



**31 October 2007**

**Foster's Group Limited 2007 Annual General Meeting – CEO's Address**

Foster's Group Limited will today address shareholders at its Annual General Meeting to be held in Adelaide, commencing at 10:30am.

A copy of the Address delivered by Foster's Group Limited CEO, Trevor O'Hoy is attached.

A live webcast of the Annual General Meeting can be viewed at [www.fostersgroup.com](http://www.fostersgroup.com). An archive of proceedings will also be available from the Foster's website.

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**FOSTER'S GROUP**

## **Foster's Group Limited 2007 Annual General Meeting Chief Executive Officer's Address**

**Trevor O'Hoy**

### **INTRODUCTION**

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Thank you Frank and good morning.

It has been a truly extraordinary year.

I can't think of a time in my 32 years with the company when we've gone through such a fundamental period of external challenge and internal change.

And it is credit to every Foster's employee – and a testament to the strength of our brand portfolio - that we have met these challenges head-on.

And in doing so, we've delivered three years of consistent earnings growth.

### **2007 IN REVIEW**

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While Frank has covered the financial highlights, I'd like to cover the business drivers in more detail.

Last year we restructured into three regional businesses, to bring Regional Directors closer to local markets.

We now have strong sales and distribution capability in each region, built to match local market opportunities.

A highlight for 2007 was the success of this model in driving sales and revenue growth – particularly in global wine.

Another key feature of our business model is the creation of a global supply function.

We are already seeing efficiency and procurement benefits. And the team is making steady progress in improving the performance of our packaging centres in the Barossa and Napa toward target rates.

However, I think we have only just started to scratch the surface.

Over the coming years, we will leverage our global supply capability to drive efficiencies through every aspect of our business – building a source of competitive advantage for the medium to long term.

### **THE RIGHT MODEL**

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And when you look at our position in major markets and categories, the strength of our business strategy is clear.

Stripping out currency impacts, in 2007, volume, revenue and earnings growth in international markets exceeded that of the Australian market.

And from a category perspective, wine volume, revenue and earnings growth was ahead of non-wine growth.

Even so, Australia remains the primary engine room for our company and we will continue to invest strongly to maintain strong earnings in this market

However, more than any other time in our history, our fortunes are linked to an international wine sector that remains in strong growth.

We are a major player in international wine, with the scale, reach and business model to grow, compete and win.

## **GROWTH DRIVERS**

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And we have an exceptional brand portfolio, with global brands in very fine health.

We continue to strongly support our portfolio, re-investing between 8-10% of our net sales revenue each year into brand promotion and support.

As our largest wine brand, Beringer is critical to our success in the important North American market. The successful launch of Beringer Third Century and growing success in export markets marked another successful year for this great Californian brand.

Closer to home, Penfolds continues to go from strength to strength on the global stage with a very successful Luxury and Bin release in 2007.

And from its home just down the road in nearby McLaren Vale, Rosemount has been relaunched as a contemporary Australian style leader. We have returned the brand to growth and are very confident of Rosemount's future.

Another Australian success story is Pure Blonde. This beer, launched just three years ago, is now Foster's fourth largest regular beer brand and Australia's fastest growing. It has single-handedly kicked off the reduced carbohydrate or 'blonde' sector in Australia.

And we continue to invest strongly behind VB. We are building on the successful launch of VB Mid with a huge summer promotion planned.

## **A CATEGORY FOCUS**

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Looking ahead, in Australia we are investing strongly behind consumer favourites and new products.

In the premium segment, we've launched Pepperjack handcrafted Ale and introduced additional imported beers, such as our own Shanghai Lager brand and the Danish favourite Carlsberg.

The launch of VB Mid and Crown Gold have given us a great presence in the important Australian mid strength market.

Bottled white wine – particularly crisp dry white - is in major growth and we are targeting this area through great brands like Rosemount, Fifth Leg and New Zealand's first maker of Sauvignon Blanc, Matua Valley.

Finally, Pure Blonde, Lindeman's Early Harvest, Yellowglen Jewel, Cougar and Black Douglas Zero – are targeted squarely at a growing 'lifestyle' category. These products cater to a growing consumer preference for reduced carbohydrate, reduced alcohol and zero sugar products.

## **REVENUE GROWTH**

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Looking around the regions early in 2008, Australian volume will remain at around current levels as we focus on revenue, shifting our emphasis away from lower margin products such as cask wine.

Australian beer remains strong. The premium imported and mid strength beer categories continue to expand and we are innovating and extending our portfolio to capture value share.

The tightening grape supply situation is creating a more positive outlook for wine prices after a prolonged period of discounting. Recent price rises and a steady shift toward premium products will drive improved revenue per case sold.

Overall in Australia, Asia and the Pacific, we expect a very strong first half performance in beer and wine.

In the Americas, we are witnessing a buoyant market for premium wine - both Californian and imported.

However in the current half we expect constant currency earnings and margins to be below the prior period, as a result of product mix and a higher cost 2006 Californian vintage.

We expect first half constant currency revenue and profit per case to be significantly impacted by product mix. December quarter demand for our high volume commercial wines, Beringer White Zinfandel and Beringer California Collection, is expected to be strong ahead of a 1 January 2008 price increase.

We continue to expect strong second half and solid full year constant currency earnings growth in the Americas. Price increases will contribute to strong top line growth and improving margins in the second half and for the full year.

In Europe, the Middle East and Africa, we have built strong distributor and retailer relationships in key markets such as the UK, Ireland and the Nordics, and now distribute to 40 countries. Australian wine continues to grow ahead of the total wine category in the UK and to improve performance in key continental European markets.

We expect a solid first half constant currency performance in this region.

In global wine we expect constant currency earnings growth in the first half of the 2008 financial year to be solid. Growth will accelerate in the second half as we implement our pricing and sales mix improvement initiatives.

Tightening supply in Australia and, to some extent, California, is opening up the potential for further price increases.

However, as Frank discussed earlier, there are continuing challenges in 2008.

## **THE AUSTRALIAN DOLLAR**

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The strong Australian dollar continues to negatively impact earnings – particularly in wine.

In the September quarter, the average Australian – US dollar exchange rate was up around 6c cents compared to the average rate for the 2007 financial year, with the average Australian dollar – UK pound rate up around 1.3 pence on the same basis. Since the end of the September quarter the Australian dollar has continued to strengthen against both currencies.

As the slide above shows, for every 1c increase in the Australian/US dollar exchange rate, pre tax profit is reduced by approximately \$4.5 million. For a one pence increase in the Australian dollar against the UK pound, pre tax profit is reduced by around \$8.5 million.

While our US dollar denominated debt provides a partial hedge against the Australian dollar's strength, overall, currency is likely to be a significant net negative impact on our 2008 earnings growth and return on investment in wine.

## **CROPS AND YIELDS**

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The other challenge we face is ongoing drought in Australia.

Following a 2007 vintage reduced by drought and frost, Australia is facing the potential for a smaller 2008 vintage, depending on weather conditions in coming months.

We are monitoring the vintage carefully and have undertaken a wide range of scenario planning exercises to ensure we are prepared.

We continue to see the potential for good yields in regions that are not dependent on the Murray River system for water.

The majority of Foster's own vineyards do not depend on Murray irrigation entitlements. In a typical year, our own vineyards and contract suppliers not dependent on Murray River water, would supply around half of our requirements.

In the commercial or warm inland regions, we are working closely with our grower partners, communicating indicative demand and pricing earlier than normal. We are also helping individual growers with irrigation planning and water use decisions.

Together, the 2007 and 2008 vintages are likely to eliminate the significant surplus which has kept grape and wine prices unsustainably low in recent years.

We are looking at a number of initiatives to fill emerging supply gaps in the Australian market. These include the possible sourcing of wine from international markets where we see domestic shortfalls. Our clear preference is to always source locally where appropriate price and quality are available.

In California the 2007 vintage is largely complete. The harvest was one of two peaks with an initial hot spell followed by cool weather. Overall our intake was in line with our targets and our quality expectations for the vintage are very high.

At an industry level we expect total Californian yields in this vintage to be below last year and expect to see some further tightening in overall supply.

## **2008 IN FOCUS - PERFORMANCE**

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Our core focus for 2008 is to continue the revenue growth momentum we established in 2007 - built on a clear strategy to shift our attention to premium segments.

Lifting wine returns is critical to our group reaching the financial returns we expect from our investments.

While currency will remain a drag on earnings growth and wine returns, I believe we can continue the strong constant currency performance we saw in the second half of the 2007 financial year.

Brand investment and innovation is the lifeblood of our business and you will see a strong innovation focus - across regions and across categories into 2008.

And, we are sharpening our targets for supply savings, capital efficiency and cost savings. It is critical we continue to drive efficiencies and to maintain the cash flow and earnings to fund our future growth.

Finally I would like to take a moment at the close of my address to thank Frank for his huge contribution to shaping this company over the last 11 years – and his leadership through a period of extraordinary change.

I would also like to personally thank Frank for his guidance and counsel during my tenure as CEO, and sincerely wish him well for the future.

Ladies and Gentleman - Thank you.

# Chief Executive Officer's Address

## 2007 in Review

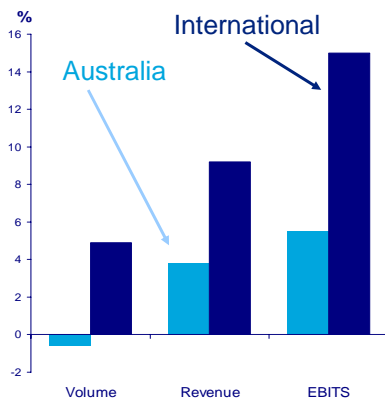
- ✓ Healthy 'top line' growth
- ✓ Improving global wine revenue
- ✓ Disciplined cost management
- ✓ Brand innovation across regions and categories
- ✓ Strong and sustainable cashflows
- ✓ Accelerating earnings per share<sup>1</sup>

<sup>1</sup> before significant items and SGARA

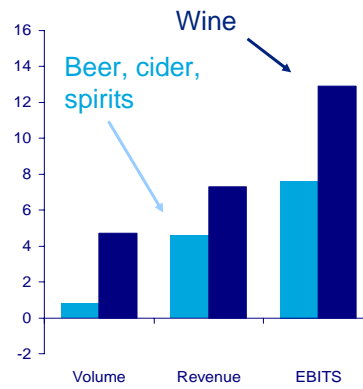


## The Right Model

### By region\*



### By category\*



\* Annual Growth – 2007 vs 2006, constant currency



## Growth Drivers



America's favourite luxury wine



A global wine icon



Recapturing the position as style leader



Established the Australian low-carb category



Investment and innovation



## Aust. Category Focus

### Premium Beer



PEPPERJACK  
HAND CRAFTED ALE



### Mid-Strength Beer



### Bottled White Wine



FIFTH LEG  
Western Australia



### Lifestyle



## Our Markets

### Australia, Asia, Pacific

- Volumes flat, increasing revenue per case
- Focus on higher margin, premium business
- Strong first half performance in beer and wine

### Americas

- Attractive market – strong premium growth
- First half constant currency earnings below prior period - impacted by product mix and vintage
- Beringer commercial wine price increases in 2<sup>nd</sup> half
- Strong second half, solid 2008 – constant currency

### Europe, Middle East and Africa

- Competitive market but strong retailer relationships
- Continued strong volume and value growth
- Solid first half – constant currency



## The Australian Dollar

### Indicative Currency Sensitivities - 2008

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**\$A vs \$US** 1 cent increase in the \$A/\$US exchange rate equals:

- \$7 million decrease in wine earnings\*
- \$4.5 million decrease in Profit Before Tax

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**\$A vs £UK** 1 pence increase in the \$A/£UK exchange rate equals:

- \$9.5 million decrease in wine earnings\*
- \$8.5 million decrease in Profit Before Tax

\* Earnings before interest, tax and SGARA



## Crops and yields

**Australian Vintage**

- Industry expectation of smaller 2008 Australian vintage
  - Expected yields below average
  - Dependent on water availability and allocations
  - Likely to eliminate surplus which have kept grape and wine prices low.

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**California Vintage**

- Great quality Vintage 2007
- Yields below 2006
- Industry generally in balance



## 2008 in focus



- ✓ Drive revenue growth

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- ✓ Focus on premium segments

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- ✓ Increase (constant currency) wine returns

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- ✓ Innovate across regions and categories

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- ✓ Achieve supply efficiency and cost savings

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- ✓ Show capital discipline and strong cashflow