COCA-COLA AMATIL

2010 AGM – Managing Director's Address

Terry Davis Group Managing Director

14 May 2010

Thank you Chairman, and good morning ladies and gentlemen….

There is no doubt that 2009 was another excellent year for CCA. Given the trading conditions we faced going into and right throughout 2009, I believe the results we delivered in absolute terms were the highest quality from CCA since I became CEO eight and a half years ago. And they certainly continue to stand out against our peer group.

The key drivers of our business – of revenue management, and new product innovation, combined with cost savings and customer service improvements – all contributed to the record result.

The business met or exceeded all of its key earnings measures and, pleasingly, there were strong performances right across the Group. In particular, I would highlight:

- The strong growth of the Australian and Indonesian businesses,
- The recovery in the second half of the New Zealand business, and
- Earnings growth of more than 20% from the Food & Services Division.

CCA has now delivered double digit earnings per share growth in 8 out of the last 9 years and since 2001, our return on capital employed has grown from around 7% to over 24% in 2009.

And more importantly for shareholders, dividends over that time have increased more than three-fold from 14 cents per share to 43.5 cents per share last year.

But there is little doubt that we are now in a period of constant and unpredictable change, as evidenced by the continuing turmoil in the global financial markets over the past 18 months – and the extent of government interventions needed to stop a market free fall. We shall be closely watching to see how effective these rescue packages are in driving sustainable increases in demand.

So notwithstanding that business life today is a little less certain than all of us would prefer, I would like to share with you the direction we will take over the next three to five years.

CCA has a very strong Australasian business supplemented by two additional and emerging growth opportunities. The first of these is the increasing relevance of our Indonesian operation to the overall business and the second is fulfilling our aim of becoming a more serious player in the alcoholic beverage market.

So not surprisingly, **our first priority is to continue to maintain the earnings momentum in the Australasian business**, as it represents around 80% of our earnings and has been pivotal to CCA's growth for many years – and I certainly expect it will continue to do so for the foreseeable future.

There are four pillars of growth for the Australasian business. They are:

- Continuing product and package innovation;
- Driving cold drink sales through our cooler placement programme;
- The efficiency gains we achieve from Project Zero; and lastly
- How we make the most of our unique position in the alcoholic beverages market.

This continuous **innovation cycle of new beverage products and packages** remains a fundamental part of our business model with 2009 being another year of successful new product launches. Mother energy drink more than doubled in size, and Goulburn Valley flavoured milk was successfully launched on the east coast of Australia.

A particular highlight was the solid growth in Brand Coke. New pack options – from the 450mL grip bottle, to portion control packs to the revamped frozen Coke – grew Coke volumes by over 3% – demonstrating how important innovation in new packaging options is for the growth of our business.

At the heart of our business, we are a cold drink company. So not surprisingly, the **increased investment in cold drink coolers** continues to be a vital driver of growth, as well as a way for us to further widen the gap in our service offering versus our competitors. I would expect that we will invest approximately 30% of our capital spend each year on coolers to further broaden the availability of our cold drink selection.

The third driver is CCA's major infrastructure capital investment program, **Project Zero**. This continues to deliver **cost savings and customer service improvements**. We started this program some four years ago when we recognised that we were able to make more profit – at much less risk – by reinvesting our surplus capital into organic growth projects rather than by chasing expensive acquisitions.

Project Zero has been a real boost to our competitive position and has enhanced the service we provide to our customers. At the same time, we have managed to improve our financial returns with these efficiency gains helping to increase our return on capital to over 24% by the end of last year.

Major projects completed during 2009 included the automated distribution centre at Eastern Creek in NSW, as well as phase two of the OAisys technology platform.

Cost savings from Project Zero delivered 22% of Australia's earnings growth last year and I am very pleased to report to you that we have a solid pipeline of projects to implement over the next five years which will deliver further improvements to the business.

The first is **PET bottle self manufacture.** I expect this to be by far the biggest single capital initiative CCA will undertake over the next five years and has the potential to materially enhance our competitive position.

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By way of explanation, over the last three years, the cost to produce PET bottles has reduced substantially, enabling us to bring the manufacturing in-house and produce bottles with at least 15% less PET resin.

Over the next five years, we would expect to be using 6,000 less tons of PET resin and eliminate 50,000 truck movements. And since commissioning our first production lines in Northmead in April, we are already using more almost 25% less PET resin in our 600mL Mount Franklin bottles.

From not having to freight empty bottles around the country, we reduce our carbon footprint, thus delivering a sustainability benefit as well as a real cost benefit to the business.

Moving onto Indonesia…

Our second priority is to accelerate the growth of our Indonesian business. The Indonesian market is a very exciting and dynamic market. Today, 50% of its 240 million population are under the age of 29, yet there is still a very low per capita consumption of commercial beverages.

Indonesia was one of the few countries in the world last year to have positive GDP growth. And of course there is a direct correlation between growth in per capita income and growth in the per capita consumption of beverages.

With the increasing wealth of the population, we have enjoyed the benefit of the rapid modernisation of Indonesia and, much like China, the evolution of the retailing landscape has bought with it the rapid development of modern foodstores and shopping malls.

To keep pace with these changes, we have had to change our business model – by expanding our product offering into new pack formats and launching new products into the new channels. This has been reflected in our operating results with the Indonesian & PNG business now delivering four consecutive years of strong earnings growth.

So over the next three years we will further accelerate our level of investment in Indonesia with material increases in manufacturing capacity and cold drink coolers.

This will put us in a very strong position to cater for the increasing urbanisation of the Indonesian population – and their desire for more variety in their beverages. We expect the main focus to be on juices and ready-to-drink-tea, as well as continue to expand our range of sparkling beverages.

And our final priority is to grow our alcoholic beverage business.

2010 is a big year for our beer business, with the commissioning of the new Bluetongue brewery now only weeks away.

Back in 2006, we formed a joint venture with SABMiller, the world’s second largest brewer. The rationale being that the expansion into alcoholic beverages was a logical way for us to leverage our sales and distribution assets, and create a stronger overall relationship with our licensed customers.

I believe we have already come a long way in the development of our beer business, achieving nearly 10% share of the premium beer market in that time and our biggest brand, Peroni, is already ranked in the top 10 and in 2009 was the fastest growing premium beer in Australia, growing by over 75%.

The commissioning of the new Bluetongue brewery will give us a strong platform to grow our beer business – mainly from the increased production of draught beer, and the local brewing of overseas brands.

But all of this would not be possible without the dedication and commitment of our 15,000 employees. Back in February last year, in the depths of the global financial crisis – when many companies in Australia had made pre-emptive decisions to downsize their workforce – I gave a commitment to all of our employees to not retrench one employee as a result of the external financial environment.

We called this the "Keep Your Mates in a Job" campaign, and given the success I have extended it across the business again this year. I believe this is a fundamental point in the journey of developing a positive and sustainable organisational culture.

I believe that if organisations don't do their absolute best to look after their employees during difficult times, what chance have they of retaining their loyalty, their commitment and their passion for the business when times improve?

From a cultural and performance aspect this commitment to our people has repaid the business handsomely and not just in operating results – in 2009 CCA was the recipient of many awards across the board – in the field of suppliers, packaging, environment, media, brands and business.

Just some of these were:

- The Number One Overall Supplier for all consumer goods companies in Australia by The Grocery Performance Monitor;
- Woolworths Supplier of the Year for suppliers with a turnover of $50 million and above;
- The recently completed Eastern Creek and Northmead warehouses won many awards for logistics and design excellence including the Technology Application award at the 2009 Mercury Logistics Award in recognition of the use of innovation and technology;
- The CIO Asia 2009 Award for a regional enterprise that has excelled through innovative IT projects; and finally last year
- Mount Franklin was named as one of Australia's Top 10 Most Trusted brands.

Now turning to how we see 2010 shaping up….

I have said many times that our business benefited from the Federal Government's fiscal and monetary stimulus during 2009, and in the first half of this year we've had to cycle that stimulus.

We continue to see a noticeable shift in consumer behaviour in the Australian market. Demand for premium beverages in restaurants and cafes remains subdued, but this has been offset by the increased sales in quick-service restaurants and for take-home products in the grocery channel.

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I am however pleased to report that CCA's beverage leadership position has strengthened again in the year to date with increases in volume and value share across the market.

But there have been a steady stream of interest rate rises and other cost increases in Australia, which certainly appear to have impacted overall consumer confidence and spending in the broader market. I may be more cautious than others about the consumer environment – and only time will tell whether Tuesday's Federal Budget will improve consumer sentiment.

But on the plus side, the Government's building stimulus program and tax cuts should flow through to increased employment levels, particularly in the construction sector and historically that has been a good volume driver for our beverages.

On balance, I think it is too early to assess what impact all this may have on trading conditions for the second half. However, we remain confident of our ability to deliver high single digit growth in earnings for the first half.

And going forward, our focus will continue to be on executing the organic growth strategy that has served us so well. This strong pipeline of high returning capital projects will deliver efficiency and revenue gains across the business for some years to come.

We will continue to up-weight our investment in Indonesia, and with the Bluetongue Brewery about to be commissioned, we will now have the manufacturing platform to take our beer business to the next level.

At this point, I would like to join David and thank all of my Team for their efforts that have driven CCA's consistent results – not just in 2009 – but over a sustained period of time and created the strong financial and market position that CCA is in today.

And in closing, while the results we delivered in 2009 were very good, we also know and respect that we do have to earn the right to our customers business each and every day.

And we look forward to doing that again in 2010.

Thank you and I'll now hand back to the Chairman.