

2013 AGM – Managing Director's Address

Terry Davis Group Managing Director

7 May 2013

Thank you David, and good morning ladies and gentlemen....

It's a pleasure to once again be able to present to you on another strong operating result for the Company in 2012 and to give some further insight into current trading conditions and the direction the company will take over the next two to three years.

Given the trading environment we experienced most of last year, the 2012 result was a commendable one. We still managed to grow our business, and, for the first time in CCA's history, we reached \$5 billion of revenues.

Revenue increased by 6.2% to \$5.1 billion, and net profit increased by 5% to a record \$558 million.

There were a number of highlights...

- Firstly, it was our sixth consecutive year of very strong growth from the Indonesian and PNG business with earnings up 16.8%. The decisions we have made to prioritise our investment in Indonesia is certainly paying off with earnings growth up nearly 600% since 2006.
- Despite the backdrop of a weak consumer spending environment and sustained aggressive competitor discounting, we achieved volume growth and we achieved earnings growth while gaining market share in the Australian business.
- We will be back in the Australian beer market in 8 months' time and in 2012 established an important foundation to that re-entry with the agreement to form a local brewing joint venture with Casella.
- To accelerate our alcohol business further, we also signed a long-term exclusive agreement to distribute the number 1 cider brand in Australia, Rekorderlig from January 2014.
- Whilst internationally, we acquired the Foster's Fiji brewery and rum distillery and commenced distributing premium beer for Grupo Modelo, Carlsberg and Molson Coors in Fiji, Papua New Guinea and the Pacific Islands.

- And we also began the next stage of the Project Zero operational efficiency programme which will target \$30-40 million in annual efficiency gains and cost out initiatives over the next three years.

Our organic growth focus has been validated by the strong returns we have delivered. More importantly for you, our shareholders, is that over this 11 year period, annual dividends have increased more than 300% – from 14 cents per share in 2001 to 59.5 cents in 2012.

CCA's earnings per share has also materially out-performed the broader market over a long period of time with a compound annual growth rate of over 10% per annum since 2001 – this is nearly double the 5.4% achieved by the average growth of ASX100 companies and the 5.2% per annum generated by Industrial stocks.

So whilst that history is relevant, what is more important is the direction we expect the business to take over the next few years.

First, I expect that the majority of our growth will still be organic as I believe there are still many opportunities to grow organically at a much lower risk than by major acquisitions.

And our **key priorities** remain the same...

In **Australia**, they are to continue to protect and grow our market leading position in non-alcoholic beverages. We will also be more active in evolving beverage categories and to this end I am pleased to announce today that we will shortly commission our first aseptic beverage production line to give us the capability to produce value-added juice and dairy products.

In **Indonesia**, we have stepped up our capital investment again in 2012 by accelerating our production and distribution capacity.

Just to recap why Indonesia is a very exciting and dynamic market and why I believe that over time it has the potential to be our biggest market by volume of beverages sold...

- Firstly, 50% of its 240 million people are under the age of 29.
- It is hot ALL year round so lends itself well to the consumption of beverages.
- Most Indonesians do not consume alcohol, so unlike many other developing countries we are not competing with alcoholic beverages for share of throat.
- The per capita consumption of commercial beverages is growing rapidly but it is still very low by world standards.
- Indonesia's GDP growth has been consistently strong for a number of years and positive government reform has resulted in broad based increases in wealth across all income groups.
- And there is a direct correlation between growth in per capita income and the growth in the per capita consumption of beverages.

We have quickly expanded our product offering into new pack formats and have launched many new products into the new channels.

Today, we have a well-developed and large scale sales, manufacturing and distribution footprint across all of the major population centres in Indonesia. To give you some colour... we directly employ over 7,500 people and indirectly another 3,000 people. We have more than 35 beverage production lines, 100 sales and distribution centres, around 250,000 cold drink cooler doors in the market, that service well over half a million retail customers.

Given our strong position in the market, I believe we are well positioned to cater to the increasing wealth and aspirations of the Indonesian population – and their desire for more variety in their beverage choices.

Our next priority is to leverage our scale to expand our **alcoholic beverages** business. Alcoholic beverages remain the most logical extension of our brand portfolio as we can do it for little additional cost by leveraging our large-scale sales, manufacturing and distribution infrastructure with our existing customer base.

And Australia represents one of only six markets globally with a beer profit pool worth over \$1 billion, so the earnings growth available to CCA for executing successfully is substantial.

As you know, one of the key differentiators of CCA and its competitors has been our investment in innovation and technology to drive growth and productivity throughout the Group. The last 12 months have been no exception. In this short video you'll be able to see some great initiatives we have undertaken.

DVD – BUSINESS & INNOVATION

I hope that was a useful insight into how far the business has come. I am particularly proud of our project teams who each year manage to find innovative ways to improve our service levels to our customers while still reducing our cost of doing business.

Another important area for me personally – and for the whole of our team – is to focus on strategies for creating a more diverse team right across our business.

This means not only having a clear policy on gender diversity, it means truly embracing difference across ethnicity, disability and age as well.

I believe that our workplaces should truly reflect our communities and we have another short video which will give you an update on the progress we're making.

DVD – DIVERSITY

David said earlier that sustainability is good for business and I strongly believe that diversity is the same.

So now moving on to the **trading outlook**...

In Australia, it seems that every day we are hearing about the threat of new taxes and levies, changes to superannuation, dramatic falls in mining income and government revenue... and all that is on top of the strength of the Australian dollar that has given rise to unprecedented levels of private label and other imported produce flooding into the Australian market, which in turn has led to a material decline in the profitability of local manufacturers.

So whilst CCA makes and sells mainly staple products, we are not immune to the fallout that has occurred in consumer sentiment which has flowed through to reduced consumer spending, with many food and beverage categories – including our own – experiencing flat or declining volumes so far this year.

In **Australian beverages**, our grocery business, which generates around 50% of Australian beverage earnings, has experienced a very difficult start due to the continuation of higher levels of competitor discounting as well as lower volumes due to retailer de-stocking.

Perhaps as a result of the lower consumer demand, we have seen the retail price gap to the major competitor widen to over 50%. When we see Coke's price premium to the market expand rapidly, we take appropriate action to protect our brand leadership position with additional market support and increased promotional activity.

For those of you who have been long-term shareholders, you will be aware that whilst this response may cause some short-term pain with respect to price realisation and hence profitability, but we believe that in the medium to long-term, this is absolutely the right course of action.

Overall, the Australian business expects to report a decline in volume and earnings for the first half due to the poor grocery channel performance. We do however expect earnings to improve in the second half as we will be cycling a period of lower prices and we would also expect to deliver \$10-15 million in cost savings from the Project Zero programmes which commenced in the first quarter.

Turning to **New Zealand & Fiji**...

The New Zealand & Fiji business has experienced a solid recovery in the so far this year with a return to growth following a strong summer trading performance. We are pleased at the recovery in New Zealand with volumes growing by around 4%. We also expect the economy to benefit from the \$40 billion Christchurch rebuilding programme which is expected to add around 1% to the New Zealand GDP growth rate for 2013 and 2014.

As to the **Indonesian** business....

As I mentioned earlier, the economic fundamentals in Indonesia continue to be robust with GDP growth expected to be over 6% this year supported by positive government financial reforms that are encouraging much needed investment in infrastructure.

Indonesia has experienced a very strong start with volume growth of over 10%. Momentum continues to accelerate driven by brand and package innovation with a number of new products being launched to drive increased per capita consumption of the important C/D consumer group.

The launch of sports drink Aquarius and also Minute Maid Aloe Vera have exceeded our expectations and we will shortly introduce our first dairy beverage called Minute Maid Nutriboost. We see great potential for the dairy beverage category in Indonesia following the significant growth of dairy based products across Asia over the past few years.

This month we also commission our first high-speed water line in Jakarta. Having a low cost bottled water capability is an important business enabler as it will allow us to be more competitive across our total portfolio.

Now to PNG...

After nine consecutive halves of double-digit earnings growth, PNG has experienced a slower start to the year with the softening in the growth of the economy. The medium term growth outlook for PNG however continues to remain strong with forecast GDP growth of over 5% in 2013 and 6% in 2014.

As a result of our confidence in the region, we will target 10-15% volume growth and 15-20% local currency earnings growth for each of the next three years.

As for SPC Ardmona....

The high Australian dollar has seen the marketplace flooded with cheap, lower quality private label packaged fruit imports by the major retailers with the value of imported processed fruit and vegetables increasing by more than \$260 million over the last five years.

There is no doubt that for SPCA – and for the other food manufacturers in this country – that given the continuation of a high Australian dollar, it has become more difficult to compete against cheap imported low cost private label products.

Many of these imports are being sold at levels below the cost of Australian produced packaged fruit offerings and should the retail trading outlook not improve in the second half, SPCA earnings are expected to lower Group earnings by between 2-3% for 2013.

There has been a lot of criticism about the high cost of Australian manufacturing, but the fact is that many of the countries that we compete against do not have the same stringent quality standards or the same favourable labour conditions as Australia. One can only ask the question... do we really want an Australia where our workers are paid \$2.50 an hour – or less – to compete? Absolutely not.

Regrettably, the flow on effect to our growers, to our local communities and to regional employment from the increase in imported product is devastating.

I may well be a lone voice here in Australia as we have taken a stand as a business to remain firmly committed to sourcing our fruit for SPCA in Australia wherever possible, but this has come at a real cost, and our food business is smaller than it was five years ago.

The risk to Australian manufacturing is far broader and should be very concerning to policy makers. We are seeing our Australian manufacturers either close down or move offshore due – in large part – to the unprecedented strength of the Australian dollar. The longer-term risk is that food prices in this country will increase dramatically should the Australian dollar fall.

My personal view is that ultimately Australian consumers will need to vocally encourage the major Australian retailers to lift their support for domestically grown and produced brands instead of supporting imported private label products, or consumers will face the very real proposition of seeing less and less Australian grown produce on retailer shelves.

We have recently requested temporary protection relief from the Federal Government in the form of a WTO safeguards submission that may provide temporary tariff protection to assist the fruit growers and fruit processing industry in the Goulburn Valley.

At the same time, the business shall seek longer-term relief from WTO anti-dumping safeguards. This follows the successful application of significant tariffs to imported packaged fruit products in New Zealand where it has been proven that products being exported from the same countries that export to Australia are being dumped. So we hope we can get the same decisive action from the Australian government as we have seen in New Zealand.

On a more positive note, I can report we are making some strong gains in expanding our **alcohol business**. The establishment of the Casella brewing joint venture gives us access to a low cost, state of the art brewery and the Rekorderlig cider distribution agreement gives us the Number One premium cider brand in Australia.

So with a little over eight months left until our non-compete in beer in Australia expires, I believe we have made solid progress and we are well advanced in our discussions with a number of international brewers and would expect to make further announcements at the half year results on our beer opportunities. I have no doubt we will have a strong portfolio of international beer brands to kick off with in 2014.

Now to **earnings guidance for the first half and full year 2013...**

At this stage, unfortunately, the strong performances from Indonesia, New Zealand, Fiji and Australian non-grocery will not be sufficient to offset the impact of difficult grocery trading conditions in Australian beverages and the decline in SPC Ardmona earnings. This will result in lower earnings for the first half of 8-9%, before significant items.

For the 2013 full year, we are more positive and expect EBIT earnings to be in line with last year, before significant items.



We expect to declare a 10.4% increase in the first half dividend. Our financial and market position remains strong and we have reduced our forward capital expenditure needs in line with market conditions. So while we have experienced a tough start to the year, we believe in continuing to reward shareholders along the way and certainly the longer-term prospects for the business remain strong.

So in closing, I can say – in what is now my twelfth year as CEO – it has been a real privilege and a pleasure to lead the CCA business transformation.

We have made some great progress and whilst current conditions may be tougher than we would have hoped for, the financial and market position of the company has never been stronger. CCA now has real and lasting leadership in each of its markets, something that I know my team is very proud of and I can assure you they will seek to vigorously protect in the future.

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