability to continue to develop global brand strength, to nurture regional brands and to identify and fill market gaps in wine offerings is excellent.

Overlaying these attributes is the strengthened capital discipline of the group.

It is not for me to provide prognostications that I will not be around to be measured by. However, I believe the company is at a stage where it has built the fundamentals to be measured as a leading beverages company – both by consumers and, I have no doubt, investors.

On a personal note, it gives me great satisfaction to be handing the reins to an internally developed executive, some decade my junior, in a totally evolutionary manner.

This satisfaction is only surpassed by the pride I feel in having led the team that snatched Foster's from the jaws of financial extinction in the early 90's, then meticulously rebuilt the strength and even more importantly, the credibility of this great Australian icon.

Thank you for your interest and support of a great Australian company.