

Coca-Cola Amatil 2008 Annual General Meeting
Question & Answer Transcript
15 May 2008

So ladies and gentlemen with that introduction and those formalities, I know bring us to the ordinary business of the day. Item 1 is to discuss the accounts. This is not an item that requires a vote and if any shareholder present wishes to speak to this item I'd ask them to come to one of the four microphones that are in the aisle ways. When I call upon you it'd be terrific if you could give us your name and then obviously your question. So I now call for discussion on the accounts for the year to the end of 2007.

David Magnuson, I'm a shareholder and representative of the Australian Shareholders Association. First of all chairman congratulations on a record profit for continuous operations this year and also congratulation to you personally for the award at the AC. Just one matter in relation to the accounts, the five year financial summary, given on page seven of the shareholder review, is extremely useful to retail shareholders. We ask the board to give consideration to including additional metrics, total shareholder return, return on equity, operating cash flow per share, to make this table even more useful.

I think that I can give you that commitment, I think it's a very good suggestion. I hope that shareholders found that table useful and suggestions like that are very useful, thank you. And we will follow that up. Other questions or comments? Sir would you like to go to the microphone.

My name is Brian Johnson and I'm a proxy for the family super fund and representing my wife today. And I might also add we came into Coca Cola via our support for a long term of SPC. There are a number of initiatives which I'm very happy with and your results seem to be a very good thing too. A couple of things on the alcohol side. I'm afraid the use of the term RTD or ready to drink is trying to hide what is an extremely immoral process. I would assume that the vast majority of sales are made to under 25's and I just wonder where the lower cut off is. It's a bit like trying to cut out smoking in the under 12's. I think the Government has to be worked with to make sure that this iniquitous pseudo adult drink is wound up. It's a real thorn in my side to say, here is a responsible company selling flavoured alcohol. So that was one. Part two also on the subject of alcohol, you were talking earlier about reducing the importation or fighting against imported drinks by a local manufacture. Presumably Grolsch and Miller etcetera are just under license is that right, so they're manufactured in Australia? Or will be manufactured in Australia? Interest cover, wonderful. Managing ??? price and volume is looking healthy. So the fees to Coca Cola International are they, where are they listed?

It's under related parties, it's there very clearly.

Right. So the main interest really is to – you're handling the real alcoholic drinks which I use occasionally but this ready to drink thing is purely to me, targeted at the under 20's and I think there wouldn't be many over 25 drinking it. Thank you Mr Chairman.

Thank you Mr Johnson. You raised, well I think you raised two questions, I think we probably, the other one is clearly set out, the related party thing, at length. Dealing firstly with the RTDs, I will ask Terry to also make a comment but let me start by saying, we are a responsible company, we see ourselves as such and we believe very much in choice. We have a wide variety of products and our particular products in the alcohol field, as Terry said in his address, are aimed at the premier end of the range. That means our average age of user of those product is actually not the young people, in fact the figures I were given is it's 32 plus. For me 32 year olds are young but they're much older than what you're talking about. Jim Bean Cola for example, that's the age drink of our people. Because we focus on that it's a discriminatory market, it's not aimed at the very young and we feel very comfortable with that. I don't know whether you want to say anything further about that Terry.

No but I think that you have to acknowledge consumers, that yes there is an issue right across the alcoholic sector and it's only companies like us that take responsible positions and we can make a contribution to that. And obviously that's a very important part of our program. But one of the reasons for the successes of alcoholic ready to drink, it's actually been portion control and you've seen by the recent increase in the tax from the Government, will actually push people back to buying bottles of spirits and mixing them, and we think that's a bad thing to do. So that's something we'll be having discussions with the Government on. In terms, I'll just answer the question in terms of Grolsch and Peroni, they're currently imported. My comments primarily were about imported food brands, there's not a lot of imported beverages coming into Australia at the moment, there's some and that's a concern to us and we haven't made a decision yet, how much of the imported brands will be brewed under licence but you'll probably note that most of the imported brands in Australia, Heineken, Becks, Carlsberg, they're all brewed under licence anyway so that would be something that we'd be favourably considering. I announced the building of the brewery, that will be on stream in 2010 and that will be around the time when we make that sort of decision. Thank you.

Thanks Mr Johnson. Any other questions on the accounts?

Alright well that's the accounts and if I may we'll take the accounts and the reports of the directors and auditors for the year ended 31st December 2007 as received.

We now move to Resolution No. 2. This is the adoption of the remuneration report for the year ended 31st December 2007. The resolution is set out in your notice of meeting. This is a non binding resolution but nevertheless one that we need to vote on and I would ask if anyone would like to speak to or for the resolution or in respect of the remuneration report, if they could just come to the microphones.

Yes Mr Chairman. David Magnuson again. Two matters of criticism Chairman. Firstly the new executive retention share plan. We believe this a retrograde step in that by converting a portion of shares that would have been in part, would be part of the long term incentive plan to the no hurdle executive retention plan is in effect a defacto increase in base remuneration albeit in shares not cash and a decrease in the at risk portion of remuneration package. And the second matter, it is shown on page 38, note 3 of the Annual Report, discloses that a once off cash incentive award for the sale of the South Korean business was paid to 16 executives. Commentators and ourselves have welcomed this sale as a positive outcome for our company but was an incentive payment really needed or should it be regarded as part of the job? Thank you Chairman.

Thank you Mr Magnuson. Firstly in relation to the executive retention payments. It's not quite right to say that there was no hurdle. Those of you who've had a look at it will know that there was actually a very large hurdle. The hurdle was that you had to stay three years to get it. The reason that we decided to do that was that we were going through a period, you may recall, of some changes in companies that were competing with us, there was a lot of consolidation, sales of companies. We have a very good team at this company, very well trained and very well motivated, but on the other hand everybody's human. Lots of them were getting offers from outside, we're a very good training ground and we wanted to make sure that they were incentivated to stay with us. We decided as a board, and I might say the chief executive did not participate in the awards and therefore was quite independent and able to help us decide whether this was the right way to go. We decided it was important for us to take some of the at risk portion and make it at risk in relation to people staying. I have to say we're quite proud of what we did because our excellent team stayed with us and I'm not saying that's the only reason they stayed with us, but I think that we can prove that basically it did the trick. We are very aware of the need for hurdles and as you'll see from our remuneration report they're inherent in a large part of the at risk portion of what people are paid. But the board felt this was important at the time and we did so.

The second question that Mr Magnuson raised is the question of an additional bonus for the sale of the Korean business. Let me say this, that at the beginning of the procedure, we took a view which is the one suggested as part of the day to day business of our executives. But let me tell you, what they were doing was extraordinary. Not only were they working 24/7 on a very difficult transaction and I've been in a lot over the years, and this was a very difficult one. 24/7 they were working many of them, sitting on planes, sitting in Korea, a long way from everywhere. And we decided that it was necessary to reward because we are a company that recognises excellence. And so we determined, consistent I might say, with what was done when we sold the Philippines many years ago, to take some of what was available to us, and give it to them as a bonus for a job well done. I should emphasise it was absolutely hurdle based, there would have been nothing if we hadn't, not only sold the business, but sold it at a price that we knew was a good one for the operations of this company. So we actually hold our head up high on this, we felt it was the right thing, it was instigated by our remuneration committee and very much endorsed by the Board.

Any other questions on the remuneration report?

Alright well ladies and gentlemen, there being no further questions on that let me announce the proxies. Proxies have been received in relation to the resolution as follows. In favour 502,645,739. Undirected and as I say we will vote them in favour of the resolution, 1,685,765. And against 25,345,858. I would ask you as I mentioned, a poll is going to be taken on all the resolutions. You may wish, it's up to you, to indicate on your card now, although it won't be collected until later, how you wish to vote for, against or abstain in relation to this resolution number 2.

Ladies and gentlemen, that brings us to the next item of business which is the election of directors. Mr King and Mr Meiklejohn retire from the board by rotation and being eligible offer themselves for re-election. Ms Brenner was appointed a director of the company on the 2nd April 2008 and in accordance with the constitution offers herself for re-election. Before considering each individual director I'd like to make some brief remarks about the composition of the board.

Presently there are eight non executive directors and one executive director on our board. Five of the directors live here in Sydney, two live in Melbourne and two live overseas. As a board we're conscious of the need to have an appropriate range of skills and a broad mix of business talents, outlooks and backgrounds. I consider the composition balance of the board now to be outstanding. All your directors have extensive business experience, both in their chosen field of endeavour and in business generally. We now also, as you will have noted, have a good mix of gender and age. As previously advised this year we included in the notice of meeting full CV's for each of the directors standing for re-election today. So that in considering your vote, you'd fully understand the depth of their experience and also their backgrounds. Each director standing for election today is available to answer questions you may have of them and if you wish to ask the questions I'd ask you to direct them through me.

So if we go to the first of the resolutions – Wal King who joined our board in February 2002 is up for re-election today. Details of his experience and qualifications, as I said, are set out in the notice of meeting. We consider Mr King to be an independent non executive director. I want to compliment Wal King on his six years service here and to emphasise with you that he's an integral part of our board. We find him accessible and very helpful and to be quite blunt, an excellent business person in some of the difficult decisions we've had to make over the last few years. Let me now open up for questions. If there are any questions or comment on the resolution which is, that Mr Wallace McArthur King AO be re-elected as a director.

Well ladies and gentlemen there being no questions or comments let me tell you about the proxies. Proxies have been received in respect of this resolution as follows. 523,200,250 in favour. Undirected, which would be voted in favour, 1,666,628. And against, 5,945,138. Just reminding you we'll collect the papers at the end because a poll will be done on this resolution and it's up to you, you may wish to make your mark on the paper as to how you wish to vote at this time.

We now move to the second of the resolutions in relation to directors. That is the resolution relating to David Meiklejohn. David, as I mentioned earlier, joined the board in February 2005. Details of his experience and qualifications are in the Annual Report and also as I said, in the notice of meeting. The Board considers Mr Meiklejohn to be an independent, non executive director. Does any shareholder wish to speak to the resolution or comment on it?

There being no speakers on this resolution, I put the resolution which is that Mr David Edward Meiklejohn be re-elected as a director and I would ask you to follow the same procedure as you wish, as a poll has been called in respect of this resolution.

This brings us to the third of the – oh sorry forgive me, I should inform you of the proxies to allow you to consider your vote. There are 524,650,564 proxies in favour. Undirected which will be voted in favour 1,666,628 and against 4,498,509.

Ladies and gentlemen that brings us to the third and last resolution in respect of the election, or re-election of directors. And this is the resolution in relation to Catherine Brenner. Catherine was appointed a director on the 2nd April 2008. I've mentioned and made some comments about her in my address earlier and as mentioned, if you look at the notice of meeting and in the Annual Report, you will find further details concerning her background and her qualifications. We have assessed Ms Brenner to be an independent non executive director. A question has been raised with us that the Board needs more directors with fast moving consumer goods experience. I want to make it clear that we actually disagree with this.

The two representatives from the Coca Cola company have that experience in spades. Our chief executive officer also is extremely experienced in that area. Two of our other directors have experience in consumer businesses as executives and a few of us have been on this board and involved in this group for quite some time and have gained more than a passing involvement in that area of expertise. We believe that Catherine Brenner brings a multitude of benefits to this board and I have to say quietly, we had a meeting yesterday which was the first committee meeting that she attended and I think the Board was absolutely unanimously in our view that we'd made a very good decision here. I now open up for discussion and any comments that anybody wishes to make in respect of the re-election of Catherine Brenner.

There being no comments that people wish to make before filling in, let me tell you about the proxies. Proxies have been received in respect of this resolution as follows. 528,862,776 in favour. 1,747,113 undirected and therefore will be voted in favour. And against, 197,769. You may wish as a poll is being called to adopt the same stance as you did previously in respect of whether you wish to mark your answer on your card or whether you wish to leave it for later.

Ladies and gentlemen, the next two items are items of special business. Item 4 of the notice of meeting is a proposal to increase the maximum aggregate amount that can be paid to directors for their fees from \$1,500,000 per annum in aggregate to \$2,000,000 in aggregate. Directors' fees are reviewed annually by the Board's compensation committee based on advice from external consultants. The directors' board fees are then put to the board and resolved upon with suitable abstentions. The last increase in the aggregate level was set by shareholders in 2005, three years ago. The proposed increase in the aggregate limit will provide the flexibility to increase fees over time as appropriate. The increase also reflects an increase in the number of non-executive directors on the Board although this number may change from time to time. Ms Brenner, as I mentioned earlier, became an additional director in April of this year.

Now ladies and gentlemen, you're all experienced. It is emphasized that this is a maximum limit. It does not indicate that fees will be increased immediately or that any one of us will be lucky enough to get the whole lot. I won't read the resolution, it's there in the notice of meeting but would any shareholder wish to speak or comment on the resolution?

There being no comment, I should mention that on this particular resolution, the non executive directors and their associates will not vote and proxies have been received in respect of it as follows. 505,817,954 in favour. Undirected which will be voted in favour, 1,553,284. And against, 22,311,576. Again a poll is being called on this matter and you may wish to record your vote as we go along.

This brings us to the final resolution for today. Number 5 which is participation by Mr Terry Davis, our chief executive officer, in the 2008 offer under the CCA long term incentive share plan. This was introduced six years ago to replace a cash based long term incentive plan. Now as the acquisition by directors of securities under an employee incentive scheme requires shareholder approval under the Australian Securities Exchange Listing Rules, that is why we have to put it to you and we're obviously pleased to do so as it can effect the share capital of this company.

Now the terms of Mr Davis' proposed participation in the 2008-2010 long term incentive share plan are described in the notice of meeting. The plan like the 2007 plan includes dual hurdles, one of which makes participation in the plan by all applicable executives including Mr Davis, subject to measurement of the company's average annual growth in earnings per share, that's the EPS.

The other performance hurdle is in the change in total shareholder return. Mr Davis and his associates will not vote on this resolution. And I should add that it's important for us to attract and retain strong talent in an increasingly competitive international labour market. We believe that Terry Davis has and is doing an excellent job for this company. We've sought to structure his earnings so that he has a significant portion of his reward based upon success. In doing so we believe that links him with what the return is to shareholders. Your passing this resolution will ensure that that remuneration structure continues. We as non-executive directors strongly support the resolution and without reading it I now open it up to discussion and invite questions or comments from the floor. Mr Johnson.

Look it's not really directly related to the resolution under discussion but I just would like to comment that with almost 70% of the shares issued voting in this referendum, these resolutions, I think it says something about the company's interest in its shareholders. This is different from about 10 years ago. But be thanked.

Well Mr Johnson I have to say, that's a very good observation. You've stolen one of my lines from later. But it's actually not different from 10 years ago, it's different from three years ago. I don't know whether it is a compliment to us, I think it may be a compliment to our shareholders. Shareholders today, big and small, are beginning to vote. I think all the board compliment them and believe in their right to do so. And this is an amazing response. Obviously 30% is the Coca Cola company but you're quite right, the very big turnout in terms of proxies on these resolutions.

Another issue which – under the directors' fees. The two non-executive directors, so called, who are presumably being paid by Coca Cola in the United States, so does any of that 1.5 or \$2m go to those people or are they separately remunerated from this particular 1.5, well now \$2m?

Yes I can explain it. Firstly, of course what happens between them and the Coca Cola company is not our involvement. But if you have a look at page 37 of the report, you will see that Mr Furnand received last year \$153,000 and Mr Kelly \$140,900, it's written there. We believe strongly we pay for our directors, they must have loyalty to us, they are directors of this company. It's up to them whether the company over there says we want that money or you take it off your pay, that's up to them. But yes as part of the \$1.5m that includes the payments to them. They are equal to other directors.

So they are, to me, non-executive, but also probably only half independent.

Well in terms of independence, we regard them as non independent. But this company you'll be pleased as I mentioned, has a very large contingent of independent directors.

Alright are there any other comments? Sir?

Thank you Mr Chairman. Alec Wagsall's my name. I've got nothing at all against the resolution. But I just thought as an aside, the Financial Review pointed out this morning that Ellis Flint from Santos walks away with \$115m, having regard to the shares options and his compensation. \$115m.

Well if I can say, please don't give any ideas to Mr Davis. But in fairness to that, and I'm not here as his advocate, generally when people in the Australian scene and I can't comment on the American one, walk away with such large sums it is because of appreciation in the shares and usually as a shareholder, I'm fairly happy about that because my shares have gone up. But I'm afraid, sad to say you can work it out, Mr Davis is going to have to be here a long time to get that sort of money. Any other comments?

Alright there being none, if I may I'll just read out the proxies. 523,619,367 in favour. Undirected which will be voted in favour, 1,600,523. And against, 4,301,047.

Ladies and gentlemen, I'd ask if you could just complete your voting forms, deciding whether you're voting for, against or you're abstaining. If you have any questions or don't have a pen, or whatever, there are attendants who are now going to walk around the room and please ask them if you have any questions. And I'm now going to call upon representatives from Link Market Services to come around and collect your completed voting cards. And we'll just have a short recess while we do that and then I'll be inviting you for any general comments.

Well ladies and gentlemen, while the last votes are coming in, I'd now invite you if there are any general comments that anybody wishes to make, if you would come to the microphone and identify yourself.

Well there being no general comments what I will do is I will close the meeting, we will announce as I said previously the polls, you can probably guess the way they go by the proxies. We will announce that to the Stock Exchange and on our website.

Can I thank you all for attending. AGM's are a very important part of life for a corporation particularly for retail shareholders. We welcome you here. The directors will be outside in a few minutes if you have any comments to make and most importantly some of our product is out there. Please try it. If you don't like it please tell the staff not us. If you do like it you're welcome to tell any director. I close this meeting and I thank you all for attending.