WARRNAMBOOL
EST'D 1888
CHEESE & BUTTER

Warrnambool Cheese and Butter

Supplier Presentation 2011

Schedule

11am	**Arrival**
11.15am	**Welcome and Introductions**
11.20am	**Chairman’s address – Frank Davis**
11.25am	**Deputy Chairman’s address – Terry Richardson**
11.30am	**Global Overview – John Williams**
11.45am	**Consumer Products – Richard Lange**
12noon	**CEO / MD address – David Lord**
12.15pm	**Questions**
12.30pm (approx)	**Lunch**

Frank Davis - Chairman

Key Issues

- Industry Structure Issues
- Supermarket Pricing
- Carbon Tax
- 2010/2011 Performance Expectations

Terry Richardson – Deputy Chairman

Supplier Relationship

- ✓ Communication
- ✓ Consultation
- ✓ Representation

Milk Pricing

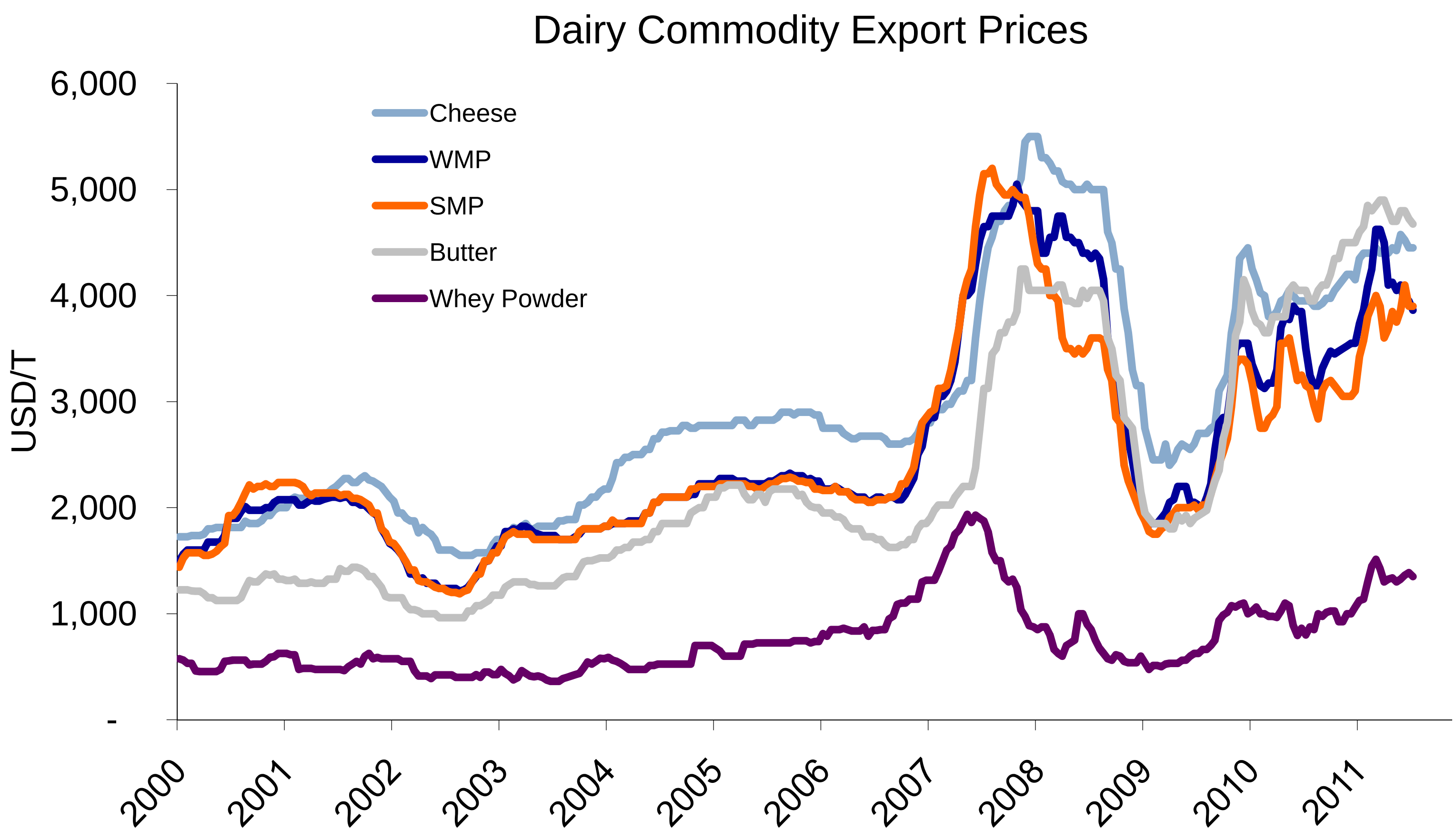
- ✓ Transparency
- ✓ Equity
- ✓ Announced Pricing
- ✓ Long term interests

Sales & Marketing – Global Outlook

John Williams - General Manager, Sales Marketing & Innovation

The second commodity price “boom”

A firm market outlook but with some weakness in the second half



Source: USDA, Rabobank

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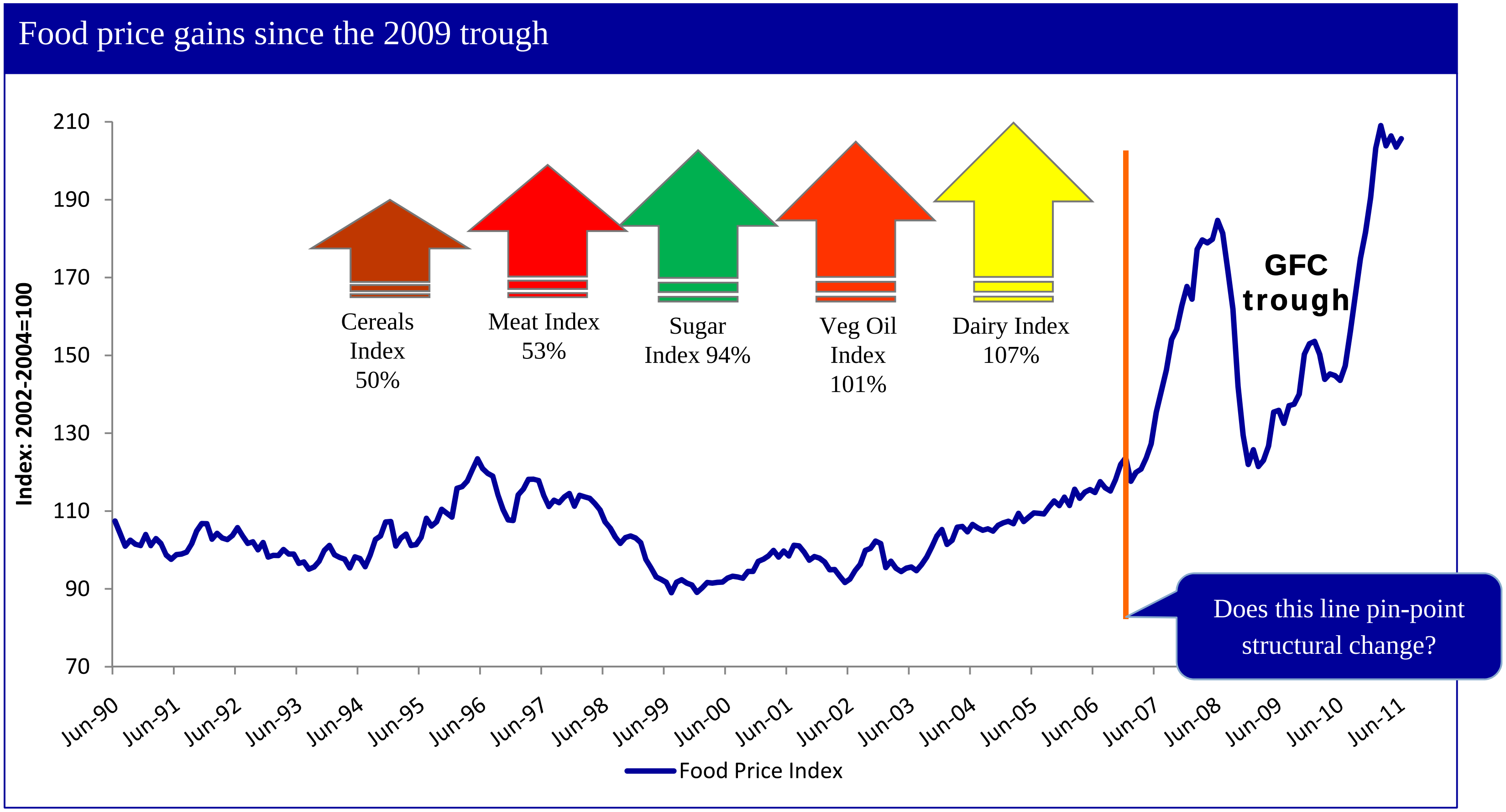
High food prices are back on the agenda

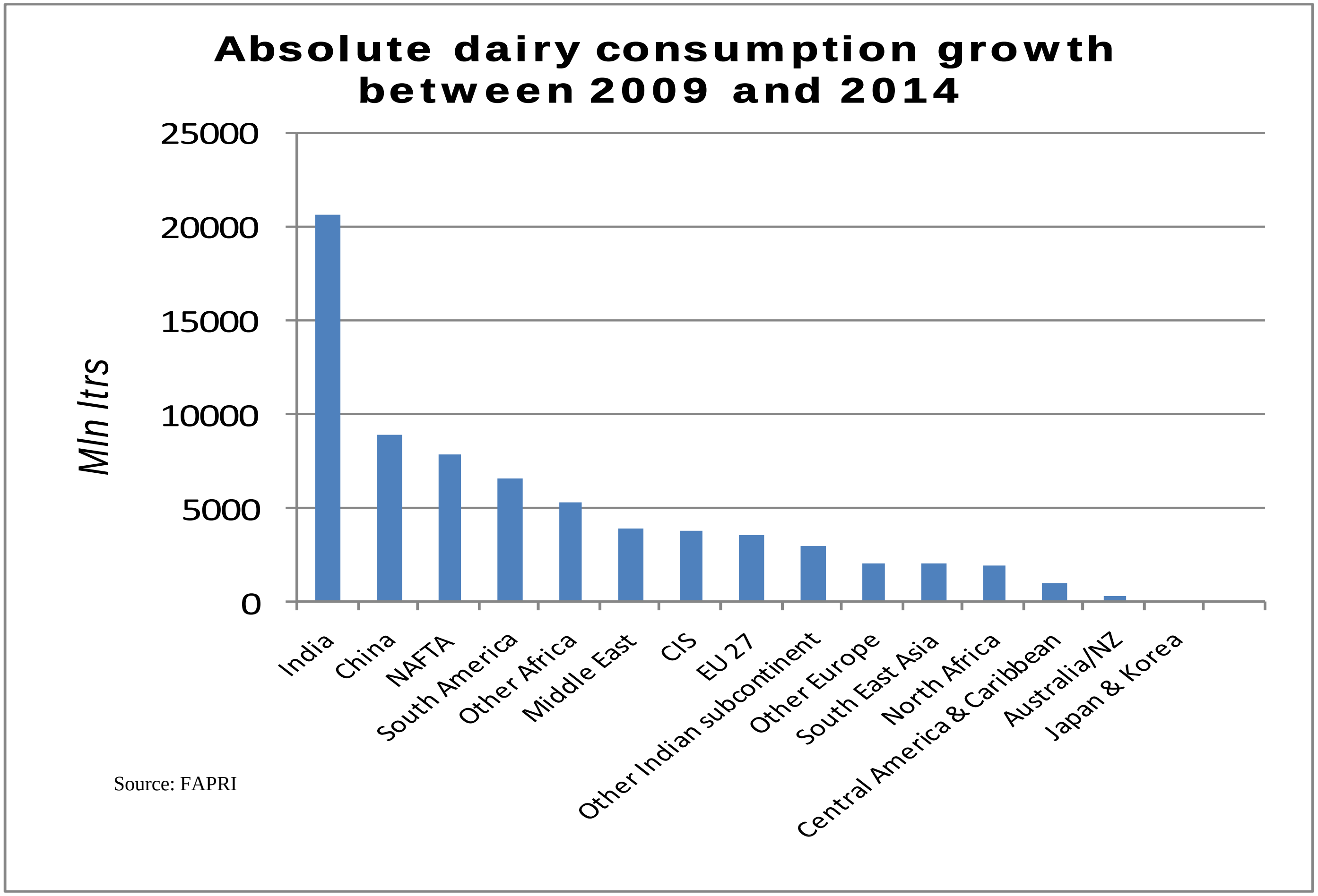
A structural change to agri-commodity complex



Source: FAO

Demand growth still attractive

World dairy market returning to an annual growth rate of 2.5%



Source: FAPRI

Setting a positive outlook

Drivers of dairy consumption

Promotion

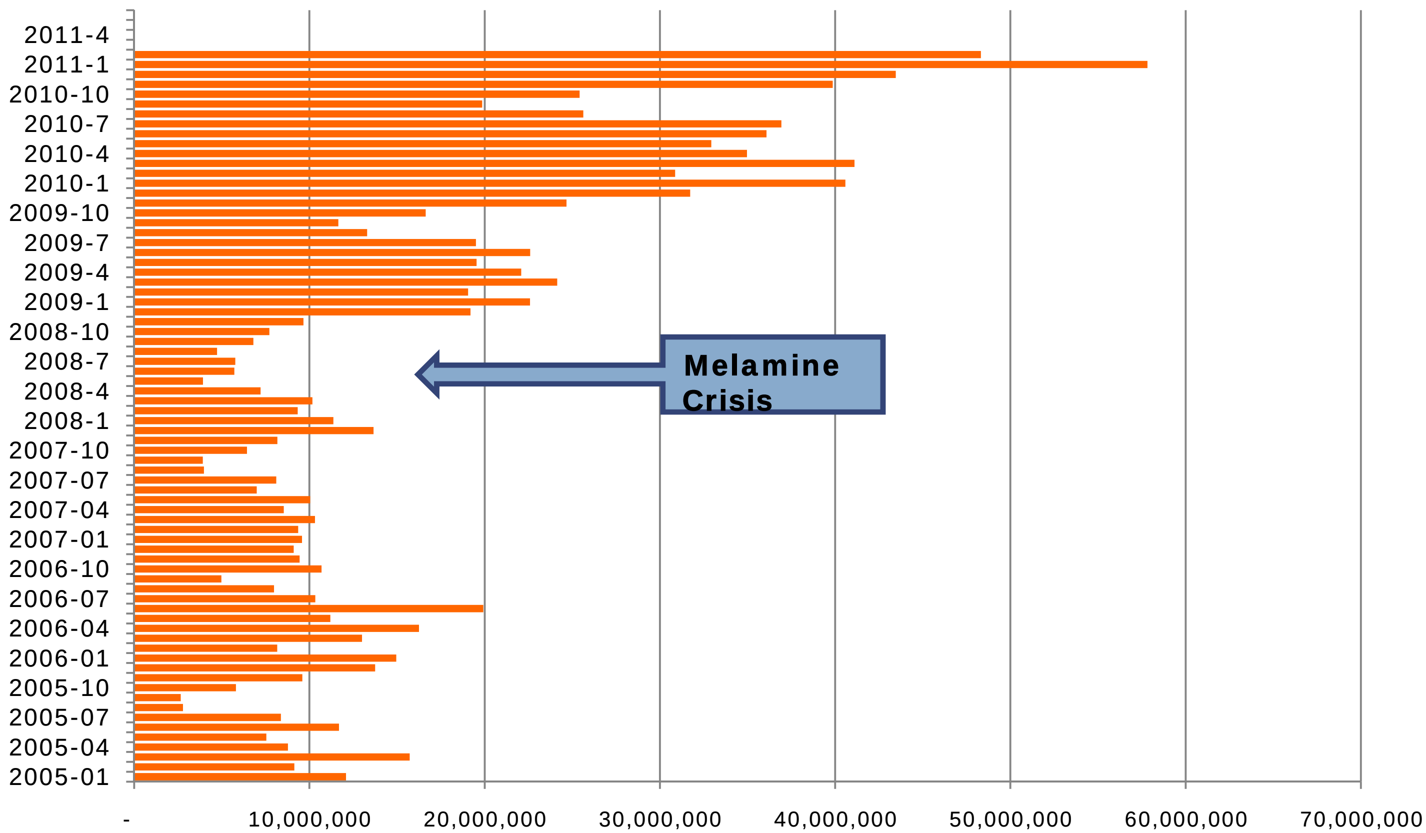
Population grow

Income

Shifting diets

China: has underwritten global demand

Monthly Chinese milk powder imports, 2005-2011



Source: Chinese customs statistics, CITIC, 2011

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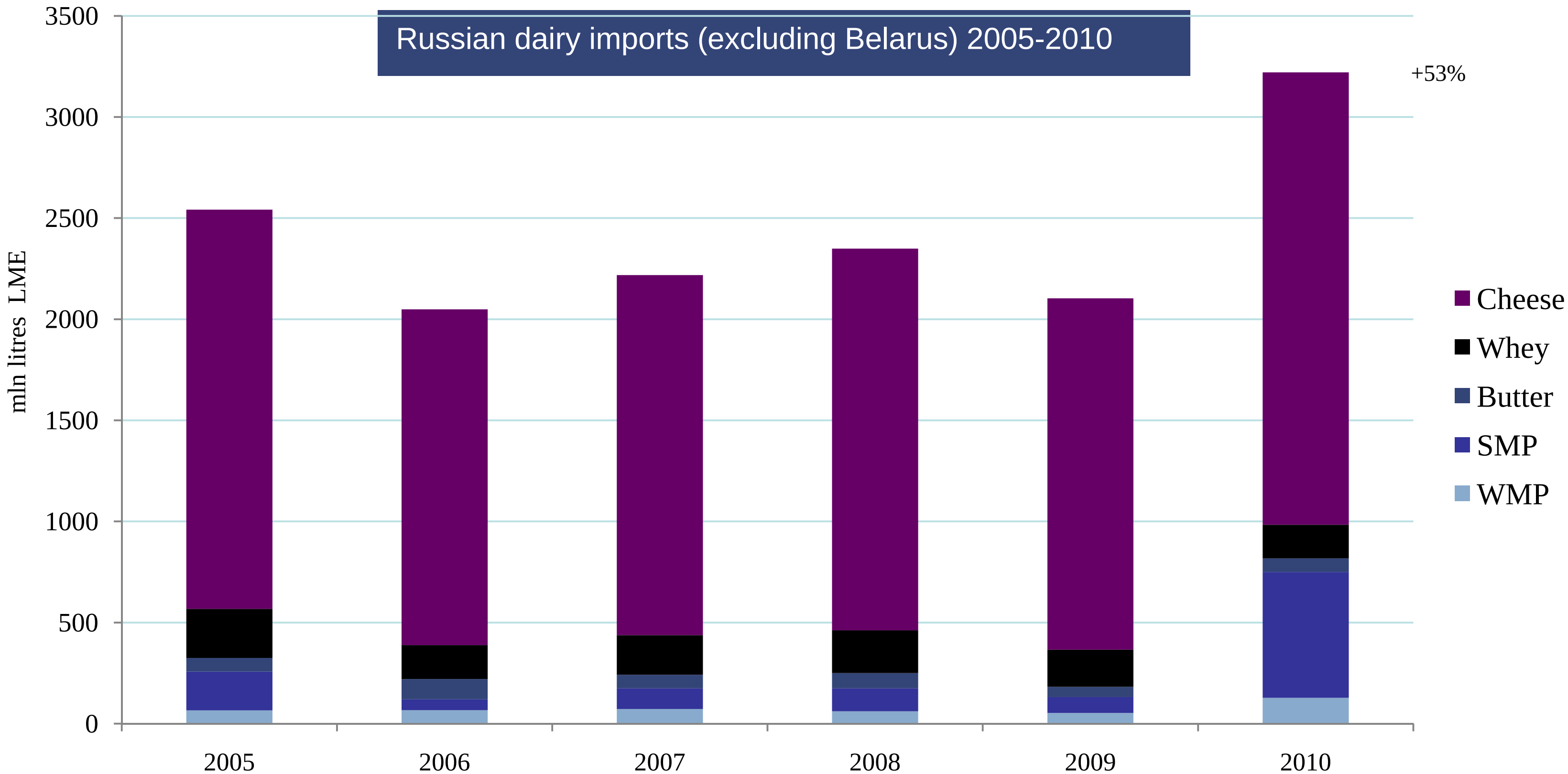
Russian: ongoing import reliance

Weather drives an import surge in 2010 and development plan for Russia's dairy industry shows little progress



Cheese contains cheese & curd

Source: GTIS

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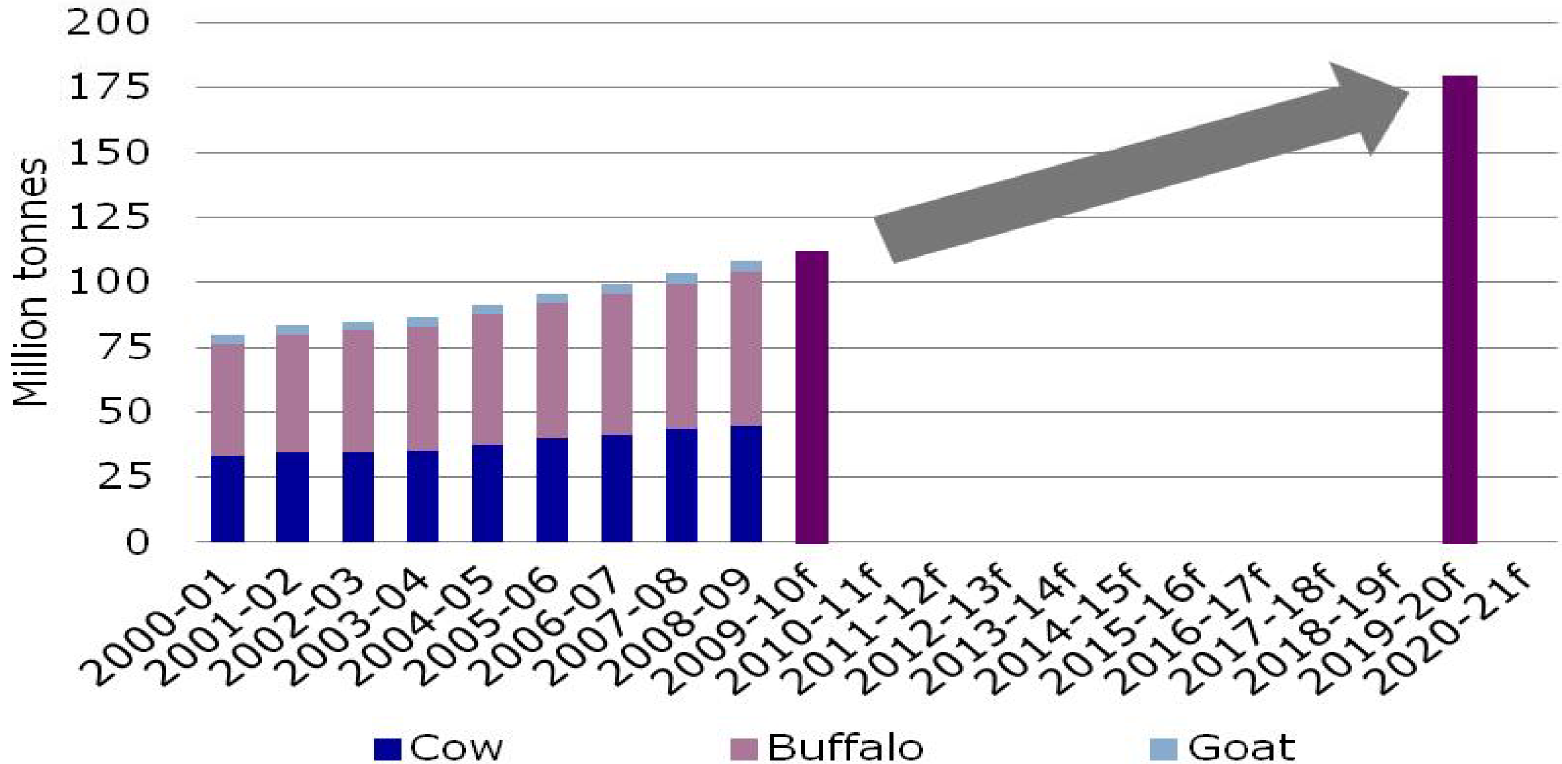
India: possibility of dramatic demand impact

Ability to be self sufficient is elusive with demand outstripping local supply

India milk production and projected demand, 2001 – 2020f

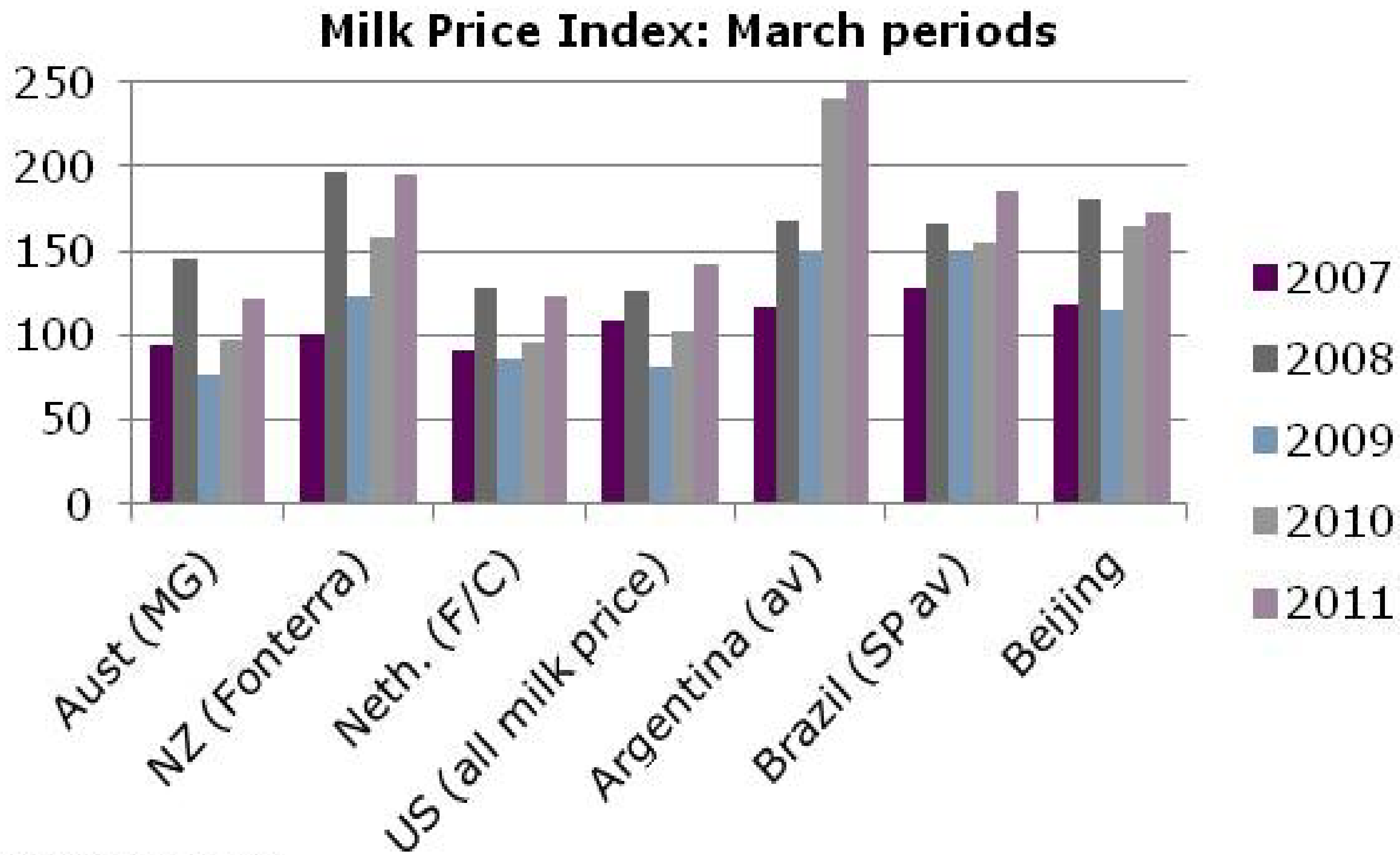


Source: National Dairy Development Board, Rabobank, 2011

Japan: an important trading partner

Limited impact along supplier chain so far

Farmgate milk prices at record high globally

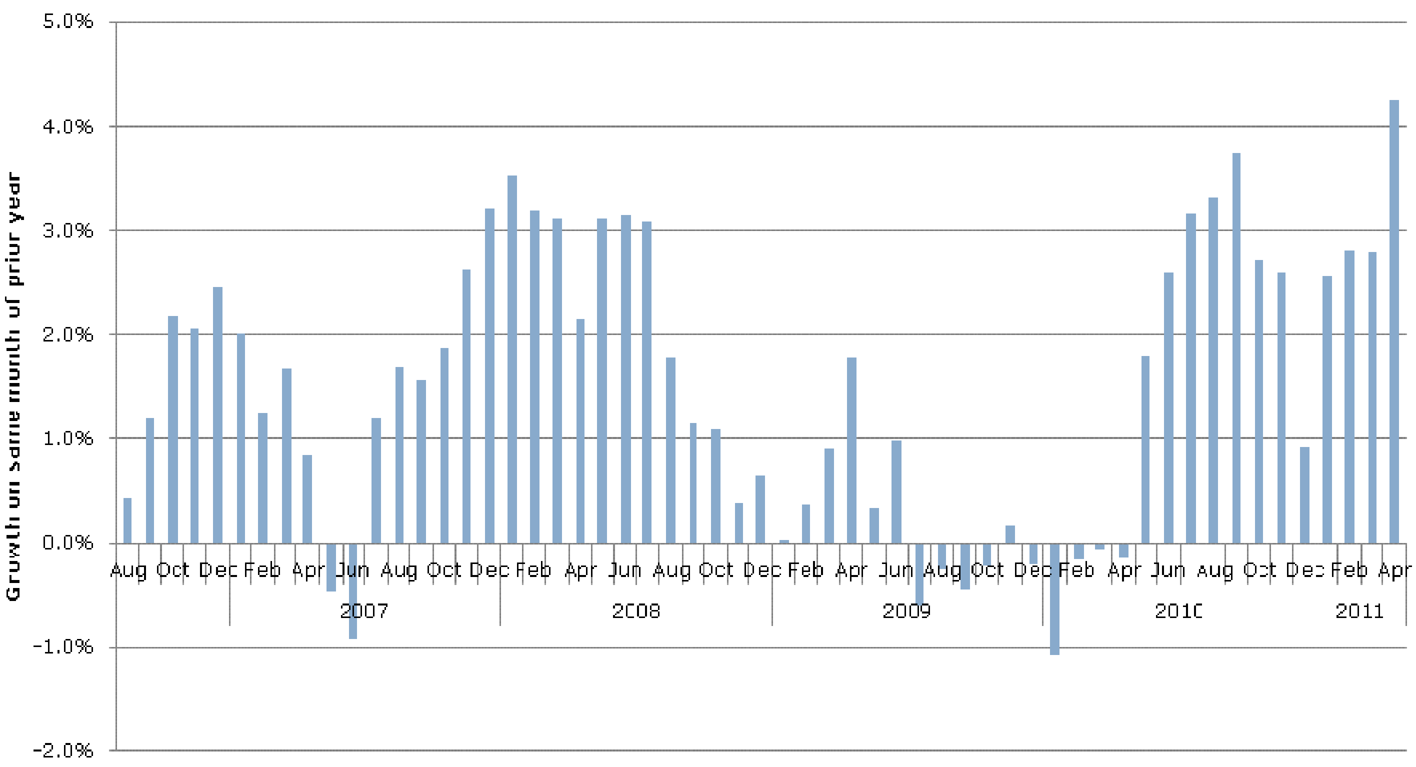


Source: Rabobank

Producers have responded with new milk

But encouraging supply growth is proving expensive

Milk production growth of Big 6 exporters combined

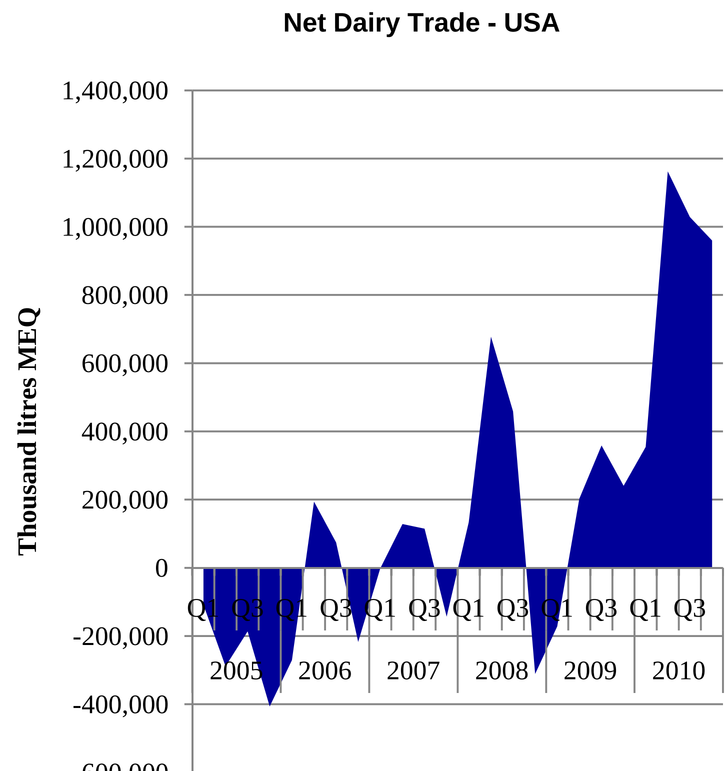


Source: Rabobank
Note: includes EU27, USA, NZ, Australia, Brazil and Argentina

US supply response critical to balance

US taking some time to find their feet in export markets, but can't go back to domestic focus only – even if they wanted to!

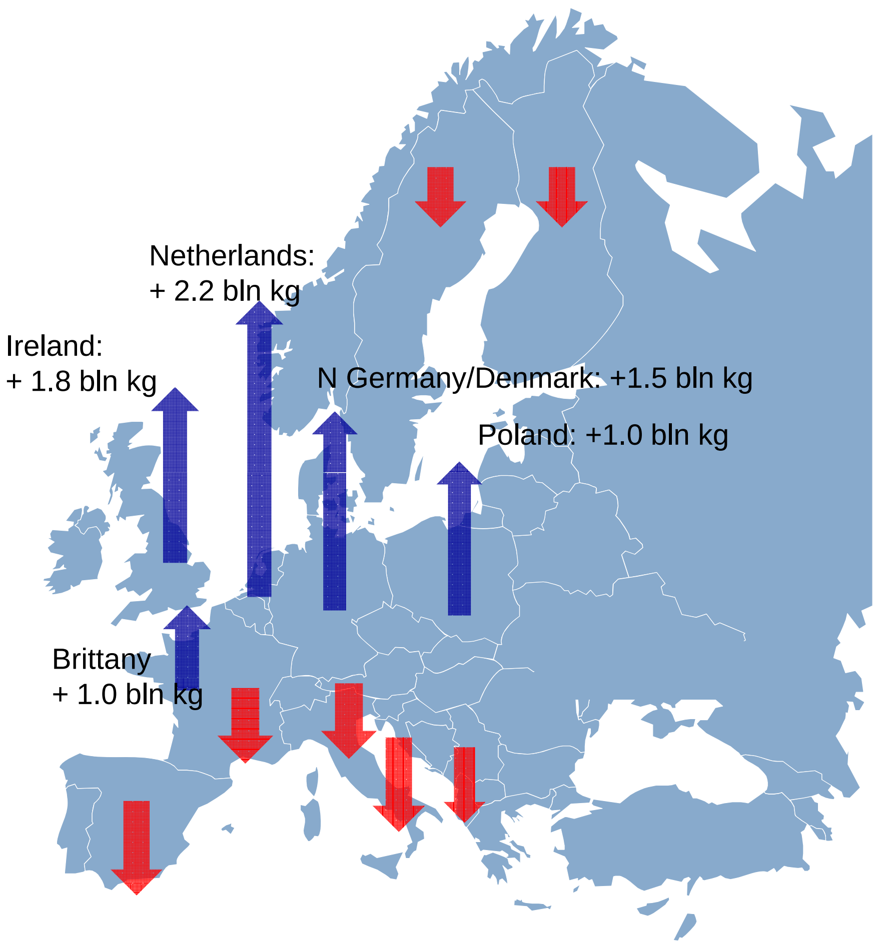
- Not the lowest cost <u>BUT</u> the lowest cost capable of significant expansion
- 1.5% tipped for 2011; below 10yr annual growth rate
- Industry increasing its focus on export opportunities and recognising rewards available offshore
- Rate of export growth determined by offshore demand/supply gap
- Regulatory structures will continue to challenge ability to capitalise on growth



Source: USDEC

Unwinding quotas in the EU

Removal of quota system imminent; and will drive supply growth



- The number of countries that are restricted by the quota system is relatively limited: Ireland, Denmark, Germany, Belgium, some regions in France
- Total growth potential of EU milk production between 2011 and 2020 is about 9bn litres
- Contraction in less favourable regions, strengthened sustainability constraints and local demand growth – albeit limited – will reduce the supply surplus to some 3bn litres

Oceania – only marginal contributions

Milk flows boosted by more favourable climatic conditions but only modest increases on an ongoing basis

Mixed fortunes across both sectors:

- NZ slow down in January to March due to "drought" saw an impact on prices.
- Final 2010/11 season production = **+ 5%**
- Forecast 2011/12 season production = **+ 5%**

- Australia still impacted by weather and general pessimism especially in the north.
- Final 2010/11 season production = **+ 1%.**
- Forecast 2011/12 season production = **+ 1%.**

There will be growth; but will not keep pace with global demand.

Lower buffer stocks

Means market becomes more susceptible to supply shocks

150,000MT of SMP in EU intervention stores
- Highs of 260,000MT

<1,500MT of butter in EU intervention stores
- Highs of 240,000MT

No stocks of SMP in US
- Highs of 600,000MT

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Dairy commodity price expectations

Bullish outlook despite some weakness

- Prices have softened and will continue to so do through to end of 2011;

  but trade is still at elevated levels
  - Commodity prices too far above costs in too many regions
  - Seasonal excess supply will impact in the short term
  - Requirements in China will probably stabilise
  - Demand will be slowed by retail price inflation

- But not fast, and not by as much as 2009
  - Demand conditions generally sound
  - Lower cost regions remain constrained
  - Costs of production will remain generally high
  - No GFC on horizon???

Marketing Consumer Products – our story

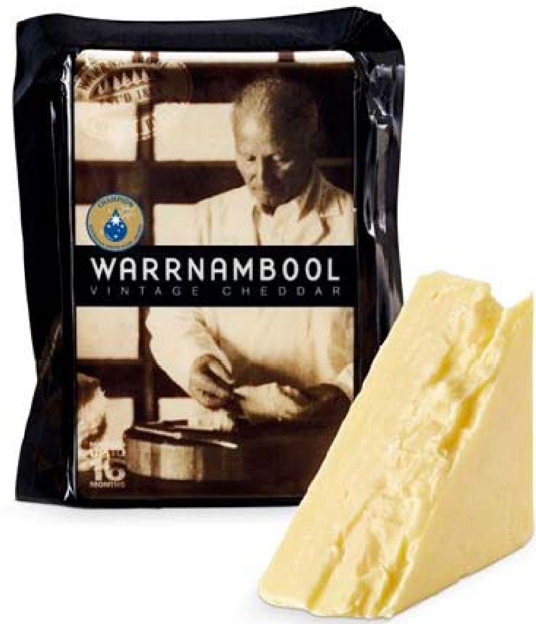
Richard Lange - Marketing Manager Consumer Products

Who is Richard Lange?

- Grew up on beef and sheep farm on 3 soldier resettlement dairies
- Agricultural Economics
- SunRice
- Dairy Australia
- Wife (Vet) 4 children

WCB produces great products

but is hidden under a rock…



The consumer trend for “local”

This is an opportunity for Warrnambool Cheese and Butter

Overseas this trend is taking hold

FOOD RETAILERS ARE RESPONDING

TESCO

- Local Choice Milk
  - Sourced from smaller, family-run farms.
  - Supporting local communities.
- Tesco Real Food Initiative
  - Local sourcing.

WAL★MART

- Pledge to help reduce "food miles" launched in 2010.
  - "Grow partnerships with local farmers and purchase local produce wherever possible."

Waitrose

- Launched the Local and Regional Sourcing Initiative
- "Our customers tell us they want our shop to reflect their community and that they want to support small businesses from their region."

WHOLE FOODS MARKET

- "At Whole Foods Market, we stand behind our local products because these products are miles closer, miles fresher and miles more delicious."

Victoria's and South Australian consumers are repeating these trends

This is our story and it has value for our brands

David Lord – CEO & Managing Director

Presentation Contents

- Financial performance
- Highlights for the 2010 / 11 year
- Special projects
- Milk intake growth
- Strong Australian dollar
- Carbon tax
- Outlook 2012

Financial Performance First Half FY11

Sales Revenue up 24.9%

- Sales Revenue $254.6 million up $50.8 million or 24.9%
- International dairy prices up by 36.4%, total volume down by 6.6%
- Consumer Goods prices steady with volumes up 25.3%

NPAT up 309.0%

- NPAT of $36.4 million up $27.5 million or 309.0%
- EBITDA $59 million. Operating cash flow $30 million

Strategic Initiatives

- Successful share placement and rights issue that raised a net $35.1m
- Net debt reduced by $60 million with gearing returning to traditional levels
- Business improvement projects approved and commenced utilising funds raised in H1

Highlights for the Year

- Strong second half trading performance
- International markets have remained firm despite widely expected downturn
- Capital raised and debt reduced by more than $60m
- Balance sheet repaired. Funds for reinvestment
- New projects commenced
- Sound operating performance
- Consumer products division continues to grow

Operations Highlights

- Milk to manufacture -1.5% versus last year
  - Conversion milk from Lion down due to floods
- GWF contract commenced at Mil Lel
- GOI completed first full year of commissioning
  - GOS production +88% on prior year
  - Operating cost reductions of $1.8 million

Operations Highlights

- **Environmental**
  - 95% of condensate used replacing mains water
  - Total site water re-use 46%, saving $763,000
  - Replacement of natural gas with Biogas saving $140K and 1606 tonnes of greenhouse gas
- **Safety**
  - LTI's x 6 for the year, no change from last year
  - Lost time injuries x 144hrs 50% reduction
- Continuous improvement projects completed:
  - $3.86 million in cost reductions

2011 Highlights

- Three major capital projects approved and commenced:
  - Sungold expansion
    - Increase capacity by 50%
  - Powder plant upgrade
    - Capability to produce high specification powders
  - Mil Lel specialty cheese upgrade
    - Capacity upgrade for GWF and specialty range

Award Winning Products


Photo courtesy of Australian Dairy Foods Magazine

Warrnambool's Vintage Cheddar Acknowledged as Best in Australia:
At Australia's premier dairy awards, Dairy Australia's Grand Awards, WCB beat out a list of very well established Australian cheese brands to win the award for Champion Cheddar Style Cheese for its Vintage Cheddar.

DIAA National

- E T Heard Memorial Gold Medallion Highest scoring unsalted butter - **Unsalted Butter**
- Cryovac Australia Award Highest scoring club cheese - **Cheddar with Cracked Pepper**

DIAA Victorian

- W L Kraft, OBE, Memorial Trophy, Highest scoring unsalted bulk butter – **Unsalted Butter**
- Aggreko Award Highest scoring club cheese - **Flavoured Cheddar, Cracked Pepper**
- Givaudan Trophy, Highest scoring flavoured milk, chocolate - **Sungold FM Chocolate**
- Givaudan Trophy, Highest scoring flavoured milk, coffee - **Sungold Xtra Coffee**
- In Vitro Technologies Award, Highest scoring flavoured milk other than chocolate or coffee - **Sungold FM Strawberry**
- Ecolab Trophy, Highest scoring flavoured milk overall - **Sungold Xtra Coffee**

Milk Intake Growth

- WCB needs more milk to support its growth strategy and new customer demand
- Strong closing and opening prices
- Open letter to suppliers
- Unique improvements to the payment system
  - Choice of payment options
  - Improved cash flow
  - Safety Net
  - Growth incentive doubled

Impact of strengthening $AUD

- On average we expect international prices to be better than last year
- In 2010/11 prices increased to offset the impact of the rising $AUD
- Further price improvement to offset the impact of sustained high exchange rates in 2011/12 unlikely
- A consistently high $AUD has the potential to hold farm gate prices to the low end of the DA range.

Carbon Tax

- Not clear how the tax will flow through in the market
- More policy detail required on rebates, offsets etc
- WCB can expect higher energy costs
- WCB will seek alternative energy sources. Now 64% natural gas.
- Trade-exposed industry cannot pass these costs on to local consumers or world markets.
- Electricity usage exemption for dairy procesors and producers

Outlook 2012

- International demand tipped to remain strong
- Supply side slowly responding
- International price outlook softening
- WCB well positioned to benefit from strong market conditions
- Investment in new value adding projects
- WCB is a low cost and efficient processor with significant product mix flexibility
  - Manufacturing Scale in cheese, powder and butter plants
  - Unique single site configuration

Questions