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FOSTER'S ANNOUNCES THE OUTCOMES FROM ITS WINE REVIEW

- Wine business to be retained and reshaped over time
- Australian multi-beverage business to be separated into Wine and Beer
- Global supply operations to be integrated with demand regions
- New and experienced leadership team to be appointed
- Extensive operational performance improvement program to be implemented
- Australian tail brand portfolio to be rationalised
- Non-core vineyards to be divested and winery network optimised
- Over $100 million per annum in cost savings in F11

Foster's Group Limited (Foster's) today announced the outcomes from a comprehensive strategic and operational review of its Global Wine business (the Review).

Summary of key outcomes from the Review

- Foster's to retain and reshape its Wine business and implement significant organisational and operational change to improve performance
- Australian Wine and Beer, Cider & Spirits (BCS) divisions to be structurally separated to provide greater management focus, organisational simplicity, financial transparency and performance accountability
- Global supply operations to be integrated with respective demand regions to create end-to-end business units comprising sales, marketing, supply and functional support
- New and experienced operational leadership team to pursue performance improvement initiatives identified by the Review
  - Alex Stevens appointed Managing Director of Australian BCS
  - New Managing Directors of Australian Wine and Americas Wine to be appointed in the near future
  - Peter Jackson to continue as Managing Director of EMEA Wine
- Sales force numbers to be increased in Australia to capture opportunities in both Wine and BCS
- Overhead, procurement and manufacturing efficiency programs to be pursued to aggressively reduce costs
- Wine brand portfolio to be reshaped over time to focus on attractive segments starting with rationalisation of the Australian tail brand portfolio
- 36 non-core vineyards to be sold and 3 wineries to be closed, reconfigured or consolidated in Australia and California

- Overall operational benefits expected to exceed $100 million per annum in net pre-tax cost savings in F11 after allowing for additional investment in sales force numbers and other costs
- Total asset write downs and restructuring charges in the range of $330-415 million to be brought to account in H2 F09 ($130-165 million cash and $200-250 million non-cash) and approximately $60 million per annum of overheads to be transferred from Australian BCS to Wine resulting from structural separation

Commenting on the Review, Foster's Chairman, David Crawford said:

> "As part of the Review, the Foster's Board has considered the full range of ownership, organisational and operational options. In light of the operational opportunities available to improve performance, the Board has determined that shareholder value will be maximised by retaining the Wine business. The current difficult conditions in debt and equity markets mean this is not the appropriate time to sell or demerge Foster's Wine business.
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> "The performance of our Wine business has been unsatisfactory. In large part this has been the product of poor execution in the Americas and pursuing a multi-beverage model in Australia. We are modifying our strategy and dramatically changing how we operate the Wine business by installing a new management team under the leadership of Ian Johnston (CEO)".

Background on the Review

The Review was initiated in April 2008 as a result of unsatisfactory performance following the acquisitions of Beringer and Southcorp, a period which had seen quality of earnings deteriorate, competitive positions weaken and Foster's failing to achieve required returns from its investment in Wine.

The Foster's Board has overseen the work conducted internally by management through the new CEO, Ian Johnston. Specialist input was obtained from external advisors and consultants where required, and the analysis and overall findings have been reviewed independently by Gresham Advisory, which has advised the Board.

The Review has been extensive and has included a comprehensive study of wine industry structure, business strategy, organisational design, operational capabilities and efficiencies, and economic and financial performance. The Review considered the attractiveness and feasibility of a wide range of organic and inorganic options available to Foster's.

Assessment of the Wine industry and Foster's Wine Business

The detailed analysis and findings of the Review are commercially sensitive, however at a high-level the Review has concluded that while the global Wine industry is structurally challenging it has robust growth dynamics and attractive market segments.

The Review concluded that Foster's business is reasonably well positioned but has failed to operate effectively in an industry where execution is particularly critical to success.

The wine industry structure is challenged by several factors including low barriers to entry, viticulture cycles, high asset intensity, increasing customer concentration, high levels of private participation and foreign exchange dynamics.

Such challenges are mitigated to an extent by good long term growth prospects in most new world wine markets. In particular, the US market has strong underlying growth potential driven by favourable demographics that will continue to increase wine penetration and consumption over time. The Australian market remains in growth as well as other attractive developed markets. In addition, certain emerging markets will provide longer term opportunities to sustain growth.

Within the wine industry, Foster's is reasonably well positioned with its business characterised as follows:

- Price points: Strong exposure in premium segments and well positioned in attractive luxury segments albeit underweight in the US. Minimal exposure to unattractive commercial segments (i.e. cask and jug)
- Varietals: Overweight in traditional, heavier style varietals with the opportunity to increase exposure to lighter style and higher growth varietals
- Country of origin: Overweight in the Australian export category, relatively balanced in the US domestic category while underweight in smaller, faster growing countries of origin
- Markets: Well positioned in developed new world markets and emerging markets, particularly Asia
- Channels: Strong exposure to retail while underweight in on-premise and direct channels
- Brand portfolio: Strong brand portfolio in premium wine versus competitors with a degree of overlap in Australian global brands
- Production footprint: Well configured, utilised and outsourced, except for overweight position in lower quality vineyards mainly in Australia and California's Central Coast
- Operational synergies: Wine and BCS provide synergy opportunities in distribution in Australia and back office overheads but limited overall

Foster's CEO Ian Johnston said:

"An encouraging outcome from the Review is that most major wine markets exhibit solid long term growth characteristics and the Foster's Wine business is well positioned to pursue and grow its involvement in the attractive segments of those markets.

"However, the Review has identified that poor execution and an ineffective organisational structure and culture have adversely impacted operating performance. The business has failed to keep pace with a dynamic market where execution is critical. Innovation rates have been below market and the portfolio has not been sufficiently adapted over time to take advantage of growth segments and mitigate exposures within the markets in which we operate."

Structural considerations

The Review identified that, other than in distribution and back office costs, the multi-beverage model adopted in Australia after the Southcorp acquisition has generally been an ineffective go-to-market model for Foster's combined portfolio. While steps had been made to increase the number of specialised Wine resources within the current multi-beverage sales force, a structural change is required to maximise performance.

Shareholder value will be improved by separating Wine and BCS in Australia. This is expected to deliver improvements in sales force effectiveness, wine product knowledge, customer coverage and service, promotional effectiveness, innovation rates and employee engagement. Multi-beverage benefits in distribution and back office support will be preserved.

The front-end structural reorganisation will involve:

- Separating Wine and BCS sales and marketing
- Providing channel focus within the sales force (i.e. on and off premise)
- Centralising sales planning and operations and focusing field sales teams on execution
- Increasing sales force numbers while reducing sales, marketing and functional support overheads
- BCS reverting to the "Carlton & United Breweries" identity
- Wine to move forward under a new identity to be determined
- Appointing new experienced leadership for Australian Wine, Americas Wine and Australian BCS

Foster's will be investing in additional sales force numbers in Australia. In aggregate, the Australian Wine and BCS sales forces will increase by approximately 25% with substantially more dedicated sales representatives in Wine.

Global supply operations will be integrated with the demand regions over time to create end-to-end autonomous business units. Key changes include:

- Australian wine supply will be integrated with Australian Wine
- Californian wine supply will be integrated with Americas Wine
- Global BCS supply will be integrated with Australian BCS
- Planning, procurement, distribution and certain other functions will continue to be shared globally by Wine and BCS where appropriate

> "To best support the operational improvements, and to increase focus, simplicity, transparency and accountability, the Australian Wine and BCS businesses will be managed independently" Mr Johnston said.

Foster's has concluded that it is not the appropriate time to restructure ownership of the Wine business, whether through a full or partial sale or demerger. Detailed consideration of all ownership and structural options was undertaken as part of the Review. Key considerations in the decision to retain the Wine business at this time included the:

- Need to address poor operational performance in the business
- Opportunity to pursue portfolio reshaping opportunities over time
- Current poor state of capital markets (debt and equity) and deteriorating economic conditions

It has been determined that shareholder value will be maximised by focusing on implementing the organisational and operational initiatives identified by the Review. These factors argue that a large scale and premature sale of Wine assets would remove shareholders' ability to participate in future value creation.

Future strategy and portfolio of initiatives

Foster's future strategy will focus on implementing the Review outcomes within a broader transformation program focused on improving growth, efficiency and capability across the Group. A summary of the key initiatives to be pursued is set out below:

1. Growth – *"drive profitable growth"*

    - Separate Australian Wine and BCS, adopt a channel-led model, increase sales force numbers and refocus the sales team on execution, enabling the removal of large numbers of administration roles. These cost reduction opportunities materially exceed the cost of increasing the sales force
    - Improve performance in the Americas through a sales excellence program to increase customer facing time and new disciplines to better leverage promotional programs. A similar program is already underway in Australia
    - Increase emphasis on Asia to focus on the growth potential in the region. Fiji and Samoa BCS will be aligned with Australian BCS and New Zealand with Australian Wine
    - Place high priority on innovation, leveraging market insight capability and superior wine making skills
    - Focus on key Wine brands, supported by differentiated boutique brands streamed to appropriate channels. A number of tail brands will be rationalised and the Wine business will complete its withdrawal from the cask segment in Australia

- Implement go-to-market strategies with integrated portfolio and channel initiatives, developed to leverage retailer and distributor resources
- Capture direct route-to-market opportunities where appropriate, such as in the Nordics where Foster's will assume direct responsibility for distribution

2. Efficiency – *"be the lowest cost operator"*

- Integrate supply operations with demand regions to create end-to-end business units with increased accountability
- Reduce input costs through various strategic sourcing initiatives locally and through leveraging Foster's global scale and more disciplined buying practices
- Improve manufacturing efficiencies, particularly in conversion and packaging, through Continuous Improvement programs
- Cease low value added activities and increase simplicity of the organisation structure to enable the elimination of overhead roles which do not add value to direct selling and marketing processes
- Implement a single ERP system across the Group to facilitate business process improvement and organisational streamlining. Systems implementation has commenced and is expected to be completed in F11
- Exit lower quality, non-core vineyards in Australia and California
- Optimise winery production footprint by closing Denman in the Hunter Valley, reconfiguring St Helena in the Napa Valley and consolidating Taz with Meridian in California's Central Coast
- Overall it is expected that approximately 300 further positions will be made redundant, some during F09 and others as systems and process change permit

3. Capability – *"build a high-performance culture"*

- New senior management leadership in Australia and Americas within the separate Wine divisional structure and increased accountability
- Transform Foster's into a high-performance culture and better leverage the operational capabilities within the Company
- Increase focus on succession planning to develop the next generation of leadership

A detailed implementation timetable has been developed during the course of the Review indicating that the initiatives will be delivered over the next 18 months.

Management appointments

Foster's will immediately restructure its divisional reporting structure consistent with the separation of Australian Wine and BCS, and accordingly will make new appointments to key management positions.

Alex Stevens has today been appointed Managing Director of Australian BCS. His executive background includes 11 years with PepsiCo the last 3 being CEO, PepsiCo Australia & New Zealand (refer to attached biography for more information).

In the near future, Foster's intends to appoint a new Managing Director for the Australian Wine business and a new Managing Director for the Americas Wine business.

Peter Jackson will continue as Managing Director of the EMEA Wine business.

Scott Weiss, who has led the America's Wine business since the Southcorp acquisition, will be leaving Foster's.

The Australian Wine and BCS business was previously managed by Jamie Odell who left the Group in November 2008.

Financial impacts

Overhead, procurement and manufacturing efficiency programs are expected to deliver net pre-tax cost savings exceeding $100 million per annum in F11. In addition, the wine market opportunities identified by the Review have the potential to deliver additional EBITS over the longer term.

The split of benefits between Wine and BCS is relatively equal and the phasing through to F11 is progressive. The benefits are net of the operating cost impact of other initiatives such as sales force investment, efficiency programs, ERP systems implementation, vineyard divestments and winery optimisation.

The separation of the Wine business and associated adjustment to overhead allocations will result in an increase in Australian Wine overhead costs relative to overheads recognised under the previous multi-beverage model. Australian Wine overheads will increase by an estimated $60 million per annum, and Australian BCS overheads will reduce by a similar amount (i.e. BCS EBITS will increase and Wine EBITS will reduce). Such overhead changes will have a partial impact in F09 and almost full impact in F10 following expected completion of the reorganisation by 30 September 2009. This change has arisen as a result of the detailed work undertaken in the Wine Review to understand the costs of running the Australian Wine business under the new organisational model.

Going forward, Foster's will report the financial results of Wine and BCS separately.

The Australian Wine tail brands to be divested and/or discontinued comprise 37 brands in total which generated $60 million in net sales revenue during the year ended 31 December 2008 and had a book value of $53 million at 31 December 2008.

The Australian and Californian vineyards to be divested comprise 36 vineyards and c.5,000 planted hectares in total with a book value of $243 million at 31 December 2008.

As a result of these decisions, one off costs and write downs associated with implementation of the Review findings are expected to be in the range of $330-415 million in F09 ($130-165 million cash and $200-250 million non-cash). An updated estimate of these amounts will be brought to account in Foster's full year results for F09.

A detailed assessment of the carrying value of Foster's Wine assets has been undertaken as part of the Review. No further impairment charges were identified in addition to the non-cash write downs noted above.

Commenting on the financial impacts, Mr Johnston said:

> "While it is disappointing that Foster's is to incur these additional charges, the Review has provided the platform to materially improve the performance and returns of the Wine business. This will ensure that the value of the Wine business is maximised for Foster's shareholders under all future scenarios."

The financial impacts of the Review are not expected to have any adverse impact on Foster's financial position or credit rating.

An Investor Presentation regarding the Review will be held today and will be available electronically through the Australian Stock Exchange.

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ALEX STEVENS APPOINTMENT

Foster's has appointed Alex Stevens to the newly created role of Managing Director, Carlton & United Breweries, reporting to CEO Ian Johnston.

Alex's most recent Executive experience has been with PepsiCo Inc., where he spent 12 years in both Australia and the US.

His last engagement was as CEO of PepsiCo Australia, New Zealand and the Pacific Islands, with responsibilities for all Beverage, Food and Snack Units within those Regions. These comprised Pepsi Beverages Australia and Pacific, The Smith's Snackfood Company, Bluebird Snackfoods New Zealand and Sakata Rice Snacks.

Over his career with PepsiCo Alex has held several senior roles in both Australia and the US, in the disciplines of Marketing, Sales, Finance, Strategy and IT.

Before joining PepsiCo Australia, Alex was an Executive within the Corporate Finance Division of Ord Minnett (now JP Morgan) and for a number of years was a quantitative equity analyst at Dominguez Barry Samuel Montague (now UBS).

He has previously been a member of the Board of Perpetual Ltd, a member of the University of NSW Medical Faculty Advisory Board and also Chairman of Rosella Brands Group, an unlisted beverage and food entity.

Alex joins Foster's from 17 February 2009.