

MEDIA RELEASE

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Southcorp reports substantial profit improvement in 2004

Sydney - Southcorp today released its results for the year ended 30 June 2004, reporting a net profit after tax and before significant items of \$108.9 million, up 170% from 2003. The Company's earnings before interest, tax, amortisation and significant items of \$176.3 million, up nearly 50% from 2003, came in line with the top end of market expectations.

Southcorp Managing Director and Chief Executive Officer, John Ballard, said: "Through the success of the Veraison disciplines we introduced this year, Southcorp has delivered a substantially better profit performance, despite an adverse profit impact of approximately \$19 million from the strong Australian dollar.

"2004 was a year of bedding down internal issues. Within the first six months of the year we stabilised trading and returned to profitability and have delivered a significant improvement for the full year.

"We reduced costs by \$40 million per annum and developed a new blueprint for our production and distribution operations which, through savings in fixed and freight costs, will deliver incremental earnings of \$27 million per annum by 2008.

"The introduction of stronger financial discipline enabled us to reduce debt by \$169.1 million and lift our return on capital employed to 9.3% up from 5.9% in 2003. While there is still more progress to be made, these improvements signal a much healthier and stronger Southcorp," Mr Ballard said.

Other financial highlights for the year included:

- Net profit after tax and significant items of \$46.2 million, due principally to write-downs resulting from the asset review.
- Sales revenue decline of 5.8% to \$1.062 billion, primarily due to the strong Australian dollar, which reduced sales revenue in Australian dollars by \$94.6 million.
- Margins improved significantly from 11.7% in 2003 to 16.6% in 2004.
- The Australasian business delivered a solid earnings growth of 48% to \$59.4 million.
- A strong recovery in UK/Europe delivered earnings of \$32.5 million (\$8 million loss in 2003).

2005 Outlook

Mr Ballard said Southcorp's outlook was positive. "While market conditions remain competitive in all our regions, the business is expected to deliver modest profit growth in 2005, underpinned by an increased investment in advertising and promotion. We will also benefit from lower costs realised from the higher 2004 vintage and continued focus on cost reduction," Mr Ballard said.

As previously announced to the market, Southcorp's 2005 earnings will include the impact of currency and the lower availability of super premium wines from the drought-affected 2002 vintage. The combined effect of these factors is approximately \$30 million.

Looking forward to 2006, the Company should enjoy the first significant impact of the savings from the asset review and lower grape costs as the remaining legacy contracts run off. Based on current expectations of exchange rates, we would anticipate the impact of currency on earnings to be reduced.

Mr Ballard also indicated that while no dividend had been declared this year, the Board of Southcorp anticipates declaring one in the second half of 2005, subject to achievement of the current business plan.

Trading Review

Southcorp continued to be affected by the strong Australian currency in 2004, which rose 20% against the US dollar and 10% against the British pound. Sales revenue for 2004 declined 5.8% to \$1062.2 million, primarily due to the strong Australian dollar, which reduced sales revenue by \$94.6 million. However, removing the effect of currency shows sales revenue was up around 3% as the result of an improvement in the price and product mix across the business.

Australasia

"The Australasian team delivered a great result in very tough market conditions. Volumes were down around 5.1%, reflecting our decision not to participate in unprofitable promotions. However, case rates were up 8.5% and margins grew from 9.7% to 14.0%. The Australasian business started the recovery process earlier and this is evident in its strong performance," Mr Ballard said.

"Australia in particular will remain very competitive in 2005. Nevertheless, we expect to grow sales ahead of the category and maintain margins at similar levels to 2004. We will be accelerating marketing and distribution activity to support the key brands of Penfolds, Lindemans, Rosemount Estate, Seppelt and Wynns Coonawarra Estate and have planned a 37% increase in advertising and promotional spend," said Mr Ballard.

UK / Europe

Mr Ballard said: "The UK/Europe region delivered a commendable turnaround in 2004, returning to profit in the first half of the year, well ahead of expectation. Not only did we move away from deep discounting in the UK market, which had the effect of improving our case rates by 12.9% for the year, we also grew the Company's European business.

"Markets such as Sweden, Ireland and even the Middle East are delivering profitable growth and are serving to widen our trading base in this region. In 2005 we will continue to invest in our brands in the UK with campaigns such as the Lindemans "L" advertising and promotional program. We'll also be extending the Lindemans campaign to Europe as well as launching a TV advertising campaign for Rosemount Estate in Ireland and taking advantage of advertising de-regulation within the Nordic countries to run print campaigns on the key brands."

The Americas

The USA market continued to be characterised by competitive market conditions and an oversupply of Californian wine. Volumes for the year were up 9%, however case rates were down around 7% reflecting higher levels of competition and a mix shift primarily to 1.5L products.

Mr Ballard said the highlights of an otherwise tough year in the Americas were the launch of the Little Penguin, 16% growth in the Company's on premise business and the achievement of a major milestone in Canada. He said: "Southcorp is now the number one importer in Canada with sales in excess of one million cases a year, half of which comes from Lindemans products. Lindemans Bin 65 Chardonnay and Bin 50 Shiraz are currently the number one Chardonnay and Shiraz in Canada."

Southcorp anticipates tough market conditions to prevail in the Americas throughout 2005.

Mr Ballard said: "The supply of wine in the USA is slowly coming in to balance but we nevertheless expect the coming year to remain as competitive as 2004.

"We will significantly increase marketing investment in 2005 to support our key brands in this region; Penfolds, Rosemount Estate and Lindemans. Our first ever US TV advertising campaign is planned for the second half of the year to coincide with the release of the new Rosemount Estate packaging and products and we'll remain very focused on gaining distribution and driving consumer sales of the Little Penguin wines."

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