



Octa Phillip Agribusiness Conference

28 March 2012

Sydney



Presentation Contents



- Historical Gearing Position
- Milk Intake Growth
- Past Value Add Initiatives
- Current Financial Position
- Debt & Investment Policy
- Recent Initiatives

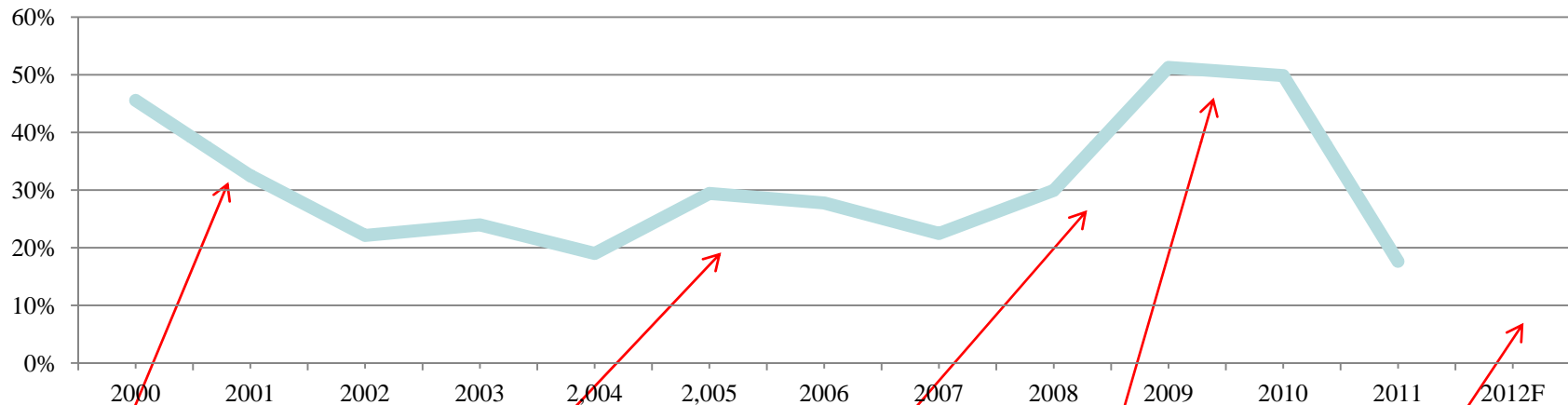


Historical Gearing Position



Underlying strong cash flow has contributed to maintaining low debt and gearing whilst investing in business growth

GEARING RATIO (DEBT/(DEBT + EQUITY))



SMP dryer commissioned in 1998 with gearing in excess of 60%.

Contributed solid cash flow growth directed towards early debt reduction

Cheese and WPC plant capacity upgrade 2005

Investment in consumer goods, Sungold and Enprocral brands

Cash flow contributed to reduced debt and profit growth

Investment in GOI joint venture converted waste product into profit and cash flow value add

GFC and first loss year in WCB history saw debt and gearing temporarily increase

Upgrade of SMP plant to produce customer specific Powders

Coles supply contract with WCB GOR brand

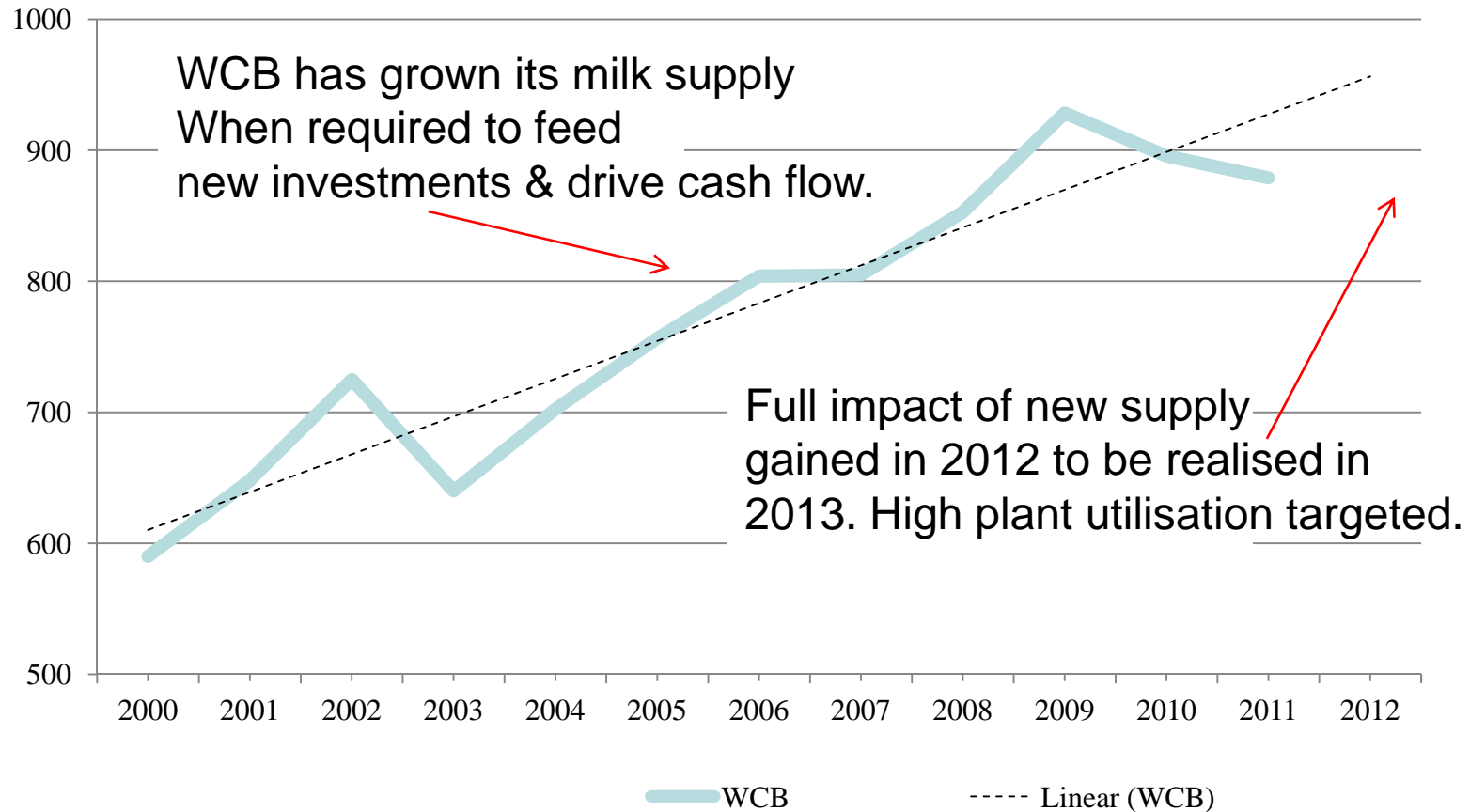
Sungold capacity increase



Milk Intake – Lifeblood of the business



Total Milk Intake (Litres million)



Past Initiatives - timely investments



❑ Powder plant investment - 1998

- Production of SMP commodity powder
- Expand customer base and product range
- Improved recovery and utilisation of milk
- Positive profit and cash flow contribution

❑ Cheese and WPC plant Upgrade – 2005 / 06

- Technology based upgrade to extract added value from increased milk intake
- Incremental capital spend with positive cash flow and profit contribution



Past Initiatives - timely investments



❑ Consumer goods investment – 2005 / 06

- Access to domestic retail dairy market with improved cash flow and profit
- Natural hedge against volatility of international commodities and exchange rates

❑ Investment in GOI joint venture – 2008 / 09

- Access to high value nutritionals and infant formula market
- Shared risk and knowledge base with FrieslandCampina
- Created profit and cash flow value from waste by-product



Current Financial Position – Dec 2011



Balance sheet strength maintained at more traditional levels

- Positive cash flow from operations
- Further debt reduction
- Working capital ratio improved by 43.9% to \$82.0 million
- Gearing at comfortable levels. Capacity to fund growth initiatives
- Non-core asset disposal as part of debt reduction program

Half Year ended 31 December (A \$m)	Dec 11	Jun 11	Movement
Net Working Capital	82.0	57.0	43.9%
Total Assets	262.0	251.7	4.1%
Total Equity	179.1	151.6	18.1%
Net Debt	28.4	33.1	(14.2)%
Gearing (net debt/net debt + equity) %	13.7	17.9	(4.2)%
Gearing (net debt/equity) %	15.9	21.8	(5.9)%



Current Financial Position – Dec 2011



Post GFC, WCB's return to more traditional debt and gearing levels has been a function of:

- Strong underlying business with reliable cash flows (strong cash flows in good market conditions)
- Ability to call on shareholders for support when required
- A re-engineering of working capital processes
- Sale of non-core assets

WCB is now positioned to enter another investment phase



Debt and Investment Policy



A disciplined approach to investment criteria and returns

- ❑ Target gearing in the 20% to 30% range
- ❑ Philosophy of keeping working capital and project funding separate, i.e. tie expenditure to returns
- ❑ Growth initiatives must add value; satisfy group financial hurdles
- ❑ Consider appropriate debt versus equity funding



Recent Initiatives

- Projects commissioned in H1



- ❑ **Powder plant capability upgrade**
 - Production of higher specification product
 - Customer specific product formulations at improved margins and cash flow

- ❑ **Sungold capacity expansion**
 - 50% increase in capacity
 - Positions Sungold to compete for volume contracts



Recent Initiatives

– Projects announced in FY12



- **5 Year Supply deal with Coles Supermarkets**
 - New strategic relationship
 - Coles exclusive for WCB consumer brand *Great Ocean Road*
 - Nation wide brand access for cheese
 - Includes cheese and fresh milk products
 - Expanded volume providing more balanced export & domestic sales
 - Will require investment in additional production capacity & capability





Questions





Appendix





2012 Half Year Results Presentation

March 2012



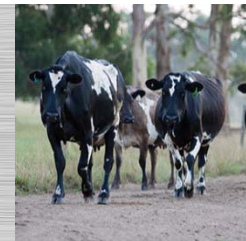
Presentation Outline



- Highlights
- Financial Results
- Operations
- Milk Supply
- Projects Commissioned in H1
- Recent Announcements
- 2012 Outlook & Risks



Highlights



Sales Revenue up 2.8%

Sales Revenue \$261.8 million up \$7.2 million or 2.8%

International dairy prices up by 0.4%, total volume up by 3.5%

Improved product mix continues to impact revenues

NPAT down 15.7%

NPAT of \$30.7 million down \$5.7 million or 15.5%

EBITDA \$50.9 million. Operating cash flow \$6.7 million

Maintained interim dividend at 4 cps

Strategic Initiatives

SMP plant upgrade contributing to improved gross profit margins. Sungold plant capacity expansion completed

Milk intake up by 3.5% increase with full impact to be realised in 2013

New supply agreement with Coles for *Great Ocean Road* consumer brand



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Financial Performance



Solid half year profit of \$30.7 million down \$5.7 million

- First half raw milk expense representing 49.9% of full year estimated milk cost compared to 45.9% in FY11.
- Outlook for full year at least as positive at same time last year.
- New initiatives and growth in milk intake provide basis for improved volumes and margins
- Utilised single site advantage to optimise mix and take advantage of export commodity prices
- Reduction in finance cost

Half Year ended 31 December (A\$m)	Dec 11	Dec 10	Movement
Revenue	261.8	254.6	2.8%
Earnings before Interest and Tax (EBIT)	44.7	54.7	(18.3)%
Net Profit after Tax (NPAT)	30.7	36.4	(15.7)%
Operating cash flow	6.7	30.1	(77.7)%
ROIC	14.8%	22.9%	(35.4)%
ROE	17.1%	20.9%	(18.2)%
Earnings per share	56.7	85.9	(34.0)%



Financial Position



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Financial Cash Flow



Positive business cash flows

- Strong international trading conditions have contributed to positive cash flows from operations
- Investing net cash flow is returning to more normal levels but offset by asset disposal funds.
- Traditional dividend payout ratios re-instated
- Operating cash flow will improve in H2 with reduced inventory

Half Year ended 31 December (A\$m)	Dec 11	Dec 10	Change
Operating net cash flow	6.7	30.0	(23.3)
Investing net cash flow	2.6	(2.4)	5.0
Proceeds from issue of shares	1.7	35.6	(33.9)
Net proceeds from borrowings	3.4	(23.3)	26.7
Dividends paid	(5.9)	(3.2)	(2.7)
Net Cash Flow	8.4	36.7	(28.3)

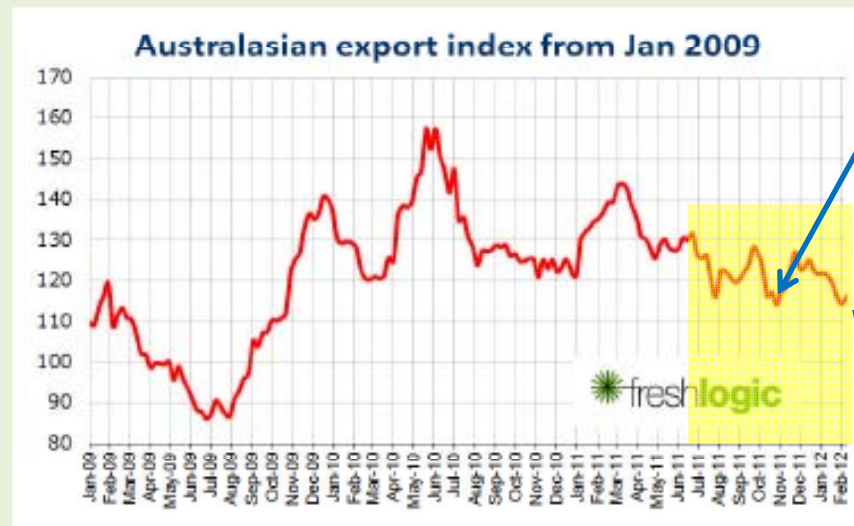


Export Revenues



Dairy export index

Index slightly better – The index of Australia spot returns gained 2 points this week, as the \$A lost ground against the \$US. Spot prices for both butter and cheddar lifted by \$US50/t each this week, while powders stayed unchanged. The \$A closed the week at \$US1.067 and the index of spot returns rose to 116.1.



Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

- **Commodity prices have held relatively constant over the last two years.**
- **Appreciation of the Australian dollar offset partially with effective hedging.**
- **“The global economic situation and exchange rate movements are major uncertainties in the outlook.**
- **Exporters will be exposed to a high and possibly variable exchange rate in the coming year.”**

(Dairy Australia Situation & Outlook: February 2012 Update)



Operations - Production Summary



	Jul – Dec 10	Jul – Dec 11
Milk to manufacture – including conversion (litres million)	499	489
Cheese (tonnes)	25,773	25,864
Whey protein concentrate (tonnes)	1,899	1,948
Milk powder (tonnes)	22,040	21,478
Butter/blends/frozen cream (tonnes)	7,429	7,602
Cream (tonnes)	3,721	3,085
Sungold milk (litres million)	16.1	12.8
Specialty Cheese (tonnes)	214	507
GOS (tonnes)	9,341	9,986
Enprocal (tonnes)	29	22
Total	86,546	83,292



Great Ocean Ingredients



- 96% of total site whey permeate processed by GOI
- 5% more whey permeate processed
- 6% more production of GOS compared to 2010/11 volumes
- Record peak month production of 1,890 tonne
- 99% of all GOS packed in specification
- Cost reduction strategies resulted in \$300K in savings YTD



Strong OH&S focus



- Lost time injuries: 4 versus 2 last year
- Lost time days is 86.5 days compared with 7.5 this time last year
- Serious incident are 10 compared to 15 this time last year
- Employer Performance Ratio over the last 3 years is **63% better** than the average for the industries in which we operate
- Peer industry average Workcover premium \$980,156. WCB forecast premium \$333,865
- New OH&S Committee commenced meeting in July with newly appointed and trained Health & Safety Reps attending
- Board approved Safety Enhancement Plan (SEP) commenced July 2011. Development of Departmental Risk Register.



Milk Supply – WCB vs Industry



Particulars	Dec-11	Dec-10	Movement
WCB Milk Flows (litres million)			
Victoria	415	392	5.9%
South Australia	63	71	(11.8%)
Milk from suppliers	478	463	3.2%
Other milk intake purchase and convers	46	58	(21.0%)
Total milk intake	524	521	0.5%
Milk sales	(25)	(32)	(21.9%)
Milk to manufacture	499	489	2.0%
Industry Milk Flows (litres million)			
Western Victoria	1,335	1,252	6.6%
Victoria	3,580	3,385	5.8%
Australia	5,332	5,109	4.4%



Projects Commissioned in H1



- **Powder plant capability upgrade**
 - Production of higher specification product
 - Customer specific product formulations at improved margins
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Outlook and Risks



2012 outlook remains positive

- International commodity prices expected to remain firm
- Milk pricing relationship to normalise in second half
- Consumer goods to grow with new projects
- Strong financial position will provide funding for growth initiatives
- Outlook for the full year generally in line with 2011

Risks to full year result versus previous year

- Domestic market competition impacts consumer products growth
- Further appreciation of the \$AUD against the \$USD and Euro
- A softening of international commodity prices
- Interruption to the global economic recovery





Questions

