

Managing Director's Review



2007 has been a successful year for CCA, marked by the delivery on all of the primary business drivers that were identified in our strategic review in April 2007.

These primary business drivers included:

1. Grow CCA's share of non-alcoholic beverages by continued expansion of the product portfolio;
2. Broaden the beverage portfolio into the highly profitable alcoholic beverages market in Australia and New Zealand;
3. Actively review ownership options for the South Korean business, while maintaining its commitment to Indonesia, PNG and Fiji; and
4. Undertake a major IT infrastructure development to re-engineer business processes and create a world-class operating system.

We have continued to expand our non-alcoholic beverage portfolio with a number of successful new product launches, including Goulburn Valley premium juice, smoothies and fresh flavoured milk, the Kirks Sugar Free range, Pumped flavoured water and new Powerade Isotonic flavours.

In alcohol, we launched our three core premium beers in New Zealand in October. Miller Chill was launched in Australia in November, the first significant beer innovation in Australia for many years, and we also successfully launched Jim Beam & Zero Sugar Cola in September.

CCA's rapidly-growing alcohol business generated over \$300 million in revenue¹ in 2007 from the sale of Pacific Beverages' premium beers and the Maxxium spirits portfolio. The business also delivered solid incremental earnings to CCA including contract manufacturing revenue on the Jim Beam alcoholic ready-to-drink range, various Maxxium sales incentives and the premium beer sales by Pacific Beverages. In addition, CCA's overheads were spread over a larger revenue base.

Additional capital investment of approximately \$14 million in Indonesia in the last two years in new can, PET and hot-fill capacity continued to drive profitable growth in the modern food store channel.

The integration of CCA's Australian and New Zealand beverage businesses delivered savings in 2007 of over \$10 million from improved revenue management initiatives and procurement savings. Further opportunities have been identified in raw materials and indirect expenses procurement, joint new product development and the sharing of best-practice technical innovation, all of which will be accelerated in 2008.

CCA's investment in a new technology platform across Australia and New Zealand is expected to deliver many process and operating efficiencies. The development, with implementation commencing later in 2008, will be phased in over a number of years and is expected to materially lower CCA's cost of doing business and deliver operating efficiency gains as the platform for the introduction of shared services across the CCA group.

Operations Review

Australia achieved an excellent result with EBIT growth of 12.3% on strong trading revenue and volume growth of 9.1% and 2.6% respectively. The result was achieved by the continued focus on new product and package innovation and price realisation, and on initial contribution from the emerging alcohol business. CCA's continued investment in new higher value premium products and packages such as Brand Coke in 385ml glass and slim line cans, Powerade Isotonic, and Pumped flavoured water delivered strong growth for the year as consumers responded positively to CCA's increased range of premium brand and pack combinations.

New Zealand & Fiji recovered from a difficult 2006 trading year to deliver a record EBIT growth of 19.5% on revenue growth of 9.1% and volume growth of 1.5%. This was an excellent result given the business was cycling the successful launch of Coca-Cola Zero in New Zealand in the first half of 2006.

Indonesia & PNG – The region more than doubled EBIT to \$36.8 million, with strong volume growth of 7.2% and revenue growth of 4.5% as the economic recovery in Indonesia that commenced in the second half of 2006 continued throughout 2007.

Food & Services delivered EBIT growth of 5.1% on revenue growth of 5.5%, which was a solid result and was achieved despite the continuing impact on SPC Ardmona of the drought, increased commodity prices and increased competition from imported packaged fruit and vegetable products.

Pacific Beverages JV – Pacific Beverages achieved strong penetration with its premium beer brands particularly Peroni Nastro Azzurro and Miller Genuine Draft, achieving volume growth of more than 150% over 2006 when the brands were under other distribution arrangements.

¹ Includes Maxxium revenue which is not reported in CCA accounts

Disposal of the South Korean Business

CCA completed the sale of its South Korean business to LG Household & Health Care Ltd (LGH&H) on 24 October 2007 for \$520 million including net debt. The final loss on disposal after income tax expense was \$49.4 million, or \$46.3 million on a pre tax basis. This amount has been recognised as a significant item for 2007. Of the net sale proceeds, an amount of \$38.6 million is held in escrow. In October 2008, the remaining escrow amount, less any amounts attributable to unresolved claims, is to be received by CCA and by April 2009, CCA will receive any remaining escrow amount.

Acquisition of Bluetongue Brewery

On 5 December 2007, Pacific Beverages, CCA's 50:50 alcohol joint venture with SABMiller plc acquired Bluetongue Brewery. Bluetongue's premium beer brands include Bluetongue Premium Lager, Bluetongue Premium Light, Bluetongue Traditional Pilsner, Bluetongue Alcoholic Ginger Beer and Bondi Blonde. The acquisition of Bluetongue Brewery adds a fast-growing and uniquely Australian premium beer brand to Pacific Beverages' existing portfolio of imported premium beers and fits perfectly with our strategy of developing our presence in the Australian premium beer market.

Brewery Development

Pacific Beverages intends to establish a boutique premium brewery at Warnervale in New South Wales in order to further accelerate its premium beer strategy. The brewery site, when completed, will enable Pacific Beverages to materially increase production of Bluetongue to meet increased national demand, while also providing capacity for the potential production of other Australian premium beer brands. The brewery, with a capacity of 500,000 hectolitres, is expected to be completed during 2010 and will be jointly funded by CCA and SABMiller.

Off-Market Share Buy-Back

CCA successfully completed an off-market share buy-back on 29 January 2008. A total of 21.7 million shares, or approximately 2.9% of CCA's issued shares, were bought back at a price of \$7.84, representing a maximum 14% discount to the applicable market price. Due to the positive tender response, a significant scale-back of approximately 60% was applied.

Outlook for 2008

The priorities for 2008 will be the continued expansion of CCA's non-alcoholic and premium alcoholic beverage portfolio and further realising the benefits of its Trans-Tasman business integration program. This will be achieved through significant capital and technology investments in Australia and New Zealand in cold drink equipment, automated warehousing, systems infrastructure and increased beverage production capacity.

We have some exciting new product launches in the pipeline for this year, with our major new product for the year, Glacéau Vitamin Water, launched in Australia in February. Glacéau has been a huge success in the United States where it now leads the enhanced water category.

Higher aluminium and PET input costs will continue to drive higher beverage Cost of Goods Sold (COGS) per unit case in 2008, albeit at a lower rate of increase than for the previous two years. Based on current forward commodity prices and CCA's prevailing hedge book, CCA expects the beverage COGS per unit case to moderate in 2008 with an increase by approximately 4% on a constant currency basis. This also includes an increase of approximately 1% to 2% due to mix for the full year as CCA's premiumisation strategy drives a higher value and higher cost product mix.

Capital expenditure for the full year 2008 is expected to be approximately 7% of revenue, including approximately 1% to 2% for infrastructure expenditure related to the commencement of construction of the high-bay warehouse at Eastern Creek and the SAP technology project.

The consumer spending environment will have challenges in 2008 with interest rate rises, higher petrol prices and higher food inflation. However, on the plus side, employment remains very strong and there are income tax cuts legislated for July. With the sale of the South Korean business our balance sheet is very strong and the 4.7 times EBIT interest cover is the highest interest cover in over 10 years.

At this early stage, we expect to be able to once again achieve good revenue growth in 2008. We remain optimistic that our strong performance in 2007 has established a sound platform for 2008 and that the business is in excellent shape to respond appropriately to changes in economic conditions or consumer sentiment.



Terry Davis
Group Managing Director