22 October 2012

Treasury Wine Estates Limited 2012 Annual General Meeting

Treasury Wine Estates Limited will today address shareholders at its Annual General Meeting to be held in Melbourne, commencing at 2.00pm.

Attached is a copy of the Address delivered by the Chairman, Paul Rayner and the Address delivered by the CEO, David Dearie.

A live webcast of the Annual General Meeting can be viewed at www.tweglobal.com. An archive of proceedings will also be available from the website.

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Chairman and CEO Address

Treasury Wine Estates Limited 2012 Annual General Meeting

Chairman's Address
Paul Rayner

Introduction

The last financial year was both a challenging and a rewarding one for TWE, and while I will leave it to David to talk through the details of our financial performance, I would like to stress that the Board regards our first full set of annual results as a solid performance.

Not only has the business been able to achieve strong financial results in a challenging global economic environment, but it has also laid solid foundations for real growth over the longer term.

Today I want to set out our priorities as a Board and provide some information on how we will be supporting the executive team over the coming year to ensure TWE's strategic and commercial objectives are achieved.

TWE is, in effect, a new company, established and listed only 16 months ago. Yes many of our iconic wine brands date back over 100 years but as a pure-play wine company we are relatively young.

As a Board this offers many opportunities to work with the management to shape and mould our future; which leads me on to the Company's strategic direction.

Strategy

Our rallying cry is one foot in the vineyard, one foot in the boardroom and wine merchants to the world.

For us to succeed we need to find the right balance of short and longer term investment, driving sales today and in the future.

2012 has demonstrated that the fundamentals of our strategy are working, and shareholders are seeing the commercial performance flow through as a result. It is also why the Board continues to support this strategic direction and our focus on key platforms:

- Build exceptional brands
- Continuing to drive top line growth
- Optimise TWE's supply network
- Apply cost management; and
- Improve our capital efficiency

These are long-term strategic plays that will pay commercial dividends over many years and are strongly endorsed by the Board.

Our immediate strategic focus is driving growth from our Americas business and laying the foundations to build long-term success in Asia.

In summary, FY12 generated solid results, our strategy for growth is underway and the executive team are focused on achieving our financial, commercial and cultural agenda.

Board Structure

Given the opportunities facing our business, we felt that now was the right time to reconfigure our Board to add capability that supports TWE's strategic objectives.

Later in the meeting I will be asking you to endorse the appointment of Michael Cheek, Garry Hounsell and Ed Chan as Non-executive Directors of Treasury Wine Estates; and I will also be asking you to endorse the reappointment of incumbent Non-executive Director, Peter Hearl.

Whilst I will let Michael, Garry, Ed and Peter speak for themselves it is no accident that we are seeking to appoint individuals with extensive experience and deep knowledge of the US, Australian and Asian markets.

I have absolutely no doubt that, Michael, Garry, Ed and Peter are precisely the kind of people the Board needs to support TWE's global ambitions and I look forward immensely to working with them.

My only regret with the new Board is that whilst our geographic and cultural diversity has improved, our gender diversity has not. However, you have my personal assurance that we will continue to look for the right women to join Lyndsey on our Board.

Responsible Consumption

As Chairman, I also want the business to be looking at all the areas, and all of the issues, that could impact either TWE's financial performance or sustainability.

That is why Treasury Wine Estates has embedded, from Day One, a commitment to corporate social responsibility (CSR) that supports initiatives of relevance to our employees, our business and the communities in which we operate.

By focusing on the strategic pillars of sustainability, responsibility, compliance and ethical practices TWE has sought to be a positive 'agent of change' and embraced a series of CSR programs ranging from employee volunteering, workplace giving, environmental management and responsible procurement.

As many of you will be aware, there has been an increasing amount of focus on the role of alcohol within our society over the last year. Understandably, there has also been a certain amount of concern voiced by regulators and other groups about the minority of individuals who consume alcohol in an irresponsible manner.

This is a matter of significant interest to the Board.

TWE is actively engaged in a number of campaigns that provide education on alcohol and promote its responsible consumption, including: Drinkwise and the Winemakers Federation in Australia, Drinkaware in the UK and the Wine Institute in the United States.

We are rolling out new marketing policies to ensure our wines are only promoted and sold in a responsible manner.

TWE is also working closely with the Winemakers Federation of Australia to implement a voluntary scheme for pregnancy labelling that will see all TWE wines produced for the ANZ market (after Vintage 2013) carrying appropriate Drinkwise messaging.

We are proud of our iconic brands and are committed to TWE being a leader on the responsible production, promotion and consumption of wine, and I believe we serve both our business, and our brands, better by being proactive on these issues.

Climate Change, Carbon & the Environment

TWE is also a business that acts as a steward for over 11,000 hectares of vineyards. As such, we adopt a responsible approach to environmental management - as the right environmental and climatic conditions play a key role in the crafting of our world leading wine brands.

From leading viticultural practices globally, to wetland regeneration in South Australia, and 100% sustainable certification of our wineries and vineyards in the US, TWE has sought to demonstrate an environmental approach that is both commercially and socially responsible.

We also recognise that the impact of climate change is an issue and we're adapting our strategy to cope with it.

Whilst not directly impacted by the Australian Federal Government's Carbon Price Mechanism or 'Carbon Tax', our business is exposed to modest cost risks associated with 'price pass through' by those suppliers who are directly affected.

Both the Board and the executive team will be focused on carbon costs over the current financial year as several key supplier contracts come up for renewal.

In the interim, we will continue to act responsibly and put our own house in order. I am delighted that we now able to meet 50% of the electricity needs of our North American wineries from renewable solar energy, and have recently released TWE's first, independently certified, zero-carbon emission wines – Squealing Pig Sauvignon Blanc and Pinot Noir – from New Zealand.

Turning now to remuneration…

Remuneration

As you will already be aware, later in this afternoon's proceedings we will be running through TWE's remuneration policy and framework – an area that always generates considerable shareholder interest!

Without pre-empting that discussion I did nevertheless want to make some brief remarks about remuneration and some of the fundamentals that underpin the Board's approach.

As clearly stated in this year's Annual Report, I wanted to reiterate that there will be no increase in fixed pay for the leadership team over the current financial year, despite the business's solid financial performance. There will also be no increase in fees for Non-executive Directors over the same period.

However, as a Board we feel our established short-term and long-term incentive schemes provide an effective mechanism to ensure management and shareholder interests are aligned.

Whilst it is easy to focus on the potential rewards on offer through these schemes, it is also important to remember that when long-term incentive payments are maximised so are shareholder returns.

In relation to the 2013 short-term incentive plan, it was disclosed in the remuneration report that all direct reports to the CEO will have 100% of their short-term incentive outcome tied to the achievement of the global EBITS outcome.

As previously stated, because FY13 presents TWE with some real challenges, our aim has been to ensure that short-term incentives drive a collaborative approach across the business, pulling people and resources together to achieve growth at the Group level.

That is why, subsequent to the publication of the 2012 Annual Report, the Board has approved further changes to the 2013 short-term incentive plan, namely:

1. All participants will be subject to one global EBITS target (rather than a regional or business unit EBITS target) in order drive TWE's culture and create a truly global team; and

2. Additional individual performance ratings have been incorporated in to our annual performance management process to allow for greater differentiation of between participants.

In summary, the principle of linking pay with performance will continue to underpin the Board's approach to remuneration.

Conclusion

Before I hand over to David, as a fellow shareholder, I would draw your attention to the growth in our normalised Earnings per Share (EPS)[1] up 14.8% over the year and a key indicator that this business is delivering for its owners.

As we have been clear throughout the communication of our Annual Results, fiscal 2013 presents the business with a challenging year. Despite the challenges I remain tremendously excited by the opportunities that lay ahead of us and the immense potential of this business.

[1] Normalised EPS for TWE – before material items and SGARA (Self-Generating and Regenerating Assets)

Sensible actions taken to increase the quantity and quality of our grape intake have already enabled the business to significantly grow its non-current inventory over the last year. And the Board remains firmly committed to supporting investment in those areas that will ensure we have sufficient supply of premium wine available to meet fast-growing consumer demand.

I know that the Board will play its part in helping drive TWE forward, and I want to thank David, his management team, and all the Vintrepreneurs throughout TWE for their hard work, dedication and enthusiasm over the last financial year. I know we will see even more of those qualities over the coming years.

Before closing I'd encourage you, as owners of our business, to join the TWE Vintrepreneurs Shareholder Club. If you haven't already there is an opportunity today at the booth outside. The Club offers our shareholders access to an online wine store and additional benefits like: discounts at our cellar doors, exclusive experiences at our wineries around the world, and behind the scenes access to TWE winemakers and management.

Finally, I want to say thanks to you, our shareholders. Your personal commitment and ongoing investment in Treasury Wine Estates is genuinely appreciated. This is your company, and we look forward to continuing to deliver for you over the coming year.

I'll now hand over to David for a more detailed breakdown of business performance over TWE's first full financial year…

Treasury Wine Estates Limited 2012 Annual General Meeting

Chief Executive Officer's Address
David Dearie

Introduction

Thank you Paul, and can I echo the Chairman's warm welcome to our Annual General Meeting.

Well, what a year it has been!

Our first year as Treasury Wine Estates (TWE) has been incredibly enjoyable as we set out to build our future, our culture and of course our brands; and I'm proud of our accomplishments to date.

Because I believe we have made a good start in repaying you, our owners, for the investment you've made in this business.

Sector Overview

Before I get in to the detail of our financial performance I wanted to start by talking briefly about the wine sector more generally. Because I feel it's important for you to understand some context around the market we are operating in, and what we are likely to encounter over the next few years.

The good news is that the glass is much more than half full. The immediate and long term fundamentals of the wine sector remain solid.

Demographics continue to be favourable in both developed and developing markets, with consumer demand for better quality, more premium wines – the type of wines that TWE produce - continuing to grow in many key markets.

However, it’s also worth remembering that we have Mother Nature as one of our business partners, and the production of wine remains heavily influenced by many external elements.

An example of this was the 2011 Vintage, which was negatively impacted by wet weather both here in Australia and also in California, ultimately reducing the quantity of wine available for sale in this fiscal year and increasing our costs.

As some of you here today will recall, I said at this meeting last year that the 2011 vintage meant we did not produce enough premium wine at the quality we require to meet consumer demand. It also cost us more to secure the grapes we wanted.

Faced with these challenges we could have gone to the market and purchased more, lower grade, grapes to meet demand; but that short term fix would have reduced the quality of our wine and damaged both the reputation of our brands and our business in the longer term.

And at TWE if there is one thing we will not do, it is compromise on the quality of our wines.

Fast forward to this year’s vintage and we enjoyed near-perfect growing conditions in Australia, and the recent California harvest looks likely to produce an excellent vintage too.

With this background let me talk to TWE’s performance over the last financial year.

FY12 Performance

Put simply, I’m pleased with our results.

Our reported currency EBITS growth of 7.7% (to $210.2 million) was a super result in light of the strong Australian dollar and this rises to 18.6% growth when looked at on a constant currency basis.

Our EBITS margin also increased by 2.3 percentage points, and our net sales revenue per case improved by 1.6%.

And whilst growing our EBITS, we have also reduced our cost of doing business and realised significant cost savings.

TWE also continues to generate cash with cash conversion at 96.4% and, as Paul mentioned, we've used this year's vintage to grow our non-current inventory by a staggering 84% (up to $362.5 million). This is the premium red wine we have available for future years' sales.

And we delivered a final dividend of 7.0 cents per share to our owners; contributing to a full year dividend of 13.0 cents.

Overall, solid results in our first full financial year and results that I trust you – our owners – are equally pleased with.

Let me now provide a brief overview of the performance of our regional and brand business units'.

Regions

The Americas remains a huge growth opportunity for TWE, with the United States, the world's largest wine market, continuing to grow. However, we have found this region tough going in recent years.

We have new leaders driving our business with Sandra Le Drew heading our region and John Grant leading our brands: two very experienced and respected industry veterans. They have established a sales and brand building structure that is focused on and dedicated to developing our Americas performance or 'win in the Americas' as they call it. I'm pleased with recent progress and our new approach has seen positive momentum with depletions for Beringer (our key brand in the USA) in the second half of F12 up 5.8%.

Turning to Europe, Middle-East & Africa (EMEA), we've also reshaped and re-energized our business. I have appointed Andrew Carter, another industry expert, as

Managing Director for the region and restructured our business with an increased focus on the premium end of our portfolio, rather than simply chasing volume at all costs.

This deliberate change in strategy - to concentrate on sustainable profitable growth resulted in volume declines; but by adopting a bold approach, and changing the mix of our portfolio, our NSR per case improved by 9.0 %, resulting in the EMEA region improving profits by $17.3 million over the year.

A significant achievement given the challenging economic environment in Europe.

Under the leadership of Chris Flaherty, Australia and New Zealand produced another fine result with constant currency EBITS up 12% (to $109.0 million) in an extremely demanding retail environment.

And it was rewarding to see our volume growing ahead of the category, with all channels and sectors contributing to the growth during the second half of the year.

Turning now to Asia, which produced another great result. Our volume for the region grew by 20.6%, with the Hong Kong and China markets collectively up by 31%. Overall TWE achieved 40.6% constant currency EBITS growth in Asia.
Asia now represents 20% of TWE's earnings and we continue to be excited by the growth opportunities for our brands in this region; and I'd like to thank Anthony Davie, the regions' Managing Director, and his team for their excellent contribution.

Turning now to our Brands

As many of you will know one of our strategic priorities is to build great brands, and I'm delighted to say we did just that over the course of the last financial year.

Our Beringer business unit, headed by John Grant, houses all the brands sourced in the Americas along with the Gabbiano range of Italian wines, achieved a total of 64 90+ ratings from the industry's top publications such as, Wine Spectator, Wine Advocate, and Wine & Spirits over the year.

These ratings helped to drive growth in Beringer's Luxury and Masstige portfolio with Chateau St Jean depletions up 16%, Stags' Leap up 20% and Gabbiano up 15%.

Beringer has also been at the forefront of innovation in our business, with Beringer Moscato tapping in to new and exciting consumer trends to deliver 142% compound annual growth rate since its launch in 2008.

Rosemount, led by Angus McPherson another new appointment to my leadership team, remains an incredibly important brand for TWE and we have set about the challenge of returning this well respected brand to growth during the second half of the year. We relaunched Rosemount in Australia during February and we achieved 14.4% growth versus the same period last year and we're really pleased with both the customer feedback and consumer reaction we are receiving.

Rosemount also remains the number one selling $8-10 Australian wine in the USA, and continues to win awards both here in Australia and around the globe. In fact, in the second half of the last financial year, Rosemount was the most awarded of all our Australian brands.

For the Wolf Blass business unit, under the leadership of Simon Marton, the past year has all been about premiumisation over the past year, and this strategic focus helped achieve volume growth of 4.3% in ANZ and 26.1% in Asia.

Also in the Wolf Blass business unit are our Australian regional Champion brands: Wynns and Pepperjack – with Pepperjack Shiraz remaining the number 1 selling red wine SKU by value in Australia.

Lindeman's, headed by Michelle Terry, is TWE's powerhouse volume brand with over 80 million bottles enjoyed globally during the last financial year.

It is also a particularly strong brand for TWE in Europe, where Lindeman's is the leading Australian wine brand in markets such as Sweden, Norway and the Netherlands.

Lindeman's is also Australia's leading "lighter in alcohol" wine brand with some 48% share of this category. It's also exciting to note that value growth from this tier is growing ahead of volume growth as increasing numbers of consumers opt for lighter in alcohol, lower calorie wines as part of their lifestyle.

Both Michelle and Simon were promoted into their roles, and I was delighted to be able to recognize some of the talent that was already present within our business.

Penfolds continues to cement its position as a global icon in luxury wine with some exciting initiatives over the financial year. I appointed Gary Burnand to lead this luxury brand and drive growth, launched Penfolds Special Bin 620 in Shanghai and in Moscow unveiled what we believe to be the world's most expensive wine - the extremely limited Penfolds Ampoule at $168,000.

And in case you are wondering, every one of these 12 fantastic sculptures is now either sold or committed.

Finally for Penfolds, the brands' head winemaker, Peter Gago, received the ultimate accolade of the "winemaker's winemaker" of the year award, and we congratulate Peter on this fantastic recognition by his global peers.

Conclusion

Over the last financial year we've sought to build some foundations for our future as a stand-alone, brand focused, wine business.

We've restructured our organization, changed how we do business, reshaped the leadership team and we've changed our operating model to reallocate funds to drive the right commercial outcomes for the company as a whole.

And, as I said, during all this change we've generated EBITS growth of 18.6% on a constant currency basis and 7.7% as a reported currency basis; and our EPS at 20.9 cents per share grew 14.8%.

FY13 Outlook & Update

Turning now to the priorities for this financial year, which of course link to the five key platforms referenced earlier by Paul.

Your leadership team and I are focused on 3 key areas:

1. Developing activities that will enable TWE to ‘win in the Americas’.

Improving our performance and setting a strategic growth agenda is a key priority.

As I said we have a new team; we have changed our structure and have refocused our energy and resources to win with customers and consumers.

2. Asia & China

Asia, and in particular China, is our second area of focus for FY13.

The total region has tremendous growth potential and our brands are highly respected.

The Board and I visited the region early this year, where we conducted market and store visits, and met with our distribution partners; and the Board has encouraged me to explore all options to help us realize the immense potential of the region.

Asia now represents 20% of our global profitability.

Building our people and culture is the third key platform for FY13.

I’m delighted that we have secured Megan Collins to lead our HR efforts and look forward to Megan joining us in January.

Last week we moved in to our new offices in Southbank, which is another step in our cultural journey.

Our team of vintrepreneurs now has a wonderful creative space from which to launch powerful brand building activities.

So a lot achieved, but a lot still to do. I'm pleased with our progress but want to reinforce Paul's comments that the current financial year will be challenging.

At the full year results presentation I stated that our growth for fiscal 13 would be below the average of the past two years on a constant currency basis, which corresponds to 15.8%, before rebounding to above average growth rates in fiscal 14.

There are three main reasons for our reduced growth rate this fiscal year.

One:
In fiscal 13 the vast majority of the wine volume we sell is from the weather affected harvest in 2011 and, as I have previously stated, this vintage produced less wine, cost us more and impacts how much wine is available for sale to our loyal customers.

Two:
An increase in corporate costs driven by a need to build a standalone IT system following demerger; and this increase in IT costs will be ongoing.

Three:
A reduction in the levels of inventory our distributor partners carry in the USA.

In light of these challenges, and a slow first quarter trading performance in Australia and Americas regions, I would like to provide additional clarity on the outlook range for our EBITS growth in fiscal 13.

Further to the guidance provided at full year we are now expecting constant currency EBITS for the first half of fiscal 13 to be below the same period in fiscal 2012 by approximately 20%. Notwithstanding the slower start to the current financial year, we expect constant currency EBITS growth for the full year to be in the mid-single digit range before rebounding to a growth rate of greater than the 15.8% average of the past two years as we begin to see the benefits of an exceptional V12 vintage.

Let me close by thanking you, our shareholders for your ongoing support and investment in our business. It is very much appreciated.

Thank you.