2011 AGM – Managing Director's Address

Terry Davis Group Managing Director

4 May 2011

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

It's a pleasure to be able to present to you again on another successful year for CCA. Given the tougher trading conditions and unseasonal weather patterns we faced right throughout 2010, it was a particularly commendable performance.

Notwithstanding the obvious challenges, we continued to grow our business in 2010.

The highlights included achieving double-digit earnings growth whilst at the same time increasing our market share.

We continued to invest in our business for the long-term with material investments in capacity and operational capability.

These investments continued to provide us with the platform that helped reduce our cost of doing business and allowed us to invest some of those lower costs back into the marketplace.

There is no doubt that our strategy of continuing to reinvest in our business and focusing on organic growth over the past six years has been validated by the strong returns we have delivered, and the double-digit earnings per share growth which has now been delivered in 9 out of the last 10 years.

More importantly for you, our shareholders, in that 10 year period, dividends have increased nearly 350% – from 14 cents per share in 2001 to 48.5 cents today.

So whilst we may not be able to grow our earnings by 10% every year, it has been a core objective in my time at CCA to consistently deliver results ahead of our peer group in both absolute and relative terms, and as you can see from the chart, we have been able to achieve this.

CCA's earnings per share has also performed strongly when compared to the broader market with a compound annual growth rate of 11.5% per annum since 2001 – some 40% higher than the 7.3% achieved by the average growth of ASX100 companies and the 6% per annum generated by Industrial stocks.

So with that in mind, I would like to give you some insight into the direction we expect to take the business over the next three years.

Firstly, we will retain our organic growth strategy focus as I still see many opportunities to grow and strengthen our business.

Our key priorities remain the same, and that is to...

- Continue to grow the core Australasian business;
- Continue to up-weight our investment levels in Indonesia; and
- Continue to leverage our sales and distribution infrastructure to grow our alcoholic beverages business.

The business model we apply is:

- To drive product and packaging innovation to deliver on our goal of a market leading beverage for every consumption occasion.
- To grow our brand demand and awareness through strong marketing and great in-market execution.
- To have more Coke fridges in the market so more of our brands are available to the consumer.
- And finally, to fund this increased level of investment from the cost savings we generate from our infrastructure and technology development.

I've spoken many times over the past few years about **Project Zero**, which continues to deliver cost savings as well as customer service improvements. We started this program five 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 dramatically improve our financial returns with these efficiency gains helping to grow our return on capital to a record 25% before tax by the end of last year.

Projects completed in the past 18 months include the automated distribution centres at Northmead and Eastern Creek in NSW, a complete overhaul of our company-wide technology platform to SAP, the optimisation of site layouts and the introduction of automated guided vehicles to our warehouses.

Cost savings from Project Zero are consistently delivering over 20% of Australia's earnings growth and we have a fully costed a pipeline of projects to implement over the next five years which we expect to contribute similar returns.

I'd now like to give you some further insights into CCA's operations. In this short video you'll see some of the great projects we have been working on to give you a better understanding of the direction we are taking the business.

DVD – OPERATIONAL HIGHLIGHTS

I hope that was a useful insight into how far the business has come in its service capability.

Now turning to our innovation program....

2010 was also another year of successful new product launches.

Mother energy drink grew to 24% of the total energy market from a standing start a few years ago, with new flavour extensions and multi-packing options.

Frozen Coke has increased in size from 20 million servings per annum some five years ago to over 100 million now driven by increased availability, and supported by a strong equipment service capability that we have developed within the business.

I'd now like to show you just some of the campaigns which highlight how we've been marketing some of our premium brands over the past 12 months.

DVD – TVCs

Without doubt, the most important driver of our success is the large pool of talented and committed people we have within CCA. At the beginning of the GFC in 2009, we pledged to our employees that we would not make any retrenchments because of the external economic environment. And the faith we've had in our people has been repaid – we have been recognised again this year on many fronts including customer service, sustainability and business excellence.

And here are some of those highlights...

DVD – PEOPLE

Thank you, and I hope you enjoyed seeing some of the initiatives we've created in the past 12 months.

Now moving on to the specific outlook for trading conditions for this year...

In Australia it would seem rising costs of food, rising interest costs, rising utilities costs, and uncertainty over government policies have all combined to really dent consumer sentiment, and in turn, consumer spending. By example, the Australian beer market has seen volume decline every month for the last 12 months. Now I have been in beverages for nearly 25 years, and have never seen this happen before. In addition, the impact of the devastating floods in Queensland and Victoria and Cyclone Yasi will impact overall Australian volumes and operating costs for the first half of 2011.

But given this backdrop, the Australian beverage business has performed well, achieving volume and revenue growth ahead of last year, with the business once again achieving solid improvements in market share.

And in New Zealand, economic conditions remained challenging with the devastation from the Christchurch earthquake in February negatively impacting consumer sentiment and demand, and we have also incurred some short-term increases in our operating costs as a result of having our Christchurch manufacturing operations severely damaged.

In Indonesia and PNG, the economic fundamentals continue to improve with good growth again expected in the region for the half.

In terms of the beer business, we are very pleased with the progress we are making. Our draught beer, particularly Peroni and Bluetongue, are achieving very strong growth. And our Jim Beam business continues to go from strength to strength and we have recently extended that relationship with Beam with a new 10 year distribution agreement.

As for SPC Ardmona, trading conditions continue to be difficult due to the high level of competition from cheaper imported and private label products, a result of the strong Australian dollar. The current strength of the dollar has severely limited the potential for SPCA's export business.

There is no doubt that for SPCA – and for other food manufacturers in this country – that it has always been very difficult to compete against cheap imported brands and low cost offerings of private label products. However, the continued rise in the Australian dollar is having a material impact on SPC's competitive position.

You all know private label and home brands – you may have bought them yourselves. Many are imported here from countries that may not have the same stringent quality standards or the same favourable labour conditions as Australia and are often dumped at prices below fair market value.

I believe that ultimately the Australian consumer will have to make a choice – support domestically produced brands or support imported private label products – which will come at the expense of Australian farmers and fruit and vegetable growers, and then in turn Australian food manufacturers.

As a consequence of the changed competitive position of SPCA, we have commenced a comprehensive review in order to determine the right size of the food business necessary to accommodate these structural changes that have occurred in the market for packaged fruit and vegetable products. This will occur over the next few months with an update given at our interim result in August.

This brings me to the very topical issue of a carbon tax and how it may impact on CCA. Firstly, we are very supportive of reducing carbon pollution and we believe we have a role to play in working to use the best possible mix of energy sources, while improving the energy efficiency of our manufacturing and distribution processes. Our enormous financial commitment to the self-manufacture of PET bottles is evidence of this.

However, to date there has been insufficient detail provided as to how the competitive position of Australian manufacturers will be impacted by either carbon pricing or a carbon tax.

We remain concerned that a carbon tax will impact negatively on Australian food and beverage manufacturers, which in turn will affect the people who can afford it least, being the farmers and the growers.

The cumulative effect of driving up manufacturing costs here in Australia means that we become even less competitive with imported goods and more reliant on importing food and beverages from countries which often do not have the same high standards of food safety and labour conditions as we do.

Industry must be provided with proper detail on a carbon price so that the correct framework can be put in place to ensure the long term future of Australian manufacturers as I believe Australia should be an early follower on the adoption of a carbon tax, not leading the globe.

In terms of our **trading outlook for** 2011, I believe that the operating performance in the year to date has been solid given the headwinds the business has faced and the cycling of a very strong first half result in 2010.

The devastating natural disasters, higher resin prices and the impact from the strengthening Australian dollar have all taken the gloss off what was a promising start to the year. As a result, CCA is targeting to achieve around 5% growth in net profit for the first half of 2011, before significant items, or an increase of around 6-7% before the impact of currency translation on offshore earnings.

We expect the impact to volume growth and higher operating costs due to the floods, the cyclone and the earthquake to take 1-2% off net profit growth for the half, with higher PET resin prices, which have risen over 40% in the last six months, taking around 2% off growth.

And while the stronger Australian dollar benefits the beverage business in the medium term by lowering the cost of US dollar denominated inputs, the first half result will lose 1-2% of growth from the translation of offshore earnings into Australian dollars.

Balanced against these negatives, some of which we hope are short-term, are the continuing delivery of efficiency, service and revenue gains from the strong pipeline of capital projects. 2011 is expected to be a peak year for capital expenditure, with expectations of an overall spend of around $375 million on capacity and capability improvements.

The pipeline of Project Zero initiatives is expected to extend through to 2015 with material savings and efficiency benefits coming through from 2012 onwards.

I hope you enjoyed the change in format this year and we hope we have been able to give you – our shareholders – a better insight into the organisation.

I would also like to join David and thank all of my Team for their efforts that have driven CCA's strong results over a sustained period of time and created the very strong financial and market position that your company is in today.

And in closing, while the results we delivered in 2010 were good, and we have had to deal with some one-off events this year, 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 being able to do that again in 2011.

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