FOSTER'S GROUP

FINANCIAL UPDATE AND A PROPOSAL TO PURSUE DEMERGER CONFERENCE

26 MAY 2010

(EDITED TRANSCRIPT)

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Foster's Financial Update and Proposal to Pursue a Demerger Conference. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer, at which time if you wish to ask a question you will need to press star followed by one on your telephone keypad.

I would now like to hand the conference over to Mr Ian Betts. Thank you, and please go ahead.

Ian Betts

Ian Betts: Good morning everybody. My name is Ian Betts and I am the Investor Relations Manager at Foster's. I would like to thank you all for joining us this morning at short notice. This call is being recorded and a transcript will be available at fostersgroup.com.

This morning I am joined by Ian Johnston, Foster's Group Chief Executive Officer, and Angus McKay, Foster's Chief Financial Officer, who will provide a brief overview of this morning's announcement and then open for questions from analysts and investors.

Ian Johnston

Ian Johnston: Thank you Ian and good morning to everybody. Thank you for joining us. Today's announcement is a watershed moment for Foster's. It is the next stage in the evolution of the work started in the Wine Review, with the benefits from our transformation agenda becoming increasingly apparent.

This morning we announced that the Foster's Board intends to pursue a demerger of beer and wine subject to detailed evaluation of the issues, the costs and the benefits to Foster's shareholders, and in the light of prevailing economic and capital market conditions. At the time of the Wine Strategic Review the pressing need to address operational performance, the perilous state of equity and debt markets and the poor outlook for the consumer and the global economy meant that it was not the right time to pursue ownership and capital restructuring of Foster's.

Much has changed since then. New leadership and management teams are in place with integrated end to end beer and wine businesses created across each region. Overhead procurement and manufacturing efficiencies have been achieved to plan and we are well on track to reach at least $100 million in annual cost savings in the 2011 financial year. We have substantially completed the vineyard divestment winery consolidation and the Australian brand rationalisation initiatives identified in the Wine Review.

With the right structure and a more flexible and competitive cost base we now have a range of initiatives underway in wine, that will better position the business for future improvements in the global economy and wine cycle. Notwithstanding the recent volatility in capital markets, we are starting to see early signs that consumer sentiment is stabilising and that an emerging economic recovery is underway in our key international markets, and particularly in the US.

Nothing in today's announcement should distract from the fact that the two businesses are profitable, generate strong cashflows and hold strong market positions with world recognised brands. However, while both are market leaders in their category it is increasingly apparent that the two businesses face different challenges and opportunities, with differing strategic market and operating characteristics. A demerger will provide the flexibility for separate boards and management of beer and wine to develop corporate strategies and implement capital structures and financial policies appropriate to their businesses. Increased transparency will also allow investors to more appropriately value each business over time.

There will be some issues, of course, that need to be evaluated and include annual financing costs, corporate and other costs and one-off implementation costs. We will do the work to understand these and factor all considerations into our next steps. To be clear up front, no decision has been made on the form, structure or timing of any demerger and the demerger is unlikely to be implemented before the first half of calendar 2011. But the evaluation will proceed as quickly as possible with priority given to ensuring all relevant matters are carefully and rigorously examined and that disruption to employees, suppliers and customers is minimised. Through the evaluation period we will continue to drive the transformation agenda and review business improvement opportunities.

Also today and separate from the demerger evaluate we provided a trading update and confirmed our current expectation for group EBITS in 2010 of between $1.05 and $1.08 billion, broadly in line with market expectations. We also announced that we expect to recognise a non-cash impairment charge of between $1.1 to $1.3 billion relating to wine.

The beer business in Australia is market leader and has strong leadership focused on reinvesting in its key brands to continue its track record of earnings growth. Foster's wine business is showing signs in improvement but continues to be impacted by over-supply in Australia, subdued consumer demand in key international markets and a strong Australian dollar during the 2010 financial year.

As a result of the non-cash impairment charge the timing and payment of dividends over the next 12 months is expected to change, although the total amount received by shareholders is anticipated to be broadly in line with previous years.

I will now hand over to Angus who will comment more on the wine impairment charge.

Angus McKay

Angus McKay: Thanks Ian and good morning to everyone. As Ian mentioned, today we have announced that we expect to recognise a non-cash impairment charge relating to wine assets, of between $1.1 and $1.3 billion before tax and between $1.05 and $1.2 billion after tax. The impairment charge will include the write off of the remaining goodwill in the wine business and adjustments to carrying values of non-current assets.

The overwhelming majority of the impairment charge arises from a higher discount rate being applied to the wine business and the adoption of higher exchange rate assumptions. While previously we have used a common group discount rate, we have moved to adopt a higher discount rate for wine impairment testing, which is consistent with the way in which we now run this business.

Changes to currency assumptions are also significantly contributing to the impairment charge announced today. We have updated our currency forecast based on the external inputs. These forecasts show an increased forward curve across all major currency pairs. As a result we have moved to adopt the new [view] of rates for impairment testing purposes. The non-cash impairment charge will not have any adverse implications under Foster's various banking facilities. Thank you, and we will now be open for questions.

Q&A Session

Ian Betts: We will now open the lines up for questions. We need to finish by 11:45 so initially can we please limit questions to one per person and then if you have any additional questions, rejoin the queue.

Operator: Thank you. We will now begin the question and answer session. If you wish to ask a question please press star followed by one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key.

Your first question comes from Stuart Jackson of JP Morgan. Please ask your question.

Stuart Jackson: (JP Morgan, Analyst) Hi guys. Lots of questions obviously. But can you just talk about what bonds are out there and what debts out there at the moment and whether within the actual articles of those debts, whether there's any triggers for refinancing associated with this sort of transaction. Can you also talk about the [swaps book] as well, whether that has implications for that as well?

Angus McKay: Stuart, it's Angus here - sorry for the voice to everybody. Look I suppose our debt is a matter of public record that you guys can see clearly what debt we do actually have on foot so I don’t think I need to repeat that. Because we have not made a decision around any structure, look it’s inappropriate to actually even start to address the ways we will look to deal with financing given the demerger goes ahead.

Stuart Jackson: (JP Morgan, Analyst) Right so you haven’t actually worked out what sort of debt allocations would go into each of the vehicles as well?

Angus McKay: We’ll now begin that piece of work.

Stuart Jackson: (JP Morgan, Analyst) Right, and there are also issues associated with tax losses how you allocate those, the HEO deposit et cetera?

Angus McKay: As you can imagine, there is a very large stream of work that now needs to be completed.

Stuart Jackson: (JP Morgan, Analyst) And with regards to timeframe, obviously you said you haven’t got much information on that. But have you sort of set out a...

Ian Betts: Can we please limit the questions to one per person initially?

Stuart Jackson: (JP Morgan, Analyst) Okay.

Operator: Thank you. The next question is from Lindy Newton of UBS. Please ask your question.

Lindy Newton: (UBS, Analyst) Angus, I wonder if you could just confirm what the capital employed of the wine business now comes down to, and if you could break that into what it is in terms of hard assets, inventory, land and then intangibles?

Angus McKay: The overall value will come down to a [net asset addition] of about $3.2 billion to $3.3 billion. Lindy, I don't actually have that breakdown in front of me but I'd be happy to get it back to you outside.

Operator: Thank you. The next question is from David Errington from Merrill Lynch. Please ask your question.

David Errington: (Merrill Lynch, Analyst) Morning Neil, morning Angus. The - similar to Lindy's question, can you do a physical break-up of the assets in the beer business? What sort of assets have you got there?

Angus McKay: So look, probably at year end we'll be giving obviously explicit guidance on what that is and i.e. we'll provide the balance sheet. Probably the best way to look at that right now though is what we already disclosed at half year, and we can then, you know, you can take these impairment charges and apply it to the wine business. Outside vintage mix, not much changes on our overall balance sheet by our operating strength.

David Errington: (Merrill Lynch, Analyst) What's your inventory value Angus? What would the overall inventory value of the company?

Angus McKay: Right now?

David Errington: (Merrill Lynch, Analyst) Yes.

Angus McKay: Actually, I'll let Ian just…

Angus McKay: Total inventories for the group as of December were current inventory at around about just over A$1 billion and on a current inventory of about A$300 million.

David Errington: (Merrill Lynch, Analyst) What would that split be on wine and beer?

Ian Johnston: Obviously it weights to wine just by definition. But I don't have those categories in front of me David.

Operator: Thank you. Your next question if from Larry [Gandler] of Credit Suisse. Please ask your question.

Larry Gandler: (Credit Suisse, Analyst) Hi Angus, I have a bit of what you have as well.

Angus McKay: I think it's going around. Go easy on the questions because I'm going to lose my voice in about 20 minutes.

Larry Gandler: (Credit Suisse, Analyst) Okay, one is I guess - I'll try and roll it into one question - is there a potential write up of any CUB assets, and should we distinguish between an impairment valuation on the wine business, or an impairment test rather on the wine business, or is it say fair value or mark to market in the wine business?

Angus McKay: Well the first thing we don't have a policy where we write assets up, so that's not there. So what we've announced today is an impairment charge on wine assets.

Larry Gandler: (Credit Suisse, Analyst) Okay, so in a demerger what would you need to mark the assets to market as well as any impairment testing?

Angus McKay: Look, as you eventually go through the demerger process there is a technical transfer process. Again that's not something that we're not going to go into today because we haven't got that far.

Operator: Thank you. Next question is from Greg Dring of Macquarie. Please ask your question.

Greg Dring: (Macquarie, Analyst) Good morning guys. My question is why have you actually announced this? The whole thing looks very rushed, it's not very substantive. So my question is, are you the subject of some sort of offer?

Angus McKay: Sorry?

Greg Dring: (Macquarie, Analyst) Have you been subject to some sort of offer?

Angus McKay: No.

Greg Dring: (Macquarie, Analyst) So you seem to have announced it before you've really had any information or analysis on what the consequences are of doing this.

Ian Johnston: I think that's not a correct portrayal of the situation. There's been a lot of work done, it has been going - since the wine review was announced, we have been looking at all options, and that has been very much a public statement. We have said that when the time is right we will start to look at what are the options for us. We believe now is the right time. As you would know, there's a lot of work involved in this and many other companies have found that they have taken a long time to bring something like this to conclusion.

Operator: Thank you. The next question is from Martin Yule of Morgan Stanley. Please ask your question.

Martin Yule: (Morgan Stanley, Analyst) I'm not sure I fully understand the last answer Andy, because as you say I mean the wine trade review started in April 2008. At that time you said that all options in terms of structure et cetera would be assessed, or at least your predecessor did. Consequently I think many of us have been working under the assumption that a demerger proposal, you've done a fair bit of work on it, you've already completed operational separation. Our investment bankers think this is a four to six month process. Why does it take so long and why haven't you actually reached a conclusion as to whether this is the right thing to do?

Ian Johnston: Well we have reached a conclusion that we are going to pursue this. That is - I think that's a pretty categoric [sic] statement. Clearly there are some things that you have to work through that you can only start to do once you have reached that point of decision. Angus, and in my quick notes, we outlined where some of those things have to be sorted out. We believe it's going to take time and that's our estimate and that's our testament to people who we've been talking to, that it will take to get all these clearances and get everything in place.

Operator: Thank you. The next question is from James [Garby] of CLSA. Please ask your question.

James Garby: (CLSA, Analyst) Yes, hi. Just to be absolutely clear about any offers on the table, no offer has been made for the whole company and/or the beer and wine assets separately?

Ian Johnston: Correct.

Operator: Next question is from Paul Van Meurs of Deutsche Bank.

Paul Van Meurs: (Deutsche Bank, Analyst) Hi guys, I just wanted to go back to the dividend payment. I mean presumably this is just an issue of not having enough reserves to pay out dividends. But how does that actually change going forward? Are you only able then to pay out profits that are made thereafter or can you give us more of a sense of that Angus?

Angus McKay: Paul you've hit it in one, simple as that.

Operator: Next question is from Ian Abbott of Goldman Sachs.

Ian Abbott: (Goldman Sachs, Analyst) Yeah thank you, I was just wondering, you talk about the US wine market. Just wondering if you could give a little bit of an update as to how that's tracking. You talk about the market, sorry, define an economic recovery in that market, I'm just wondering how your business is going there.

Ian Johnston: The market itself is showing some signs of improvement in volume, but it's actually at discounted prices, a lot of it. The on-premise trade is very soft and competition is high. As we transition from where we've been and look at the hierarchies of our portfolio, we are making some hard decisions about what we need to do in shaping that portfolio. We are also, to be frank with you, walking away from business which is costing more than it's worth. In that sense I would confess that we're going to have a couple of months of share where it looks a bit negative to year ago. But it is putting us in a much better position to go forward.

As well as looking at internally what we've got to do with our business strategy, we're in the process of negotiating root to market agreements with distributors which are much more aligned to what is their obligation to us as a company and our obligations to them as well, but having performance metrics which are much more enforceable in the more informal arrangements perhaps that existed in the past.

Operator: The next question is from Andy Bowley of Citigroup.

Andy Bowley: (Citigroup, Analyst) Morning Ian, morning Angus. My question is about the dis-synergies [sic] of demerging these businesses and I recognise you've probably got some more work to do on the cost side. But I wonder if you could just talk through kind of the levels of integration that there currently is and in the back office in particular and possibly areas of necessary duplication that will entail in the supply chain?

Ian Johnston: Well maybe both Angus and I can have a crack at this. We already have, at the corporate level, we have if you like central functions that serve us both. It's likely going forward that without a corporate structure that one part of the business might provide a service for the other, at least in the transition phase and then it will become up for each individual company to decide what it wants to outsource and what it wants to provide internally. As we go through the next few months, we will progressively put in place the transition arrangements for each.

Angus, do you want to add anything?

Angus McKay: Just my view would be there various shared services across the organisation, logistics and also financial, HR, et cetera and part of the work that now has to commence is actually how do we actually transition through those and into whatever two companies require separately. So Andy, that is the nub of the work that has now got to commence that you've got to appreciate…

Andy Bowley: (Citigroup, Analyst) Where do you see it at this relatively early stage where the biggest areas of cost that have to go back in are within the business, or within each business?

Angus McKay: Look Andy I'm not going to go there yet.

Andy Bowley: (Citigroup, Analyst) Okay.

Operator: Next question is from Nick [Darby] of Nomura.

Nick Darby: (Nomura, Analyst) Good morning Angus, I just had a quick question about the impairment charge. On deciding to use a higher discount rate going forward, what's underpinning that? Is it more structural considerations in terms of what you think consumers are going to be willing to pay for a bottle of wine going forward? Or is it more to do with the portfolio restructuring?

Angus McKay: It's more to do with portfolio restructuring and ultimately it's due to the operational changes we've made. So we are now running separate beer and wine businesses here in Australia and obviously in different markets and the view is that it is more appropriate now to use a different discount rate by cash by - cash would be in by geography.

Nick Darby: (Nomura, Analyst) So there's not a concern that the mixed change that's been seen in the business through the GFC has to some extent re-educated consumers in terms of what price points they're willing to purchase wine at?

Angus McKay: Oh look, that's not our long term view, no. We believe that wine post GFC will return to growth at both a volume and also a unit value level.

Ian Johnston: It's also been said that the predominant factors behind the impairment charge are the change in discount rate and FX and far less, much more marginal, is performance.

Operator: Your next question is from Mike [Blythe] of CBA.

Mike Blythe: (CBA, Analyst) Good morning, could you just confirm that your comments around the dividend aren't at all influenced by the banks?

Angus McKay: No, not at all influenced by banks.

Operator: Your next question is from Michael Brown of Aviva. Please ask your question.

Michael Brown: (Aviva, Analyst) Gentlemen can you just give us a better feel for the timetable of this? I mean giving this one paragraph that the first half of calendar of 2011 at the earliest and can you just fill in the gaps? I mean it seems a hell of a lot of holes left in this whole thing going to tax, debt structures and what have you. I thought you would have been a hell of a lot more progressed before you made an announcement like this.

Ian Johnston: I think we have a couple of obligations here. One obligation is when any decision is made, you have to make it known, which is a disclosure piece and you can't get to that without thinking through a lot of the work, that a lot of the work has to be done, therefore start to involve people outside of our business. You can't have those discussions without having got to stage one. So we have a pretty good idea of what has to be done, we're just not in a position to talk very much about it yet.

Michael Brown: (Aviva, Analyst) Alright, well can you give us a feel for the timetable, scheme documents and things like that?

Ian Johnston: Yes, I mean I think that's all going to become much more apparent as we go through the process.

Angus McKay: I'll just say Mike, the reason why we've put that sort of April timeframe in is that in the event that we do successfully navigate this, we would expect scheme documentation would be based on a half one set of results. So effectively work being done over the next six months and then rapidly moving into the technical requirements, assuming we get that far through.

Operator: Your next question is from [Kelvin Chen] of [Charter].

Kelvin Chen: (Charter, Analyst) Good morning gentlemen. The question is can you clarify what you mean by there'd be mergers? Does that mean are you looking to get a separate listing for the business and distribution or for you wine business to existing shareholders, or part of it or are you actually just looking to actually get the separate listing for the wine business and not distribute that to shareholders?

Ian Johnston: What we've announced is that we're looking to pursue two separate listings. That is just simply we have not formed a view on structure at this point in time, but do see that the end result will be two individual listings.

Operator: Another question from Stuart Jackson of JP Morgan.

Stuart Jackson: (JP Morgan, Analyst) In terms of the write down, you mentioned that non current assets would be written down. Can you just give me an indication of what sort of non current assets will be written down?

Angus McKay: Stuart, once we get beyond goodwill, we'll be looking at brands, we'll be looking at right across PP&E, vineyards, I mean the whole raft.

Stuart Jackson: (JP Morgan, Analyst) Not inventory?

Angus McKay: I would not expect inventory, no.

Operator: Another question from Greg Dring of Macquarie.

Greg Dring: (Macquarie, Analyst) Thank you, just wondered as well on the references to subject to and no decision, can you think of a circumstance where this demerger wouldn't proceed?

Ian Johnston: No, we've started at the moment, so we wouldn't be saying what we're saying, but I can't - we're going to find out more information as we go forward and we're going to have to deal with that.

Greg Dring: (Macquarie, Analyst) You don't expect to find out any information that would prevent the demerger going ahead?

Ian Johnston: Where we sit today, no we don’t. There's a lot of things we've got to work through as we have repeated.

Operator: Mr Ian Abbott from Goldman Sachs, your line is open for questions.

Ian Abbott: (Goldman Sachs, Analyst) Just had a question about the beer business. Normally you have a very strong June and we're coming to the end of the financial year. Are you expecting this June to be as strong as previous years?

Ian Johnston: I think we've said as much as we really should say about a trading update. Our beer business is where we want it to be and expect it to be.

Ian Abbott: (Goldman Sachs, Analyst) Great, thanks.

Operator: Thank you. Another question from Larry Gandler of Credit Suisse. Please ask your question.

Larry Gandler: (Credit Suisse, Analyst) So is it correct to assume that David Dearie will be running the wine business globally?

Ian Johnston: No, I think no decision has been made on - as the announcement said, these are some of the things we have to work through, both the management structures and the boards of each of the companies. That is not to say it won't be, but no decision has been made on that.

Operator: Another question from Nick Darby of Nomura. Please ask your question.

Nick Darby: (Nomura, Analyst) G'day Angus - just another question on the dividend. Just with the comment that the total amount received by shareholders is expected to be broadly in line with previous years. Is that a deferral of the final dividend for FY10 the first half '11, or should we be expecting some sort of capital return or something like that?

Angus McKay: We're not looking at capital returns. It is around a deferral of dividends.

Operator: Thank you. Another question from Paul Van Meurs of Deutsche Bank. Please ask your question.

Paul Van Meurs: (Deutsche Bank, Analyst) I just wanted to come back to the question of timing here and maybe I missed this up front. But not that long ago you were saying that the timing was not right, so I just wanted to get more specifics on why now is the appropriate time to demerge the wine business?

Ian Johnston: Our view is that the conditions remain challenging in global wine markets, but we are seeing signs of recovery. We believe that the transformation agenda is positioning the business well for future growth. We now see this is the time. We have the management in place and we made progress in everything we said we would do. This is now the time to take the next logical step.

Operator: Thank you. Another question from Martin Yule of Morgan Stanley. Please ask your question.

Martin Yule: (Morgan Stanley, Analyst) Following on from that question, we should assume that the operational separation therefore plus perhaps a slight improvement in global wine markets is the catalyst for this happening now. Is that a fair assessment?

Ian Johnston: It is all of that including having made the steps - having completed - everything we said we would do, which is partly about putting the management in place, getting the organisation right, getting the right strategic direction for the business, all of those things are contributing. As I say, having all of those things now in place this is logical for us.

Operator: Thank you. Another question from Stuart Jackson of JP Morgan. Please ask your question.

Stuart Jackson: (JP Morgan, Analyst) It is alright guys, it has been answered.

Operator: Thank you. Another question from David Errington of Merrill Lynch. Please ask your question.

David Errington: (Merrill Lynch, Analyst) Ian, not going through history here but we have been full circle multi-beverage and now complete segregation. What message will you be giving to your key customers, because I would imagine they must just be absolutely at their wits end as to what Fosters are going to come to them with?

Ian Johnston: I think our customers - when we talk to our customers and we have one on one conversations with them, they are actually quite positive about where we are. When they get feedback from other constituents, which is interesting, people being quite helpful to us as you would expect our competitors to be, from time to time they come back and say what is going on. I think that now we have stand alone, freestanding single operating units, the response we are getting back now is this is about time you have done this.

Yes I agree, we have got some performance improvement to do and our management teams are focused on that, in both wine and beer. But we are starting to see that come through. We are getting the people in to run the businesses who know how to do it day to day and I think we are on the right path there. Yes, there has been - yes we have gone through a cycle of multi-beverage and now we are unwinding that. Having done that just over a year ago, it takes time for this and we said at the time it will take time for this to gain trajectory and traction. I think we are there.

David Errington: (Merrill Lynch, Analyst) Are you going to sell this publicly as a progressive action, because I dare say listening to the questions people are thinking this is a rear guard action and there is a difference between the two?

Ian Johnston: That is not our motivation. We see this as the next logical step of what we started with the Strategic Wine Review.

Operator: Thank you. Another question from Nick Darby of Nomura. Please ask your question.

Nick Darby: (Nomura, Analyst) What level of debt can the wine earnings currently sustain?

Angus McKay: Sorry Nick, we have just got down to a part that we have not got to yet, that is around the ultimate structure so no comment just yet. I might just suggest though if we could, we seem to be running out of a bit of puff on questions, maybe four more questions. Then further we would be very happy to pick up through Ian Betts and the IR team, any individual questions to make sure that we do cover of all bases for you, but just four more.

Operator: Thank you. A question from Chris [Viol] of UBS. Please ask your question.

Chris Viol: (UBS, Analyst) Yeah, thanks very much. Just to be clear, there is no indication at this point on the relative capital structure or debt levels for the two entities, is that correct?

Ian Johnston: Correct.

Operator: Thank you. A question from Paul Ryan of Evans and Partners. Please ask your question.

Paul Ryan: (Evans and Partners, Analyst) Morning guys, a question for Ian and recognising it may not be your business going forward, but you have certainly been hands on in the beer business again recently until John's appointment. Can you talk about where you see the opportunities in the beer business with formal separation - obviously a lot of operational separation already undertaken? Where is that business going to go or where can it go?

Ian Johnston: I do not want to get into any trading updates and discussion on that score, but John Pollaers is now getting out there and starting to talk up where he sees his agenda. It is pretty well a continuation of what we have been doing but he will bring a much sharper focus being there day to day, running it in the way that we would expect senior management.

Operator: Thank you. Another question from Michael Brown of Aviva. Please ask your question.

Michael Brown: (Aviva, Analyst) Sorry, I'm right, thank you.

Operator: Thank you. Once again, if you wish to ask a question please press star followed by one on your telephone and wait for your name to be announced.

Ian Betts: If there are no more questions we might wrap the call up. If you have any follow up questions you have our usual contact details, which are also available at fostersgroup.com. Thank you everyone for joining us this morning.

End of Transcript