



18 April 2013

ASX Release

TRADING UPDATE

Warrnambool Cheese and Butter Factory Company Holdings Limited (**WCB**) announces that consistent with its half year results announcement on 28 February 2013, the full year FY2013 outlook remains challenging due to subdued international commodity prices, the continuing high Australian dollar and ongoing competition in the raw milk market keeping upward pressure on prices paid to milk suppliers.

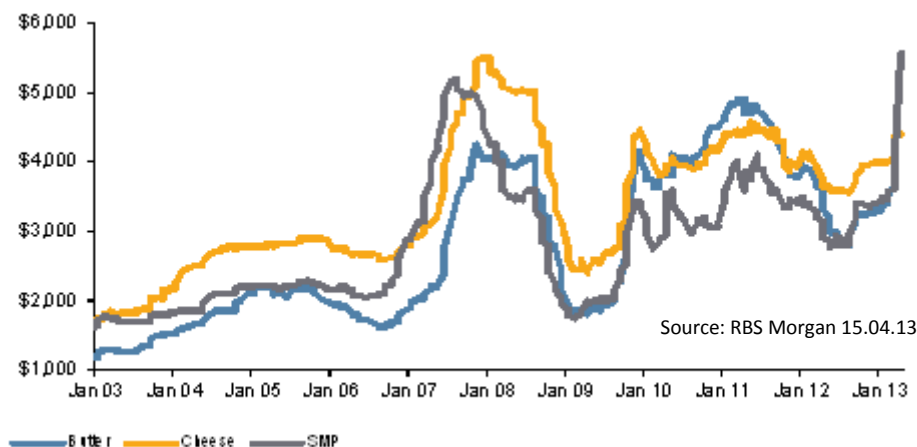
As a result, WCB now expects net profit after tax for FY2013 to be at least 80% below last financial year.

On a positive note, WCB reiterates statements made in its half year results presentation on 6 March 2013 (which is attached) that:

- we expect benefits to flow from further positive product mix changes, including powder sales in premium specifications and to customer specific applications;
- we expect our consumer goods business will continue to grow in revenue and margin, especially in light of WCB's introduction of Great Ocean Road branded cheese and fresh milk in Coles supermarkets and the recent launch of a new premium low fat cheese for Kraft, *Livefree*;
- our joint ventures are performing well, including our proposed arrangement with The Tatua Co-operative of New Zealand to construct and commission a lactoferrin plant at WCB's Allansford site, the contracts for which are expected to be finalised in the near term;
- our focus is on implementation of recent initiatives and new strategic projects, including an exclusive agreement with Kraft to produce up to 5,000 tonnes of cream cheese under WCB brands for export markets, and the investment to upgrade WCB's Whey Protein Concentrate (**WPC**) plant to produce WPC in instantised form, which are expected to produce improved financial performance; and
- we expect our balance sheet strength to be maintained.

In addition, international commodity prices continue to improve with significant price uplifts in sales contracts for delivery in Q1 and Q2 FY2014. This provides further confidence for an improved trading performance for FY2014. The graph below illustrates the recent price rally for major internationally traded dairy products. WCB believes this reflects the continuing growth in demand and concerns over adequate product availability.

USD Dairy Prices



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WCB FY2013 Half Year Results Presentation

- March 2013 -

Presentation Overview

- First Half Overview
- Financial Performance
- Key Performance Factors
- Short, Medium, Long Term Focus
- International Market Outlook
- 2013 Summary Outlook



First Half Overview

International prices down, consumer revenues growing

International market prices down 13.3%

Volume down 10.2%, Revenue down \$30.2m to \$231m

Depressed USD prices further impacted by high AUD

Earnings negatively impacted

NPAT \$15.3 million

EBIT \$21.8 million

EBITDA \$29.3 million

Strategic Initiatives

SMP plant upgrade complete. Higher premium powder sales

Mitsubishi Corporation premium powder agreement signed

Great Ocean Road brand launched in Coles. Consumer revenues up 26.6%



Key Performance Factors

1. International market prices

Prices achieved in the export market in H1 were depressed. WCB is investing in a higher value product mix to deliver price/margin premiums and reduced volatility relative to commodity products.

2. Sales volumes

Volume movements can occur between halves. H1 volumes are lower versus H1 LY due to GOR inventory build up and slower ramp up of actual sales.

3. Raw milk costs

Shifts in milk cost can occur between halves. Due to competition more cost was brought forward into H1, and higher prices paid given the soft market conditions.

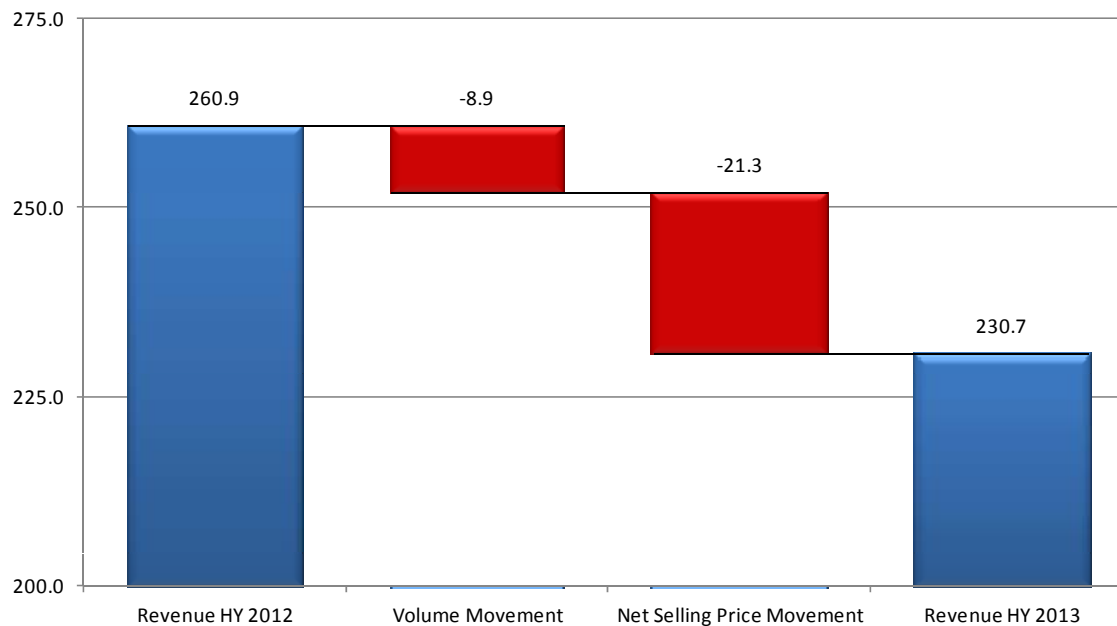
4. Foreign exchange: a persistently strong

A persistently high \$AUD reduces returns and makes effective hedging more difficult to achieve.



Revenue Movements

Revenue Movement HY 2013 v HY 2012 (\$ million)



Volume movement

- Reduced sales volume reflects a re-allocation of cheese production from export to inventory for consumer brands (7,000mt as at 31/12/12)
- Higher inventories held on the assumption of better prices in H2.

Net selling price movement

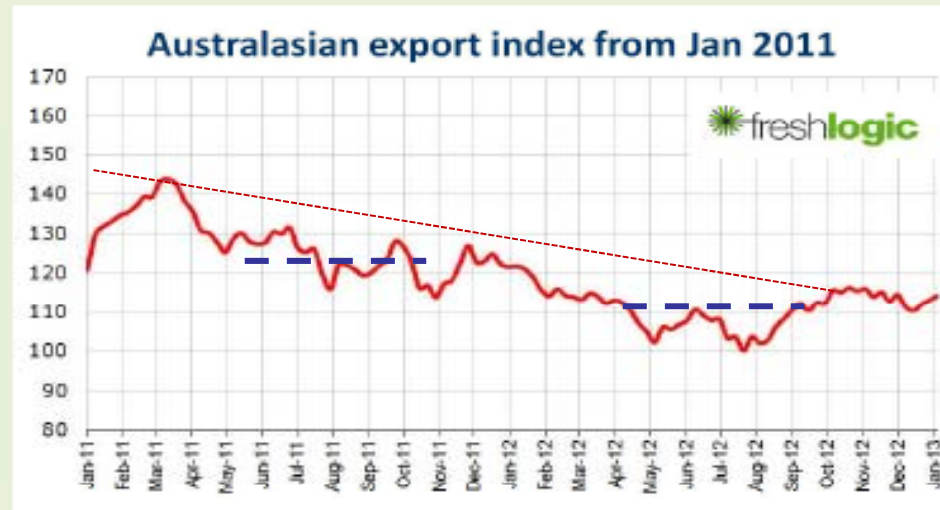
- Prices achieved in the international market down 13.3% versus LY.
- Combined effect of FX impact and reduced sales prices is \$21.3 million



Export Revenues

Dairy export index

Index jumps into 2013 – The index of Australian export returns started the New Year on the rise, with higher spot prices after a positive GDT result and a steadying of the \$A from its pre-Christmas run. The Australian dollar closed the week at \$US1.048 and the index lifted to 114.5.

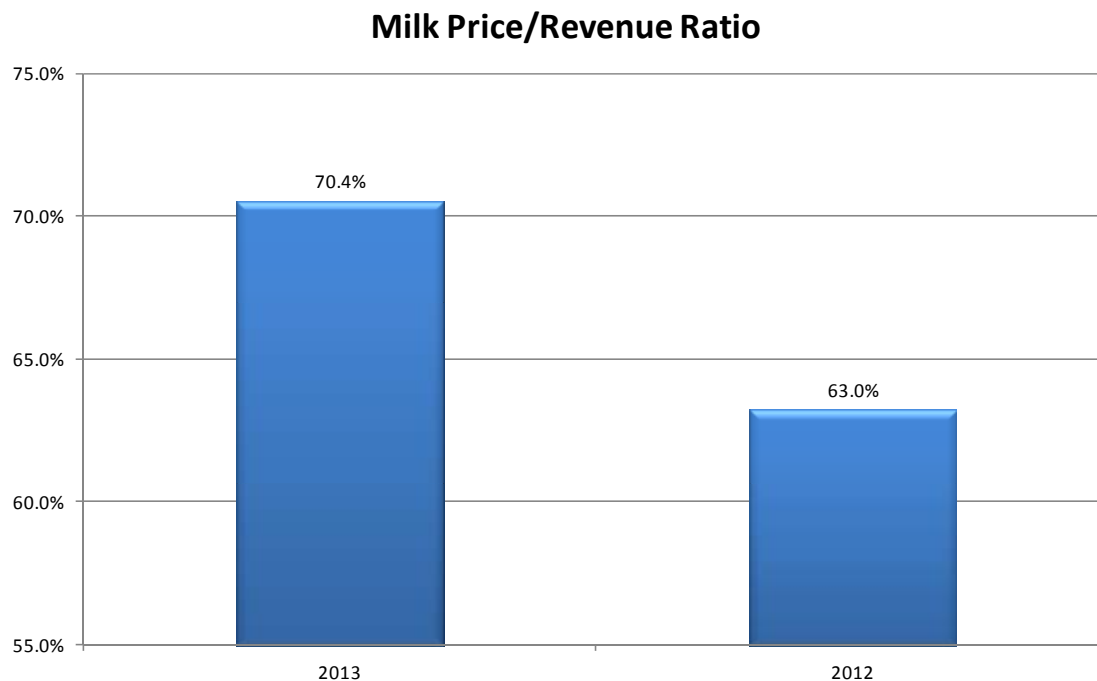


Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

- A rally on the supply side accelerated from January 2012 following a surge in dairy output in the US and NZ.
- Increased availability of product on the market has put downward pressure on prices. Compounded by a high AUD.



Milk Price to Revenue Ratio



- Competition amongst processors for raw milk has put upward pressure on price.
- Price increases to farmers have been brought forward into H1.
- The milk price to revenue ratio increased by 7.4% versus LY.
- Financial impact of higher ratio; \$16.9 million.



Financial Performance

Depressed international market pricing and high milk costs impacted profit

- Total revenues down \$30.2 million
- Ratio of Milk price to revenue 70.4% compared to 63.0% LY
- Consumer goods revenues up \$5.7 million or 26.6%, prices up 10.9% volumes up 14.1%

Half Year ended 31 December (A\$m)	Dec 10	Dec 11	Dec 12
Revenue	254.6	261.8	231.0
Earnings before Interest and Tax (EBIT)	54.7	44.7	22.9
Net Profit after Tax (NPAT)	36.4	30.7	15.3
Operating cash flow	30.1	6.7	(17.9)
ROIC	22.9%	14.8%	11.3%
ROE	20.9%	17.1%	8.9%
Earnings per share	85.9	56.7	27.8



Financial Position

Balance sheet
strength maintained

- Working capital and total asset increase reflects seasonal inventory increase and increase in inventory for Coles Supply agreement
- Working capital and debt will decrease as inventories are depleted in second half

Half Year ended 31 December (A\$m)	Dec 10	Dec 11	Dec 12
Net Working Capital	72.7	82.0	68.6
Total Assets	266.7	262.0	301.7
Total Equity	173.9	179.1	171.8
Net Debt	41.4	28.4	79.1
Gearing (net debt/net debt + equity) %	19.2	13.7	31.6
Gearing (net debt/equity) %	23.8	15.9	46.0



Financial Cash Flow

Inventory build up
impacts cash flows

- Low international prices, higher milk cost and inventory build up is reflected in net operating cash outflow
- Inventory build up: Export \$8.0 million, specialty cheese \$28.0 million
- Investing net cash flow at normal levels
- Operating cash flow will improve in H2 with reduced inventory

Half Year ended 31 December (A\$m)	Dec 10	Dec 11	Dec 12
Operating net cash flow	30.0	6.7	(17.9)
Investing net cash flow	(2.4)	2.6	(7.5)
Proceeds from issue of shares	35.6	1.7	1.9
Net proceeds from borrowings	(23.3)	3.4	30.9
Dividends paid	(3.2)	(5.9)	(6.0)
Net Cash Flow	36.7	8.4	26.8



Milk Supply – WCB vs Industry

Particulars	Dec 11	Dec 12	Movement
<u>WCB Milk Flows</u>			
Victoria	415	423	1.9%
South Australia	63	88	39.7%
Milk from suppliers (litres million)	478	510	6.7%
Other milk intake purchase and conversion (litres million)	46	19	(58.6)
Total milk intake (litres million)	524	529	0.9%
<u>Industry Milk Flows</u>			
Western Victoria (litres million)	1,355	1,359	0.3%
WCB Market Share (%)	30.6%	31.1%	0.5%
South Australia (litres million)	299	291	(2.7%)
WCB Market Share (%)	21.0%	30.2%	9.2%
Victoria (litres million)	3,580	3,625	1.3%
Australia (litres million)	5,322	5,350	0.5%



Short Term Focus – consolidate recent initiatives

- Increase percentage of powder sales in premium specification or customer specific applications at improved margins;
- Extend customer specific formulations in cheddar and reduced fat cheese;
- Commence Mitsubishi Corporation exclusive premium powder supply agreement;
- Roll out growth plans for *Great Ocean Road* branded cheese and fresh milk in Coles supermarkets.



Medium Term Focus – execute new business initiatives

- **Cream cheese manufacture agreement with Kraft**
Negotiations have been completed with Kraft for an exclusive agreement to produce up to 5,000 tonnes of cream cheese for WCB's export markets. First production in Q2.
- **Premium low fat cheese developed for Kraft**
WCB's proprietary formulation will be launched under the Kraft *Livefree* brand. Lowest fat cheese on the market, 80% less fat with delicious cheddar flavour. Product in market now.
- **WCB to enter Lactoferrin market**
WCB and Tatua Cooperative of New Zealand have signed an MoU to construct a lactoferrin plant at WCB's Allansford site. Tatua will act as a technology partner for WCB. Target commissioning in Q4.
- **Instantised WPC capability upgrade**
Investment in capability upgrade to enable the production of whey protein concentrate (WPC) in instantised form. A premium form of standard WPC for applications in sports nutrition and infant formula.

See appendix for more details

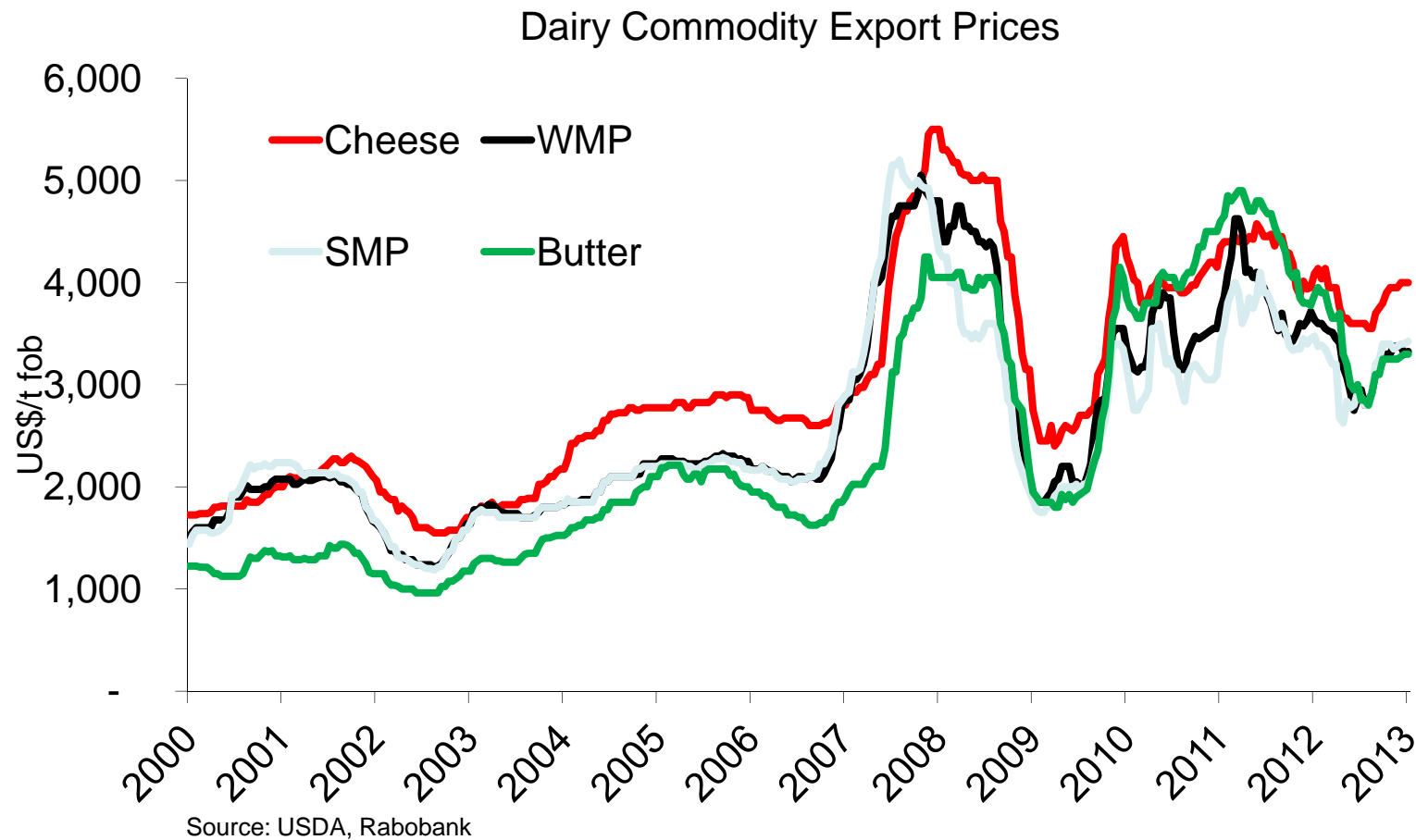


Long Term Focus – continue delivery of strategy

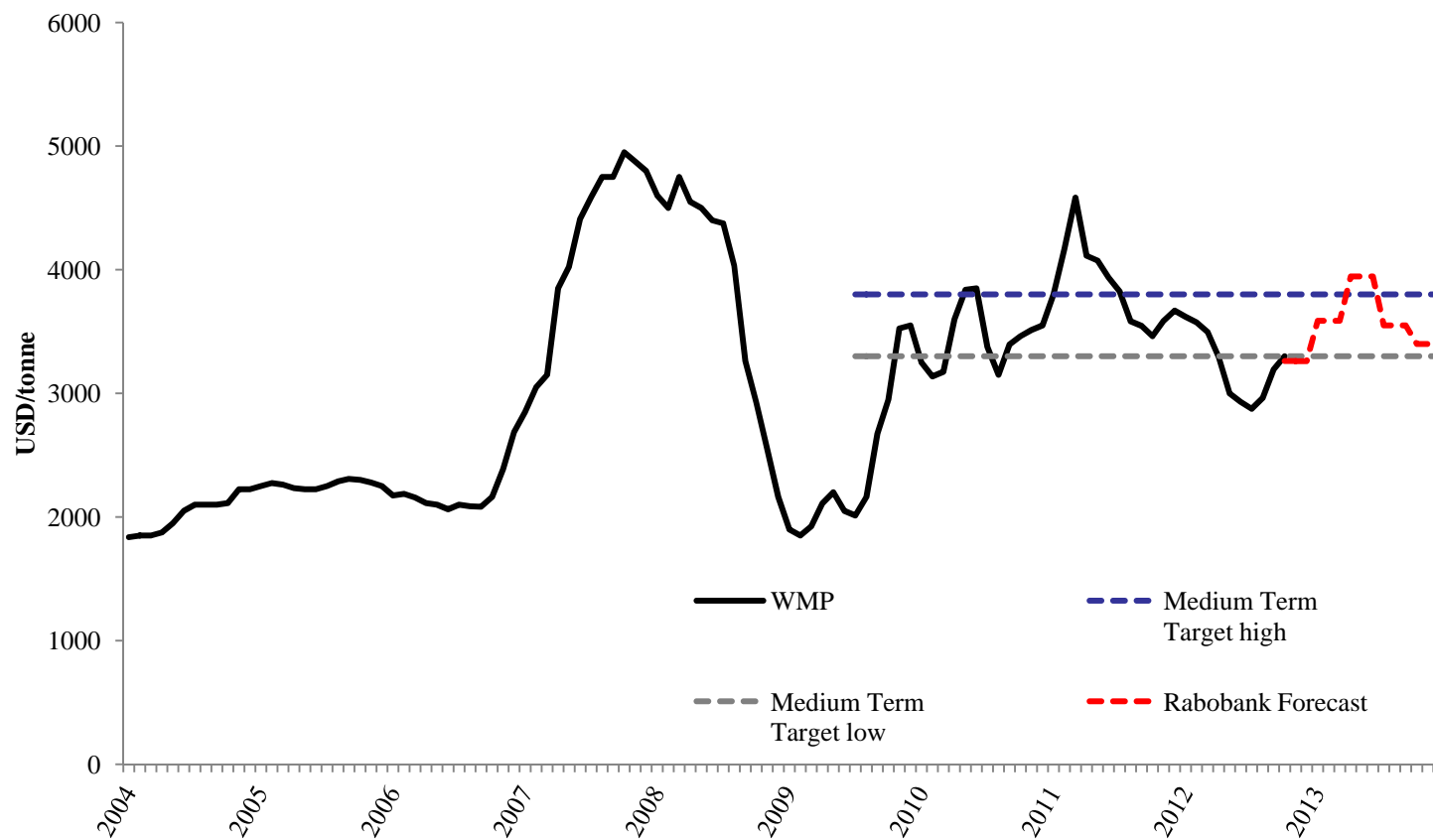
- *Higher margin commodities; customer specific applications*
 - improved product mix
- *Expand retail business*
 - Great Ocean Road cheese
 - Other premium cheese opportunities
- *Proactive in industry opportunities*
 - extensive industry dialogue
- *Maintain lowest cost business status*
 - high utilisation, efficiency through continuous improvement
- *Progressive milk procurement package*
 - achieve optimum intake levels



World dairy markets looking more bullish

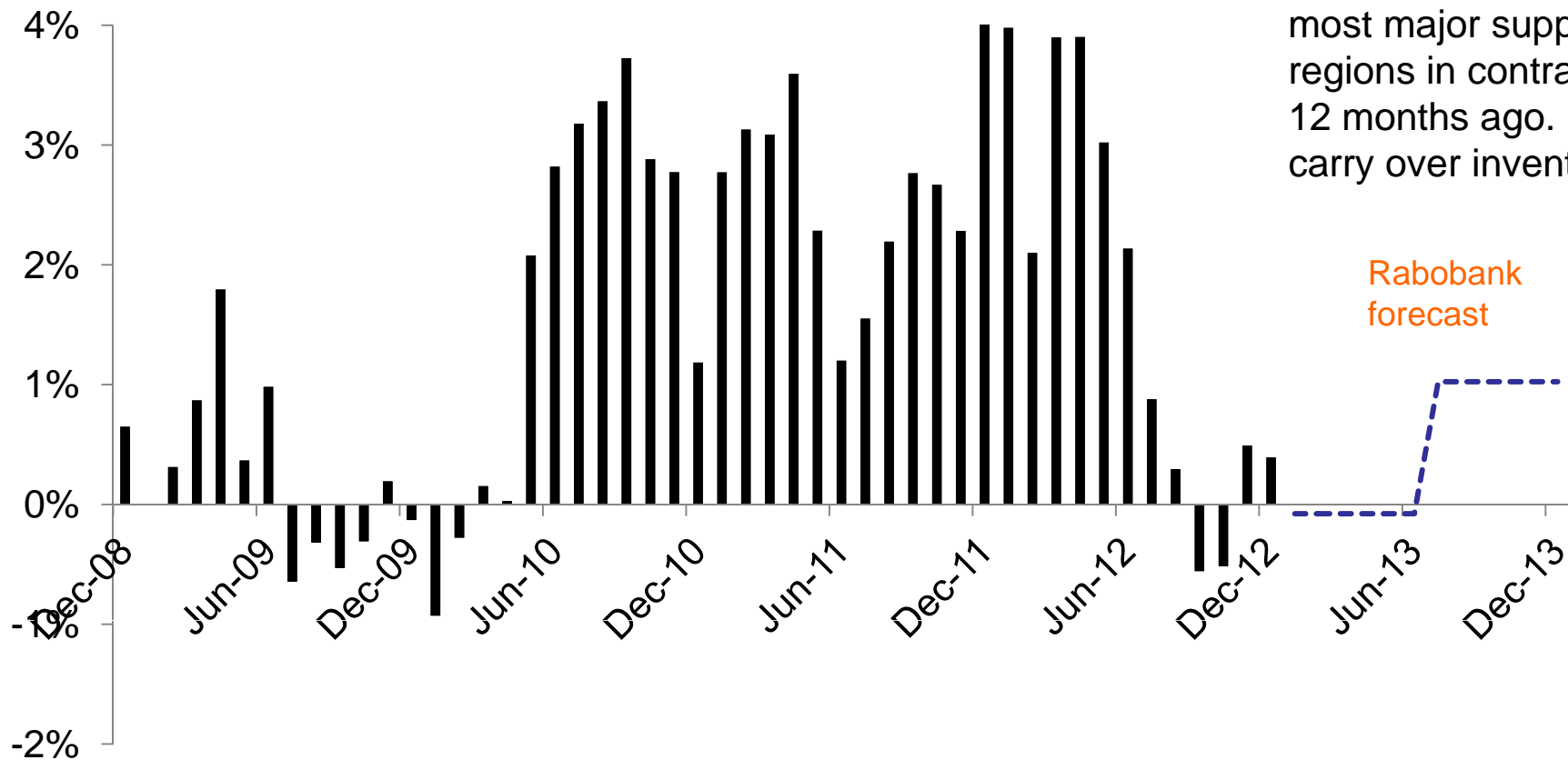


Forecast price range for FY14



As milk slows from key export regions

Milk production growth of Big 7



Milk production lower than expected across most major supply regions in contrast to 12 months ago. No carry over inventory.

Rabobank
forecast

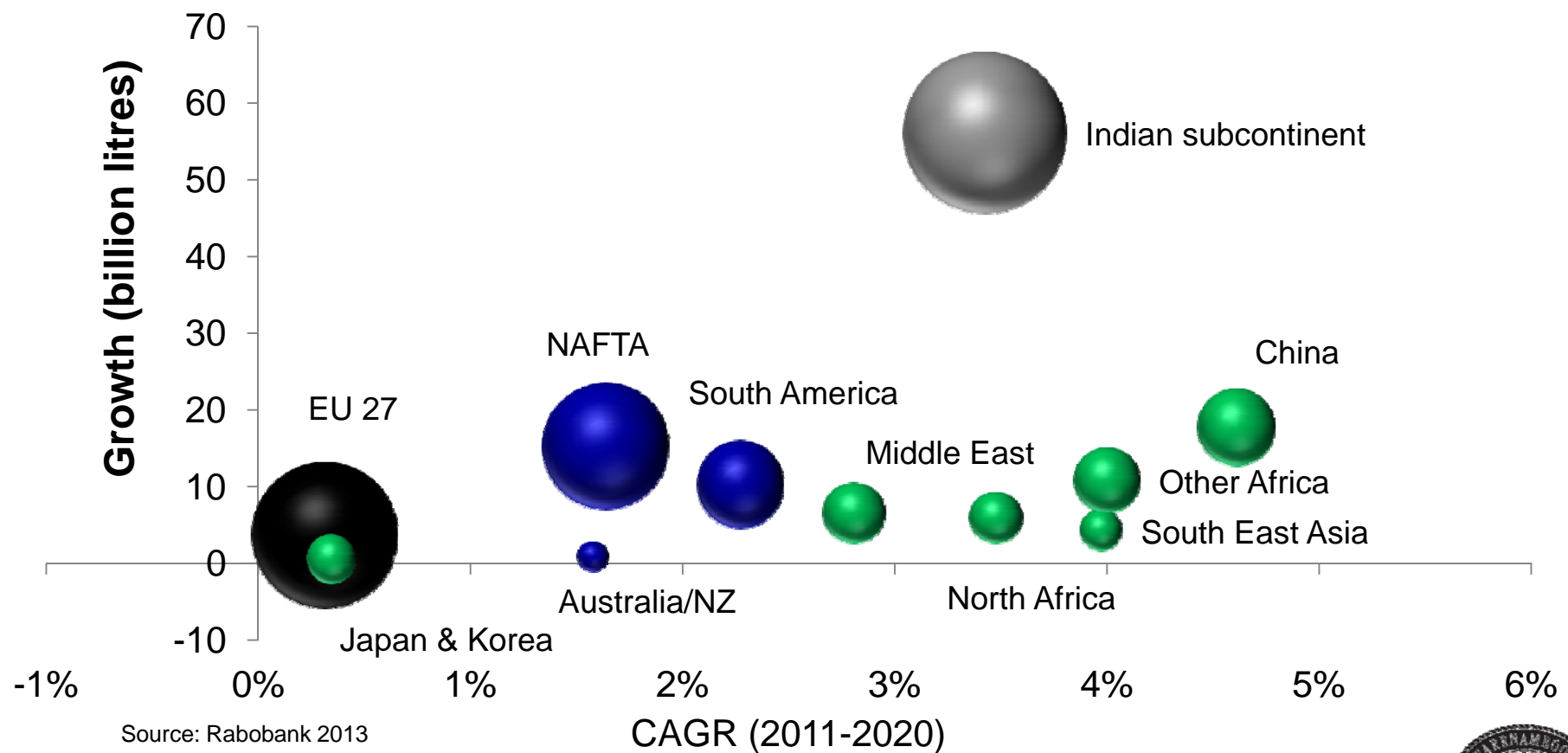
Source: Rabobank 2013

WCB FY2013 Half Year Results



Dairy consumption is a growth story

Market size and forecast growth



Source: Rabobank 2013

WCB FY2013 Half Year Results



Market Outlook – Supply Dynamics

Milk production lower than expected across most major supply regions in contrast to 12 months ago. No carry over inventory.

- High feed cost and low milk prices have squeezed margins on farm.
- Heat stress in US.
- Cold and wet winter in EU.
- Flooding in Argentina.
- Drought conditions now impacting on NZ and Australia.



Market Outlook – Demand Dynamics

Stable demand supported by strength in Asia.

- China achieves record imports for WMP for the Q4 period in 2012.
- India demand growing well outstripping local production.
- Indonesia and Vietnam mirroring China in demand for quality dairy ingredients.
- US domestic market recovering.
- EU still depressed.



Summary Outlook

H2 FY2013 outlook remains subdued:

- International commodity prices expected to improve; no major impact in FY2013.
- Raw milk pricing subject to strong competition and upward price pressure.
- Benefits to flow from further positive product mix change.
- Consumer goods business will continue grow in revenue and margin.
- Balance sheet strength maintained.
- Joint ventures performing well.
- Focused implementation of recent initiatives and new strategic projects.





Appendix – supplementary information

Production Summary

	Jul – Dec 11	Jul – Dec 12
Milk to manufacture (litres million)	478.3	473.0
Cheese (tonnes)	25,864	26,402
Whey powder (tonnes)	1,948	1,963
Milk powder (tonnes)	21,478	20,612
Butter/blends/frozen cream (tonnes)	7,602	7,029
Cream (tonnes)	3,085	3,388
Sungold milk (litres million)	12.8	14.5
Specialty Cheese (tonnes)	507	908
GOS (tonnes)	9,986	10,377
Enprocal (tonnes)	22	25
Total	83,292	85,185



Cream Cheese

- Kraft to manufacture exclusively for WCB under the Warrnambool and Sungold brands, using WCB supplied cream and milk.
- Plan on commencing production this month.

Targeted Markets:

Japan
Middle East
China
Singapore
Malaysia



Lactoferrin

- Undergoing a period of strong & consistent growth.
- The key region is Asia; the key market is China.
- The key applications are Infant Formula (IF) and Fresh Dairy.
- Lactoferrin is registered as a “Novel Ingredient” in China.
- Lactoferrin is one of a small group of “Value Add” ingredients for IF in China.
- The inclusion of LF in an infant formula positions it as a “premium” product.



Instantised Whey Protein Concentrate

- Capital investment of \$1.6 million approved.
- Supply to market to commence FY14.

Market Opportunity

- US sports nutrition market
- Chinese supplement powder market
- Expand offering to Australian customers
- Improvement to Enprocal



Lowest Fat Cheese

- ❑ WCB has developed a very low fat cheese in conjunction with Kraft.
- ❑ The unique characteristics of this product is that it maintains the taste and texture of a good cheddar.
- ❑ Launched in Feb 2013 under the *Live Free* brand.
 - Four times lower in fat than other leading 'light' tasty cheeses, making it the perfect choice for those looking for a reduced fat option.
 - It is also 80% less fat and half the energy of regular tasty cheese all the while maintaining its delicious cheddar flavour.



Enprocal Exports

Market opportunities in export markets where there is a growing elderly population. Includes:-

- China
- Indonesia
- Malaysia

First launch will be in Vietnam where an exclusive distribution agreement has been signed.

