Foster's Group Limited

Half-year Results Announcement

11 February 2003

Address to Media by President and CEO, Ted Kunkel.

Introduction

(Slide – Introduction)

Good afternoon ladies and gentlemen and welcome.

This afternoon I would like to begin by making a special welcome to Pete Scott, Foster's new CFO, who joins Graeme Willersdorf and I on the panel today for his debut results announcement. Welcome Pete and also to Graeme.

By now most of you will have had time to read the profit announcement filed with the ASX this morning.

Today's result demonstrates, that in extremely challenging operating environments globally, Foster's stands out as a company which has *delivered.*

The core beer and wine businesses performed very well, achieving EBITAS, volume and share gains and world-class margins despite highly competitive markets.

EBITAS is defined as earnings before interest, tax, amortisation, significant items and SGARA. SGARA is a volatile accounting standard which we exclude to provide a more accurate representation of the underlying performance of the business.

Within the global wine business, Beringer's core portfolio of premium brands has sheltered us from a material impact from the intense discounting at the lower price points in Australia and the US. Profit margins for the wine trade division were held and margins in the high-20's across the globe are world –class relative to our peers.

For Australian beer, it was a rebound story. With the total beer market growing again for the first time in a number of years, CUB achieved an 80% share of this growth. CUB's brand strength, particularly in the regular and premium segments, helped drive 7% growth in earnings from beer, a very pleasing result.

We had some soft spots. Smoking bans affected gaming in ALH, in the US, the clubs business is rebounding more slowly that we had hoped and the spirits business is still in transition. The pleasing thing is that we have strategies in place to address each issue, which I will detail later.

Overall these strong results are a product of Foster's well-publicised efforts to build a balanced business with a premium brand focus. They highlight why balancing investment risk across businesses, products, countries and currencies is the right strategy for the future.

So, while Foster's is certainly not immune from the impact of challenging conditions, the balance and premium nature of the business places Foster's in a much better position to weather the storm.

[Slide – Foster's performance]

You have no doubt seen the top line numbers for the group and while I don't intend repeating what you have already read in the announcement, I would like to make a couple of points.

When referring to the top-line numbers, it is best to do so on a normalised basis. This is particularly in relation to Net Profit after tax and Earnings Per Share.

[Slide – Normalised EPS]

The Normalised Net Profit after tax and Normalised EPS numbers remove accounting adjustments made in the P&L for SGARA, significant items, amortisation, and deemed dividends on the bonds. We do this to provide a more precise view of the underlying performance of the group. I always refer to normalised Net Profit and normalised EPS in my briefings, so I hope this explanation of the difference proves useful.

[Slide – Cash flow]

In relation to cash flow, the result was significantly higher at just over $225 million compared to $58 million in the first half last year. The improvement was driven by reduced investment in working capital and lower interest payments. In addition, the timing differences which impacted cashflow in the prior corresponding period, did not impact the cashflow result this half.

CUB

[Slide CUB EBITA]

Turning now to CUB. CUB EBITA of $329.4 million was 4.0% higher, driven by a strong contribution from the Australian beer business which grew just over 7%.

Australian Beer

[Slide – Australian beer highlights]

The Australian beer business bounced back strongly, enjoying both volume and margin growth while once again being the group's engine room in terms of cash flow.

Volumes of CUB's premium and imported brands grew 9.4%. Crown Lager, celebrating its 50th anniversary this year, continued to exhibit high single-digit volume growth, maintaining its mantle as Australia's leading premium beer.

CUB has been very active with a number of marketing and promotional initiatives undertaken during the half. These included the repackaging and relaunch of Carlton Cold and the launch of three new products: Carlton Sterling, a premium light beer; Matilda Bay Premier, a premium midstrength product in Western Australia; and a new ultra premium "four seasons" range from the Cascade brewery. Expect innovation to continue.

Australian Leisure and Hospitality (ALH)

[Slide – ALH performance highlights]

ALH delivered a flat EBITA result of $62.9 million. As flagged at the AGM, smoking bans in gaming rooms impacted earnings, as did the continued rationalisation of the hotel portfolio, with venue numbers reduced from 137 to 131 compared to the same time last year.

These factors were partly offset by gains made in other states and across offerings. Bars and Food was up strongly compared to last year with the food business benefiting from the implementation of an Electronic Buying System generating significant cost savings. In Retail Liquor, the conversion of all Brisbane and Gold Coast bottle shops to the Fridge brand had a positive impact on performance.

[Slide – ALH ROCE]

It is important to remember that ALH is a 'returns business'. ALH operates in a highly regulated environment and as we have seen, the smoking bans in Victoria have taken away the half on half growth. .

In assessing the performance of ALH, remember that it returns nearly two times the group's cost of capital, making it a strong business and that it continues to make a very significant contribution to CUB's earnings and cash flow.

Continental Spirits Company (CSC)

[Slide – Continental performance highlights]

Continental Sprits EBITA for the half was $5.7 million, down $4.5 million on the December 2001 half. You will recall that last year's normalised full year EBITA for the business was just over $10 million, most of which was earned in the first half.

The lower EBITA for the current period is due mainly to the loss of the Seagrams brands.

If we look at the business excluding Seagrams, Continental achieved strong underlying volume growth and, in particular, RTDs performed well for the period with Capri Cocktails showing early signs of success.

[Slide – CUB supply chain review]

Before moving to international beer, I want to briefly mention the CUB Supply Chain review. As you will recall at the full year, CUB announced its intention to complete a review of the beer production supply chain.

With Trevor O'Hoy taking over as CUB Managing Director in November, the scope of this review has now been broadened and will extend beyond beer production to now include all processes and all products across all three CUB business units. This will give a holistic view of CUB's business and where opportunities lie.

Due to the broader scope of the review, the final recommendations will now not be available until April. At that time, we will hold a separate session to communicate the program details. However, while it is premature to be completely definitive on the detailed aspects of the review, I can say that initial indications are that minimum savings of $50 million per annum will result. This will build over the next 2 – 5 years. Gross savings are estimated to be a higher number, with reinvestment back into CUB to support further innovation.

International Beer

[Slide – FBI EBITA]

Moving now to International Beer, Foster's Brewing International EBITA of $19.9 million is 42.1% higher than the previous corresponding period. The increase was driven by the Foster's USA business, improved performance in the Asian and Greater Pacific regions, increased license royalties and cost management activities across all areas of the business.

[Slide – Performance highlights]

In North America, the Foster's USA business improved as a result of price increases implemented nationally. In Europe, the UK market remains key, with a pleasing result achieved, despite marginal growth in the UK beer market overall.

Greater Asia was a tough market. Foster's premium brand focus at the expense of Foster's owned local, low-margin commodity brands and aggressive competitor activity, led to lower volumes overall. However, the region continues to improve its contribution as a result of the focus on premium brand sales.

In the Greater Pacific region, the multi-beverage business model in New Zealand continues to be successful in a competitive environment, with premium beer sales up strongly.

Global Wine

[Slide – EBITAS]

As mentioned earlier, Beringer Blass delivered a solid performance for the half, although it may not be immediately obvious from looking at the top line numbers.

EBITAS contribution of $253.7 million, was up 3.9% on the same period last year.

[Slide - FX Impact on Results]

It is worth noting the impact of foreign exchange movements on the wine result at this point as it will help demonstrate the underlying performance of Beringer Blass for the period.

[Slide EBITAS adjusted for FX]

On a constant FX basis, using this year's exchange rate and applying it to this and the prior year, Beringer Blass EBITAS grew almost 10% compared to the reported 3.9% which accounts for a higher Australian dollar versus last year.

[Slide – Performance highlights]

Global volumes increased 12.6% to 9.6 million nine-litre cases, with double-digit volume growth recorded in all trade regions. Importantly, margins were maintained, an excellent result in a highly competitive market for wine globally. It reinforces the Beringer Blass commitment to achieving meaningful growth for its premium brands, not just growth for growths sake.

Wine Trade Division

[Slide – Performance highlights]

The wine trade division performed solidly in the first half. Volumes grew 14.5% to 8.2

million 9 litre cases and EBITAS was $205.2 million, up 4.5% on the previous corresponding period. At constant exchange rates, EBITAS increased by 11.6% on the prior period. Importantly, Beringer Blass continued to grow its market share in all three trade regions in which it competes while maintaining margins, which is a very credible achievement.

BBWE global premium brands performed extremely well with Wolf Blass, Beringer and Matua, all growing well ahead of the market for the period.

Wine Trade – North America

[Slide – Performance highlights]

The North American division continued its trend of double-digit volume growth. EBITAS contribution was $149.6 million, a decrease of 0.4% over the 2001 half, but once again reflecting the strengthening AUD/USD exchange rate during the period. In USD terms, EBITAS increased 8.6% versus the prior year and sales were up 9.1%.

At retail level, as measured by AC Nielsen US Food and Drug store data (26-weeks to 21 December 2002), BBWE brands grew at 12.7%, well ahead of the overall growth in premium wines of 5.8%. Strength in BBWE's Australian portfolio, Blush category and $10 to $12 retail price segment, along with Stone Cellars increased distribution, all contributed to BBWE's strong volume performance in this period.

Wine Trade – Asia Pacific

[Slide – Performance highlights]

Asia Pacific trade achieved an EBITAS increase of 10.8% to $41.1 million. Volumes were 16.6% and sales increased 15.7% for the half-year, reflecting the solid performance of both the core and regional portfolios.

The core and regional brand portfolios significantly outperformed a market growing at mid single-digit rates. In particular, Wolf Blass grew strongly with volumes 36.9% ahead of last year.

Of particular note, BBWE received top honours at the 2002 International Wine and Spirit Competition (IWSC) with Wolf Blass Winery winning the "International Winemaker of the Year" trophy from a field of hundreds of international wineries. Wolf Blass also collected the Australian "Wine Producer of the Year" trophy, for the second year in a row and Matua Valley's Ararimu Chardonnay 2000 was judged "Best Chardonnay in the World".

Wine Trade – Europe

[Slide – Performance highlights]

The European business continues to perform well and achieved EBITAS growth of 61.1% to $14.5 million for the half. Volumes were up strongly by 47.2%, albeit of a small base.

All brands contributed to the strong volume growth, with Wolf Blass remaining the key brand in the region and delivering 30.9% growth year on year.

Wine Clubs and Services

[Slide – Performance highlights]

Wine Clubs EBITA was down 12.8% to $30.0 million compared with the previous corresponding period.

Performance from the business was mixed, with strong performance from Australia and New Zealand and significant improvements in the Continental European business as a result of strategies put in place at the full year.

The US business continues to be impacted by extremely difficult trading conditions across all consumer direct business in the US and improving performance in the US will be a major focus of management over the next six months.

Wine Services continues to perform well recording an EBITA of $18.5 million, up 38.1% on the December 2001 half.

Lensworth

[Slide – Performance highlights]

Finally to Lensworth. EBITA of $5.7 million for the period is lower due to the timing of settlements on land sales. The housing boom has created a backlog for authorities issuing land titles and as such we now expect to receive proceeds from first half land sales in the second half.

Conclusion

[Slide – Foster's Group]

In closing, this result, achieved in a tough trading environment, demonstrates, and I can't say this often enough, that Foster's is delivering on the key measures.

Across the core businesses we have seen earnings, volume and market share growth and steady margins.

Three years ago we outlined the group's strategy to build a balanced business with a premium focus and we have steadfastly pursued this strategy since then. I think its merits are there for all to see, particularly in light of the operating environment we have been dealing with. Imagine, for a second, what Foster's could do if the operating environment was significantly better.

Thanks for your time this afternoon, I am now happy to take your questions.