

IN THE AUSTRALIAN COMPETITION TRIBUNAL

of 2013

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

**RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE
AND BUTTER FACTORY COMPANY HOLDINGS LIMITED**

Certificate identifying annexure

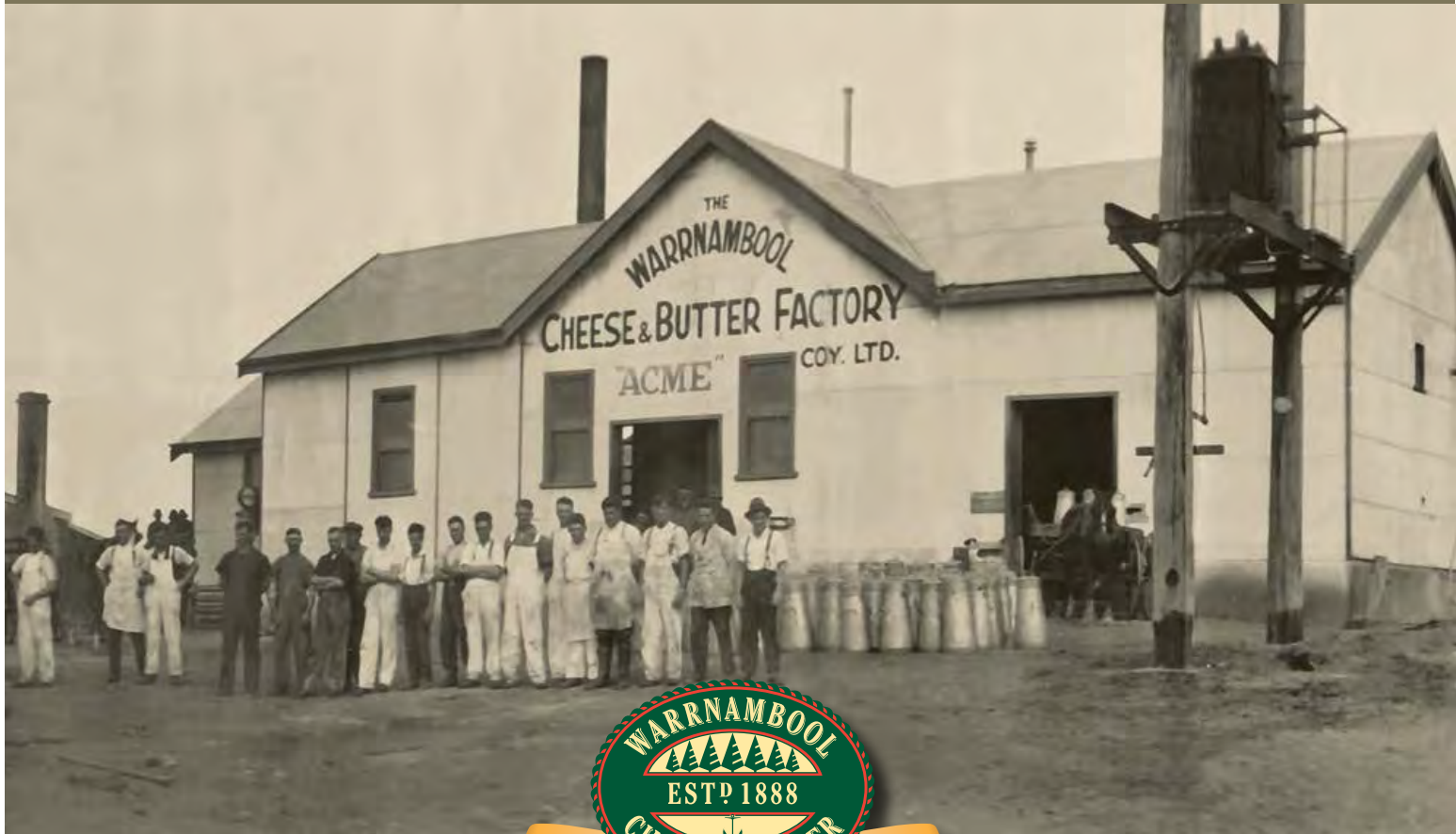
This is the annexure marked RAP6 now produced and shown to Robert Arthur Poole at the time of signing his statement on 28 November 2013.

Annexure RAP6
Warrnambool Cheese and Butter Factory Company
Holdings Limited 2013 Annual Report

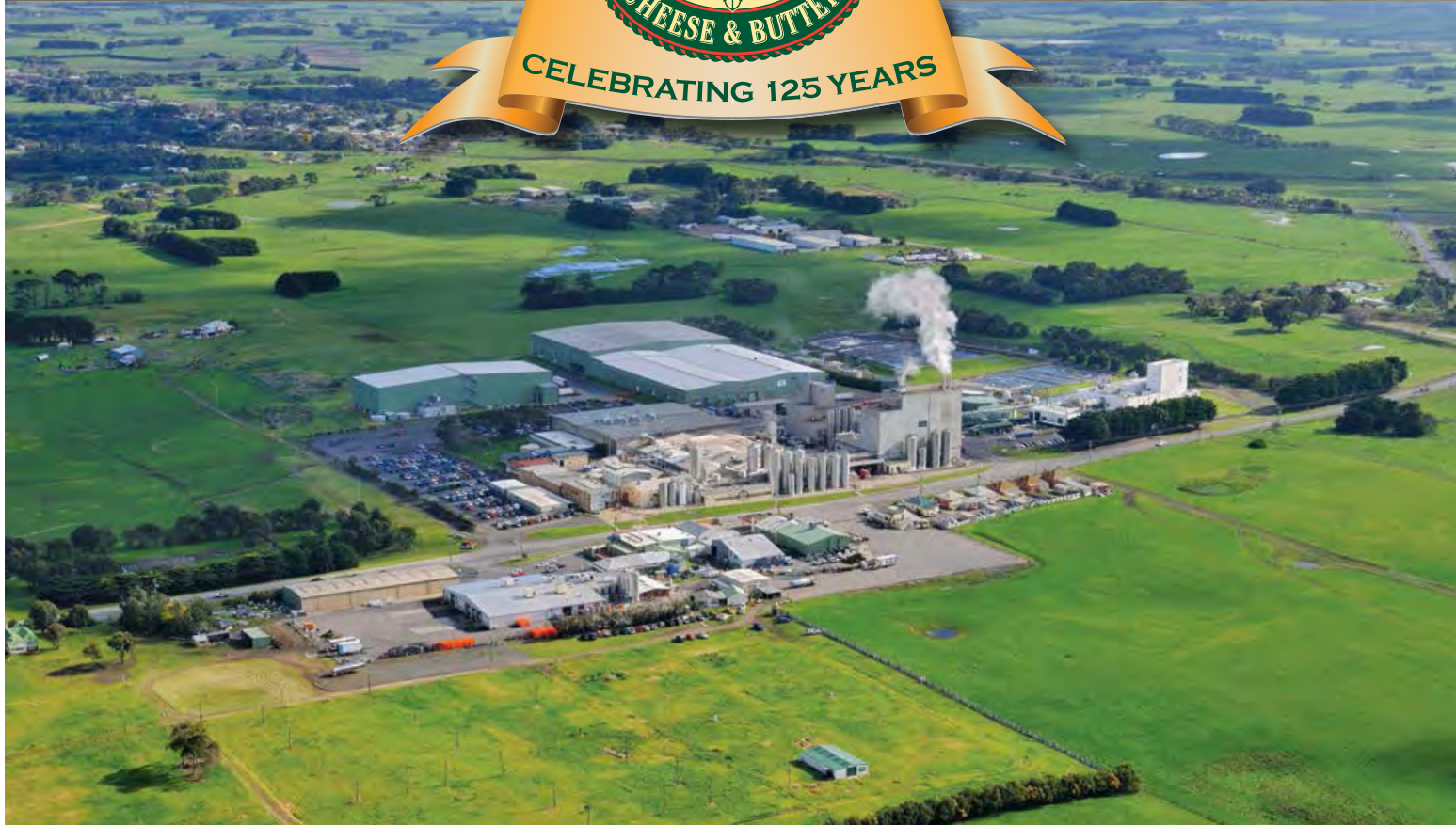
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ANNUAL REPORT 2013



CELEBRATING 125 YEARS





ANNUAL REPORT 2013

CONTENTS

- 4 Chairman's Report
- 5 Chief Executive Officer's Report
- 8 Operations Review
- 19 Executive Team
- 20 Corporate Governance Report
- 26 Directors
- 28 Directors' Statutory and Remuneration Report
- 37 Auditor's Independence Declaration
- 38 Shareholders & Additional Information
- 39 Financial Statements
- 77 Directors' Declaration
- 78 Independent Auditor's Report
- 79 Five Year Summary
- 79 Corporate Directory

Above: adding starter, circa 1950s.
 Cover: top photo circa 1920s, from the collection held at Cheese World Museum.
 Bottom photo 2012.



WARRNAMBOOL CHEESE AND BUTTER – AT A GLANCE

Warrnambool Cheese and Butter has played an active role in the Australian dairy industry for 125 years.

Key facts about WCB:

- the oldest dairy company in Australia
- one of the largest milk processors in Australia
- first listed on the Australian Securities Exchange (ASX) in 2004
- one of the biggest employers in southwest Victoria
- growing band of suppliers from some of the most productive dairying regions in Australia, providing close to 900 million litres of high quality milk each year
- produces high quality cheese, milk powder, whey protein concentrate, butter, milk, cream, Vivinal GOS and other nutritional ingredients for Australian and international customers
- creates long-term value for its shareholders

2013 PERFORMANCE

Net profit after tax

WCB achieved a net profit after tax of \$7.5 million

Gearing

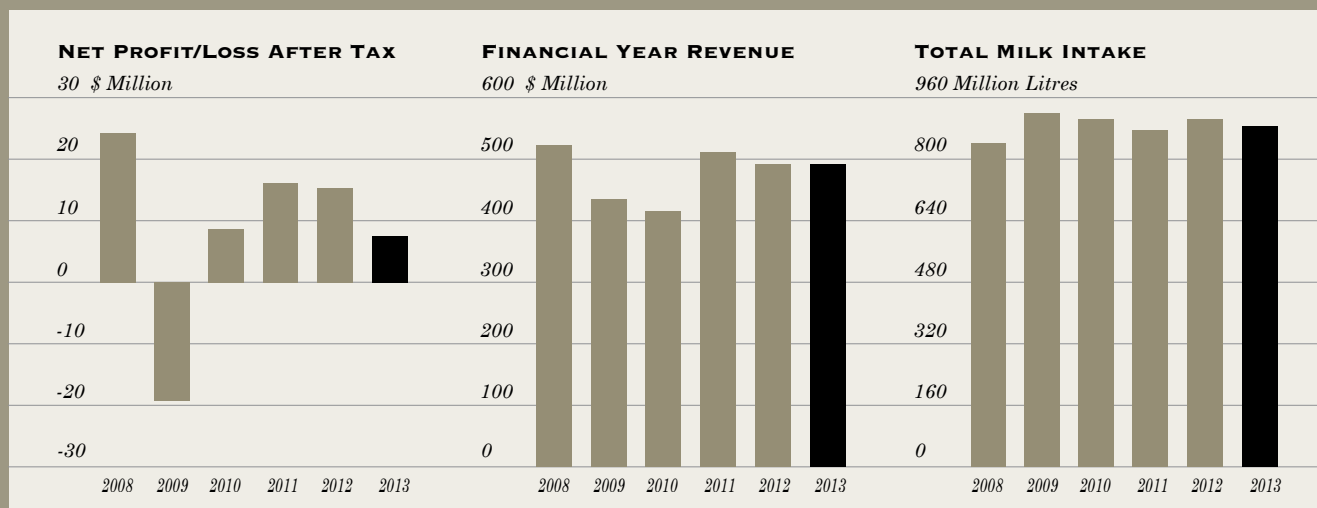
Gearing based on total debt over total debt plus equity has increased to 31.8%

Total milk intake

Total milk intake declined to 890 million litres, a 3.1% reduction on FY2012

Earnings per share

Earnings per share declined by 51.2% to 13.6 cents (2012: 27.8 cents)





CHAIRMAN'S REPORT

WCB celebrates its 125th year of incorporation as a company this year – a great achievement! While it has been a very difficult year for suppliers and manufacturers right across the dairy industry, there have been some very positive developments for WCB in pursuing our strategy for higher margin commodities, expanding our retail business, and increased efficiency through continuous improvement. Our success with these strategies will benefit our shareholders, suppliers and customers in years to come.

Depressed international prices for dairy products – particularly cheese – exacerbated by a high Australian dollar, saw our international revenue decline by \$44.8m in FY2013 compared with the previous year. However, this loss of revenue was substantially recovered by domestic business operations.

Net Profit After Tax (NPAT) declined by 50.7%, from \$15.2m to \$7.5m; a frustrating result when some of the factors leading to this outcome were beyond our control, particularly exchange rates, commodity prices and some heavy increases in power and services costs. Despite this poor outcome, we have been able to maintain reasonable rewards to our stakeholders.

Dividend has been declared at 11 cents per share. While less than the previous year, this still represents a payout ratio of 81.1% of NPAT, and a payment equal to that paid in our final dividend declaration in FY2012.

While milk prices paid to our suppliers in FY2013 were less than we would have preferred, we achieved our objective of paying a competitive price which fully delivered on our guidance to suppliers at the start of the year.

Although this has not been a strong year in terms of financial outcomes, it has been a strong year for new business initiatives. Our strategy of seeking to lessen our reliance on international markets and to add more value to our production has been well documented in the past, and we have made some major investments in initiatives such as Sungold Milk, our joint venture with Royal FrieslandCampina, our marketing joint venture in Japan and our specialty cheese agreement with Coles. New initiatives in FY2013 include a cream cheese manufacturing agreement with Kraft, the development of a premium low fat cheese marketed by Kraft under the *Livefree* brand, expansion into the high-value lactoferrin market, and an upgrade in our whey protein concentrate plant to create more functionality for customer-specific applications.

During the year, WCB was named “2012 Victorian Exporter of the Year” at the prestigious Governor of Victoria Export Awards. This is an excellent achievement for a regionally based company competing against a wide range of corporations across many industries. The submission process was a great opportunity to showcase our achievements and milestones over the last ten years and it's wonderful to be acknowledged for these achievements on such a public platform. We are extremely proud of this title and thank all of our staff and suppliers for their contribution to making WCB the great company it is today.

It is fitting that this award should come in the same year we celebrate 125 years of trading under the Warrnambool Cheese and Butter name. Very few companies indeed can claim such an achievement, and our focus on quality, which has always been a hallmark of WCB, underpins an award such as this. The other common denominator over this long period has been the ongoing support of our suppliers. At our 125-year commemoration in May, we celebrated with supplier families who are descendants of some of the early families supplying the factory, and it is a great honour to enjoy such a long association.

During the year, farmers' concerns over short-term and long-term viability were manifested in a series of meetings designed to draw greater attention to the issue of poor farmgate profitability. It is clear that farmers are frustrated, and WCB understands and shares their frustration. The promised surge in global demand for commodities and associated uplift in prices, which has arrived in the minerals and energy areas, has yet to manifest itself for agricultural products, particularly dairy. WCB remains positive for the future of the industry and recognises the need to maintain farmer confidence and capacity in the short term, while over the longer term building a strong, expanding and viable industry better able to cope with year-to-year volatility.

The coming year's prospects look far more encouraging, with a 25.0% increase in our opening milk price and favourable expectations for commodity prices and exchange rates. However, we should not allow a potentially easier year to defer the addressing of serious structural issues within the industry. We support calls for initiatives to return the industry to robust health and vigorous growth, such as has been achieved in New Zealand where production has almost doubled over the past decade or so, while Australian production has in fact declined. Turning this around will require a coordinated effort involving government, industry bodies, processors and producers. WCB is ready to play a role in identifying strategies to address the issues which can close the gap and position us all to prosper from the global food demand which will inevitably arrive.

This is the last time I will address our shareholders and other stakeholders, as I retired from the Board at our August meeting. It has been a privilege to serve the Company over the past 13 years and I would like to pay particular tribute to my fellow directors over that time, CEO David Lord and WCB staff for their hard work and dedication, and to our supplier network for their loyalty to WCB over many years.

Frank Davis
Chairman



CHIEF EXECUTIVE OFFICER'S REPORT

FY2013 proved to be a difficult year for WCB and its major stakeholders. Depressed trading conditions characterised the global dairy commodities markets and poor climatic conditions impacted on the ability of supplier stakeholders to profitably grow milk production.

In this supply-constrained environment, processors competed strongly for the available raw milk supply, which resulted in elevated farmgate prices relative to the poor trading conditions. Foreign exchange provided no offset to these factors as the Australian dollar remained consistently strong against the US dollar, which further eroded depressed US dollar prices. Notwithstanding this, WCB made solid progress in the delivery of strategy with numerous business improvement initiatives completed and a subsequent improvement in overall product mix toward a higher value and less-volatile combination.

Volume and Revenue

Strong lifts in milk production in some key dairy exporting nations resulted in higher availability of products on the global markets, which put significant downward pressure on prices. While volumes remained steady, revenues generated by internationally traded commodities fell by 10.9%. Despite this, WCB maintained total revenues at only 0.3% below the previous year due to a strategic adjustment of product mix to maximise value in the subdued market conditions. Raw milk was reallocated from commodity manufacture to domestic fresh milk customers where returns exceeded those available from export markets. Additional revenue offsets to the decline in export revenues were achieved in the consumer goods division where specialty cheese revenues grew by 128.7%, underpinned by the success of the Great Ocean Road brand in Coles supermarkets nationally. Packaged milk revenues grew by 9.2% over the previous year.

Earnings and Shareholder Returns

As an export-oriented food manufacturer, WCB's business model is sensitive to the prices received for its products on international markets. And in a year characterised by subdued international pricing and a strong Australian dollar, WCB's earnings declined significantly compared with the previous year. Earnings Before Interest and Tax fell by \$9.1 million to \$13.7 million and Net Profit After Tax halved compared with the previous year to \$7.5 million. In line with the reduced earnings outcomes in FY2013, shareholder returns were negatively impacted. Returns on Equity and Invested Capital declined to 4.6% and 10.4% respectively. Directors have approved a dividend of 11 cents per share, which, compared with the previous year, is a reduction of the value of the interim dividend that was withheld at the half year due to the difficult trading conditions. The strength of this dividend is a reflection of WCB's strong balance sheet position and the Board's positive outlook for the year ahead.

Key Performance Factors

WCB's operating and financial performance was influenced by a number of key factors throughout FY2013.

International market prices

Prices achieved in the export markets throughout the year were severely depressed. For the first three quarters of FY2013, average prices received were 12% below the previous year. The sharp lift in price in the fourth quarter was insufficient to materially impact the full year result. To reduce the potential for these circumstances to impact results in future years, WCB is investing in a higher value product mix to deliver price/margin premiums and reduced volatility relative to commodity products.

Raw milk costs

Due to competition for raw milk amongst processors in the market, higher prices were paid to suppliers relative to the poor market conditions. While overall milk cost for the year was lower than the previous year, milk cost represented as a share of revenue generated from commodity products was significantly higher than the previous year.

Foreign exchange

Depressed international prices received in US dollars were further impacted by a high Australian dollar. In addition to reduced returns, a persistently high Australian dollar in relation to the US dollar makes effective hedging and foreign exchange management more difficult to achieve.

Product mix optimisation

WCB's single-site configuration, comprising five manufacturing plants, provides it with the flexibility to adjust production mix to optimise returns based on market prices. In the last quarter of FY2013, WCB diverted milk from cheese production to skim milk powder production to take advantage of spikes in international powder prices.

Corporate-level Strategy and Business Improvement Initiatives

WCB corporate-level strategy has been consistent over the last three years, with a disciplined approach taken to all investments. Business improvement projects must initially pass through the strategic filter and then clear internal financial hurdles before business cases can be approved by the Board. WCB improved its project management capability in FY2013 with the introduction of a Program Management Office (PMO). The PMO's primary goal is to achieve the standardisation of project management processes and methods to ensure projects are delivered on time, in full, on budget, and with sustainability.

CHIEF EXECUTIVE OFFICER'S REPORT

Business improvement project activities can be grouped into three categories.

Short Term: Consolidate Recent Initiatives

- Increase the percentage of total powder sales in premium specification or customer-specific applications at improved margins.
- Extend customer-specific formulations in cheddar and reduced fat cheese.
- Expand the 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: Execute New Business Initiatives

Cream cheese manufacturing agreement with Kraft

Launch Sungold branded cream cheese into the export market through an exclusive manufacturing agreement with Kraft. Build volumes to fully utilise the 5,000 tonnes of available capacity.

Premium low fat cheese developed for Kraft

WCB's proprietary low fat cheese formulation has been launched under the Kraft *Livefree* brand. It is the lowest fat cheese on the market, with 80% less fat and a delicious cheddar flavour. Products are in the market now.

WCB to enter lactoferrin market

WCB and Tatua Cooperative of New Zealand have entered into a technology and services agreement, under which Tatua will license WCB to use its intellectual property in relation to the extraction and processing of lactoferrin from milk. Lactoferrin is primarily used as a functional ingredient in premium infant formulations.

WCB is currently constructing the lactoferrin plant at its Allansford site, with Tatua providing design and construction services to assist WCB in achieving optimal operating performance. Commissioning is expected around the end of the second quarter of FY2014.

Instantised WPC capability upgrade

Investment in a capability upgrade to enable the production of whey protein concentrate (WPC) in instantised form has been completed. WCB will transition current WPC volumes to the premium instantised form over time. Instantised WPC delivers greater application functionality for sports nutrition and infant formula customers.

Long Term: Continued Delivery of Corporate Strategy

The Board and management are committed to effective execution of the five WCB corporate-level strategic objectives over the long term. Detailed business plan actions of the management group are developed to support these five pillars.

1. Higher margin commodities and customer-specific applications

Target an improved product mix to increase margins and reduce volatility relative to mainstream dairy commodities. Ingredients designed to customer-specific applications are a central part of this strategy.

2. Expand the domestic retail business

Opportunities exist in the domestic market to expand WCB's consumer products offering and contribute to an improved margin product mix. The successful launch of the Great Ocean Road cheese brand underpinned a significant increase in specialty cheese revenues in FY2013.

3. Proactive in industry opportunities

Maintain a constructive dialogue with industry players in search of value-creating opportunities to collaborate, rationalise or consolidate existing activities.

4. Maintain lowest cost business status

Leverage WCB's status as a lowest cost processor by maintaining high plant utilisation and efficiency supported by a continuous improvement operating culture.

5. Progressive milk procurement package

Deliver a creative milk procurement package to milk suppliers. Attract and retain sufficient suppliers to achieve optimum intake levels.

Production Overview

WCB produced almost 143,000 tonnes of dairy products and ingredients at its Allansford site in FY2013 from an intake of approximately 900 million litres of raw milk. Despite a lower allocation of milk to manufacturing due to poor climatic conditions impacting on farm production, the operations team achieved a reduction in fixed manufacturing costs. Continuous improvement is a major focus of the operations group and projects undertaken throughout the year delivered savings and cost avoidance in excess of \$5 million.

Milk Intake

WCB's milk suppliers were confronted with extremely difficult farming conditions during FY2013 with low farmgate milk prices, higher costs for key inputs such as grain, fodder and fertiliser, rising costs for electricity and fuel, and poor seasonal conditions. WCB continued to provide cash flow assistance to suppliers for interest-free feed, fodder and fertiliser advances – a service which many suppliers have utilised. Due to the difficult conditions, WCB saw its total intake from all sources fall to 890 million litres, down from 919 million litres in the previous year. WCB partially mitigated this intake decline by increasing its supplier numbers in FY2013 by 2.3%.

Joint Ventures

WCB is a 50% partner in the Great Ocean Ingredients (GOI) joint venture with the Dutch group Royal FrieslandCampina. Global demand for Vivinal GOS (galacto-oligosaccharides), a high-value infant formula ingredient produced by the joint venture operations, continued to grow strongly in FY2013. To meet this increase in demand, the GOI board approved a capital upgrade to install additional capacity at the Allansford-based plant. The upgrade was commissioned and operational during July 2013.

WCB's largest export market is Japan, where it operates a sales and marketing joint venture with exclusive distribution rights for WCB products in the Japanese market. WCB Japan (WCBJ) operations have recently been expanded to include distribution agreements with other global dairy manufacturers of non competing products. This initiative has seen the development of business in new categories such as cheese powders from France and protein products from New Zealand. Expanding the WCBJ range of products available for Japan complements and enhances the existing business by providing customers with a broader portfolio of product, and positions WCBJ as a specialised supplier of dairy ingredients to the Japanese market.

Market Outlook

WCB has experienced a strong resurgence in international pricing in the first half of FY2014 and is contracting sales at average prices which are significantly higher than the FY2013 average. In addition, the substantial weakening of the Australian dollar in relation to the US dollar in recent months has provided a welcome margin lift across the export product group. The numerous business improvement projects and initiatives outlined above are contributing to an improving product mix, higher margins and less volatility relative to commodity products. These factors provide a positive outlook for the international markets over the first half of this financial year and for WCB's operations in general.

Safety

WCB continued its strong focus on safety in FY2013, with its overarching five-year Safety Enhancement Plan applying continuous improvement to OH&S. WCB's implementation of risk registers across its sites has seen a significant increase in the flow of improvement opportunities being registered, prioritised and implemented on the Company's maintenance system. This year, WCB also appointed an Operations Training Coordinator. A Safety Recognition Program has been implemented to assist in recognising and acknowledging safety-enhancing contributions made by employees and contractors.

In FY2014, the focus for the safety program will be on further developing a culture of safety, ensuring training and competency of operators, implementation of an online incident/hazard reporting system, and a continued focus on plant risk reduction.

Team

The Human Resources strategy is aligned to our business strategy and has focused on transformational change with program development supporting innovation, continuous improvement and employee engagement. Retention strategies continue to deliver results with annual turnover remaining consistent at around 11%, with 33% of employees having more than 10 years of service. Leadership development has continued as a key activity again this year with established programs "Leading the Whey" and "Leadership at Work" both receiving strong support and participation.

WCB employees made their contribution to the business under difficult circumstances in the past financial year. Often subdued trading conditions can require a greater contribution from management and staff than in years when trading conditions are more buoyant. This was certainly the case in FY2013 and I would like to formally acknowledge the efforts of employees across all of the functions in the business and the importance of their contribution to WCB's performance. I would also like to thank WCB's Chairman Frank Davis for his guidance and support, and in this year of his retirement, acknowledge his significant contribution to the business over his 13 years as a director – in particular, the strength of his leadership through the difficult trading period following the global financial crisis. My thanks also go to the WCB Board and executive team for their determination and strategic focus through a tough year.



David Lord
Chief Executive Officer
& Managing Director

OPERATIONS REVIEW

FINANCIAL RESULTS

Financial Summary

- Total revenue \$496.5 million, down 0.3% (FY2012: \$497.8 million)
- WCB achieved a net profit after tax of \$7.5 million in FY2013, a 50.7% reduction compared with FY2012 profit of \$15.2 million.
- Earnings before Interest and Tax (EBIT) declined by \$9.1 million to \$13.7 million compared with the previous year. (FY2012: \$22.8 million).
- Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) declined by \$9.9 million to \$25.5 million compared with \$35.5 million in FY2012.

Earnings Summary (A\$ million)	2013	2012	Change
Operating revenue	496.5	497.8	(1.2)
EBITDA	25.5	35.5	(9.9)
Depreciation & amortisation	11.8	12.7	(0.9)
EBIT	13.7	22.8	(9.1)
Finance costs	4.1	3.1	1.0
Tax expense/(benefit)	2.1	4.5	(2.4)
Net profit/(loss) after tax	7.5	15.2	(7.7)

Business Highlights

- FY2013 was a year of difficult circumstances in which WCB made opportune changes in its sales mix in order to maintain overall revenues and mitigate a significant deterioration in international commodity revenues.
- FY2013 commodity export revenues were 10.9% lower than in FY2012, primarily due to depressed international commodity pricing and a consistently strong Australian dollar. A surge in international powder prices in the fourth quarter and a depreciation of the Australian dollar were insufficient to offset the financial impact of the subdued pricing in the previous three quarters. Throughout the year WCB made a strategic decision to reallocate some milk from export commodities to direct milk sales and fresh milk market customers, which partially offset the impact of poor international pricing. Increased revenues from direct milk sales and the consumer products business unit combined to offset the decline in export revenues and maintain total revenues to be comparable to the previous year.
- The breakdown in the historical correlation between dairy commodity prices and the Australian dollar experienced in FY2012 continued into FY2013. With the exception of the fourth quarter, international commodity prices remained low while the Australian dollar remained high against the US dollar, compounding the impact of low commodity prices traded in US dollars.
- Total milk intake declined to 890 million litres, a 3.1% reduction on FY2012. This decline mirrors the 3.0% decline in Australian milk production, the 3.8% decline in the western region of Victoria and a 6.0% decline in South Australia due to dry conditions experienced in the second half of FY2013. WCB partially mitigated this intake decline by increasing its supplier numbers in FY2013 by 2.3%.
- Milk prices paid to suppliers in the first half of the year were high relative to the subdued trading conditions; however, the continued deterioration in both export commodity pricing and milk production volumes due to the poor climatic conditions, resulted in farmgate prices paid to suppliers falling from 41.4 cents per litre in FY2012 to 37.2 cents per litre in FY2013.

- Net interest expense increased by \$1.0 million or 32.8% on that of 2012. The increase reflects the first full-year impact of funding additional maturity profile cheese inventory to meet the growth requirements of the branded retail cheese business.
- The Great Ocean Ingredients (GOI) and Warrnambool Cheese and Butter Japan (WCBJ) joint ventures performed to expectation in FY2013 but were adversely impacted by the downward movement in the Australian dollar late in the financial year.

Outlook FY2014

- The surge in commodity pricing experienced late in FY2013 has eased somewhat; however, average prices being achieved for the first half of the year are significantly better than the average achieved in FY2013. The outlook for FY2014 is more positive, with all industry participants displaying confidence and announcing opening farmgate milk prices which are higher than the previous year.
- Dairy futures have increased significantly in comparison with this time in FY2013 and are currently holding relatively stable at these improved levels. Currency strategists are now forecasting a depreciating dollar position for FY2014. The combination of improved pricing and a lower Australian dollar have provided greater confidence for improved results in FY2014.
- Early indications are that a recovery in milk intake following a dramatic reduction in the last quarter of FY2013 is yet to be fully realised. Seasonal conditions have improved; however, there could be a lag in supply response.
- As detailed in the segment reporting note on page 73, WCB's consumer goods business unit generated a negative EBIT return for FY2013. Financial performance for this business unit is expected to continue to improve in FY2014 with further growth in both Sungold branded milk and specialty cheese volumes. A primary factor impacting consumer goods performance is pricing in the liquid milk market, which continued to be anchored by the highly competitive supermarket channel where \$1.00 per litre pricing strategies dominate the market. In this environment WCB grew branded milk volumes by 13.2% which assisted in cost recovery; however, the inability to fully recover rising input costs in the market over recent years continues to compress margins and negatively impact profitability. Despite strong volume and price growth in FY2013, the specialty cheese volume did not reach the aggressive targets set for the year, resulting in an under-recovery of fixed costs of the Mil Lel plant. Specialty cheese is a new business with strong prospects which warrants an investment of more time to bring it to its full potential.
- With growth in global demand for Vivinal GOS, the GOI joint venture board has approved capacity expansion for the GOI plant at Allansford. The WCBJ joint venture is expanding its operations to include the provision of sales and marketing services to approved non competing dairy companies from around the world. These factors are expected to underpin further improved joint venture returns in FY2014.

Shareholder Return	2013	2012
Return on equity	4.6%	9.4%
Return on invested capital	10.4%	14.6%
<i>Tax adjusted EBITDA over total assets less cash less total current liabilities</i>		
Earnings per share (cents)	13.6	27.8
Dividend per share (cents)	11.00	15.00

This represents earnings per share which the Board has elected to distribute to shareholders

Returns to Shareholders

- WCB's lower profit outcome in FY2013 is reflected in diminished shareholder returns. Return on equity was 4.6% in FY2013 (FY2012: 9.4%) and return on invested capital was 10.4% (FY2012: 14.6%).
- Earnings per share declined by 51.2% to 13.6 cents (FY2012: 27.8 cents). Directors have approved a dividend of 11 cents per share. The four cent reduction compared with the previous year reflects the withholding of an interim dividend due to the difficult trading conditions. The strength of this dividend is a reflection of WCB's strong balance sheet position and the Board's positive outlook for the year ahead.

Balance Sheet

- Balance sheet strength has been maintained in FY2013.
- Trade working capital increased by \$20.1 million in FY2013. Trade and Other Receivables and cash and cash equivalents temporarily increased by \$19.6 million. This is an outcome of sales volumes in June being \$20.5 million higher than the previous year as WCB took the best possible advantage of the late surge in commodity powder pricing and an improving exchange rate versus the US dollar.
- Net property plant and equipment in FY2013 included \$22.6 million of asset purchases on sustaining and new business initiatives and depreciation of \$11.8 million.
- Total debt increased by \$27.1 million, including \$20.1 million from the buildup in working capital and investment in property, plant and equipment.
- Gearing based on total debt over total debt plus equity has increased to 31.8%, well within the WCB target range.
- As a result of its overall balance sheet strength and low debt, WCB is well positioned to implement its value-add initiatives program in FY2014.

Balance Sheet (\$ million)	2013	2012	Variance
Cash and cash equivalents	3.8	1.9	1.9
Trade working capital	129.3	109.2	20.1
Net property plant & equipment	95.5	84.7	10.8
Intangibles	1.6	1.6	-
Investment in joint ventures	23.7	23.0	0.7
Tax (liabilities)/assets	(2.3)	(1.1)	(1.2)
Other liabilities	(10.5)	(6.4)	(4.1)
	241.1	212.9	28.2
Net Debt (\$ million)			
Operational funding	76.5	48.0	28.5
Investment in Great Ocean Ingredients Pty Ltd., Joint Venture	2.8	4.2	(1.4)
Total	79.3	52.2	27.1
Equity	161.8	160.7	1.1
	241.1	212.9	28.2
Trade working capital/revenue	26.0%	21.9%	4.1%
Gearing ratio	31.8%	23.8%	8.0%
Underlying net debt/EBITDA (times)	2.85	1.30	1.55

Cash Flow

- A strong EBITDA contribution to cash flow was offset by a temporary increase in trade working capital.
- The \$20.1 million increase in trade working capital reflects an exceptional sales month in June 2013 which temporarily increased trade debtors.
- A \$2.3 million PAYG tax overpayment in FY2012 was refunded in FY2013. A significant proportion of FY2013 profits were not realised until late in the financial year, resulting in minimal tax being paid in FY2013.
- Proceeds from the sale of plant and equipment in FY2012 included recognition of the disposal of assets held for resale as at 30 June 2011.
- A final dividend of 11 cents per share has been maintained, recognising the strong balance sheet position and a positive outlook for FY2014.

Cash Flow (\$ million)	2013	2012	Change
Net Cash Flow from Operating Activities			
EBITDA	25.5	35.5	(10.0)
Net interest paid	(4.1)	(3.1)	(1.0)
Changes in Assets & Liabilities			
Decrease/(increase) in trade working capital	(20.1)	(29.4)	9.3
Income tax refund/(payment)	2.4	-	2.4
Increase/(decrease) in other assets/liabilities	(2.8)	(2.3)	(0.5)
	0.9	0.7	0.2
Cash Flows from Investing Activities			
Proceeds from sale of plant & equipment	0.5	10.3	(9.8)
Payment for property plant & equipment	(22.6)	(15.4)	(7.2)
	(22.1)	(5.1)	(17.0)
Cash Flows from Financing Activities			
(Decrease)/increase in net debt	25.3	17.4	7.9
Net proceeds from share issue	1.9	2.3	(0.4)
Payment of dividend	(6.0)	(8.1)	2.1
	21.2	11.6	9.6

The cash flow statement above has been configured to permit recognition from the EBITDA and to highlight the most significant cash flow movements.



OPERATIONS REVIEW

Milking machine demonstration, circa 1905



MILK SUPPLY

In FY2013, the Field Services Team was successful in achieving the Company's goals of retaining existing suppliers and recruiting additional suppliers to satisfy business requirements.

Suppliers had to cope with extremely difficult conditions during FY2013 with low milk prices, higher costs for key inputs such as grain, fodder and fertiliser, rising costs for electricity and fuel, and poor seasonal conditions. A very dry summer and late autumn break this year has left many suppliers with low feed reserves and unproductive pastures. WCB continued to provide cash flow assistance to suppliers for interest-free feed, fodder and fertiliser advances – a service which many suppliers have utilised.

In addition to the annual supplier roadshow, where the Company meets formally with suppliers across all supply regions, this year WCB instigated a series of informal supplier meetings to allow greater interaction between suppliers, directors and executive management. Meetings were held this year at Timboon, Murray Bridge, Mt Gambier, Heywood, Ballarat, Terang, Camperdown and Colac. Feedback indicates suppliers value the informal nature of the meetings and the opportunity to discuss company and supplier business.

The Supplier Advisory Forum (SAF) continues to help WCB provide a transparent supplier policy and improved supplier communications. Feedback from current members indicates that they appreciate the open and frank debate and exploring issues of concern. The SAF meets quarterly at Allansford, with regular updates and presentations from the CEO, directors and executives about what is happening in the business. Other external organisations such as Dairy Australia also present information. The SAF was set up three years ago to act as a resource for the Board's Supplier Relations & Pricing Policy

Committee. The forum has since had active involvement and input into a number of supplier-related policies and issues including the revamp of the milk price structure in FY2012. During the year, a number of SAF members reached the end of their initial tenure and were replaced by new members, following an application and interview process.

The Company continues to provide significant sponsorships to support the dairy industry and to facilitate the sharing of research and extension learnings. WCB continues to sponsor the Young Dairy Development Program and DemoDAIRY. WCB was again Gold Sponsor of the Great South West Dairy Awards this year and sponsored a number of regional programs through Westvic Dairy.

WCB's suppliers continue to be recognised for their outstanding achievements in farm productivity and milk quality, with 31 WCB suppliers featuring in the Weekly Times Countdown Down Under milk quality awards for having bulk milk cell counts in the lowest 5% across Australia. WCB also recognises the efforts of suppliers in containing cell counts at the lowest possible levels, by listing farms in the supplier newsletter that have the lowest average bulk milk cell counts each month.



WCB's Supplier Advisory Forum members meeting in April 2013. This group helps WCB provide a transparent supplier policy and improved supplier communications.



WCB was the first Australian company to fit tankers with these reflective strips for safety (Photo by Tieman). Photo opposite by B Elton.

OPERATIONS REVIEW

WCB's suppliers were once again well represented in regional dairy awards. Lachie and Rebecca Sutherland of Larpent, near Colac, won Sharefarmer of the Year at the Great South West Dairy Awards this year. Mathew Whitehead and partner Renee Warner from Timboon won the Rural Achiever Award, presented at the Sungold Field Days Standard Dairy Industry Dinner.

The Supplier newsletter has been revamped in FY2013 and is now produced monthly. It provides detailed company news, farm profiles and technical information to assist suppliers.

WCB proudly hosted the Sungold Field Days in February, an event showcasing the latest technological advances, genetics and farm services to the dairy and cattle breeding sectors. It is the only dairy field day event of its kind in the region. Suppliers enjoy lunch and refreshments in an informal setting where they can discuss supply with directors and management. Sungold Field Days is a very important sponsorship for the Sungold brand. It generates a great deal of economic activity in the region and provides a welcome day out from the farm.

WCB's fleet of tankers continues to collect milk efficiently, with a proportion of the fleet upgraded during the year. Front-mounted hose reels have been installed on all tankers, improving driver access and safety.

In accordance with the continuous improvement focus of the business, WCB identified flow meter technology as providing benefits to both WCB and suppliers, improving accuracy in measurement of milk collected from farms and consistency across all suppliers, and providing the ability to electronically transfer pick-up data directly to the Company's computer systems. Flow meters were installed across the Victorian fleet this year, replacing the outdated practice of measuring by dipstick.

The Company is always aiming to increase efficiencies in milk collection and to seek rationalisation opportunities with other milk companies, which benefit the region by reducing the overall number of milk tankers on the road.

MANUFACTURING

This year, there has been a 95.3% increase on FY2012 volumes of specialty cheese through the Mil Lel plant to meet demand for the Great Ocean Road brand for Coles, and to supply other major customers. This has achieved a close to break-even volume threshold for this new business unit.

The Sungold plant experienced a significant 13.6% increase in production this year compared with FY2012. A new conveying system was installed on the crate-washing line, improving safety and packing efficiencies for both bottle and carton lines, and reducing maintenance.

A major project this year in the whey protein concentrate (WPC) plant was the installation of the lecithination and new powder transfer system that will allow WCB to manufacture instantised WPC80, a premium high-margin product. The plant has also had process and safety improvements made during the year.

In WCB's powder plant, a new powder-packing line – the first of its kind in Australia – was installed during the year, giving greater quality and weight control and reduced bag damage, in a more integrated process.



Photo by Glen Watson.

Other upgrades to equipment have resulted in improved spore quality control in the final product and improved safety and operational efficiencies.

FY2013 has seen significant new developments, both planned and underway, in manufacturing at WCB. The skim milk powder drier was upgraded during FY2012, now enabling the production of premium specification powders made for customer-specific applications. This year WCB also began manufacturing its special formulation for a new premium low fat cheese to be supplied exclusively to Kraft for its *Livefree* brand. During the year, WCB entered into an exclusive manufacturing agreement with Kraft to produce up to 5,000 tonnes of cream cheese under WCB brands for export markets.

In FY2014, a new lactoferrin plant will be commissioned at the Allansford site, in a technology partnership with Tatua Cooperative Dairy Company, from Morrinsville in New Zealand. The new manufacturing facility will be located in the milk treatment area and will include such operations as ion-exchange chromatography, ultrafiltration, microfiltration and lyophilisation.

WCB's continuous improvement processes aim to engage all employees to develop a culture of continuous improvement within the business. Process improvement remains a strong focus for the manufacturing area, with new initiatives commencing this year identifying where the plant can optimise processes, increase yields and reduce costs, wastage and downtime.



This year a new powder packing line – the first of its kind in Australia – was installed in WCB's powder plant.



Wrapping cheese blocks, circa 1950s

SALES, MARKETING AND INNOVATION

Ingredients

Against a backdrop of a challenging global market for most of FY2013, WCB generated further new business development activities and value-add opportunities. The Company continued to build on its strong relationship with key customers and embark on new opportunities through its innovation program, which incorporates ideas from every area of the organisation. During this year WCB has commercialised or commenced projects in each of its core strategic platforms: cheese, butter and cream, functional ingredients and nutritionals. New products have been developed, the costs of existing products have been reduced, and delivery to customers has been improved, while maintaining a strong ethic of providing world's best quality and safe products.

This year, the Company was recognised for its achievement in building a strong export business, receiving the prestigious Victorian Exporter of the Year Award. In out-competing all other exporters in Victoria, this achievement reaffirms WCB's strategic developments to date and provides a strong reputation to build on.

Cheese

Globally, WCB's cheese sales remained relatively stable in comparison with other dairy products, with the Australian market being a standout in relation to new business development. The Company has expanded sales in the Australian market, with some recently developed products gaining traction and awareness amongst consumers. These products include Emmental, Gouda and Colby cheeses.

However, this year's most significant development came about as a result of two years of development in partnership with Kraft. In response to consumer demand for a lower fat cheese alternative that retained the taste of a fuller fat product, WCB set about developing a product that was not only full of flavour, had a great texture and superior melting properties, but the fat level was reduced to the lowest ever achieved – around 5%. WCB was able to commercialise a product that ticked all the boxes.

Kraft approved and launched this product under the *Livefree* brand at the beginning of 2013. WCB will now expand on its success with Kraft in Australia to explore export market opportunities where there is a demand for low fat, flavoursome cheese.

WCB has also developed new business in the Middle East, Indonesia, China and Russia. These markets provide niche opportunities for targeting precise specifications developed for customer applications. This model provides potential value-add growth in each of these sectors and protects against a backdrop of lower priced but lower quality cheese commodities from the US and New Zealand. WCB has also expanded its sales to New Zealand and revived sales to the US after a two-year absence. This situation has largely been driven by the Australian dollar weakening against both the NZ and US dollars.

Butter and Cream

Strong demand continued for WCB's butter blends, plain salted and unsalted butter, and fresh and frozen cream. The Company expanded its fresh cream sales to new customers in the Australian market and its cream can be found in most leading icecream, cream and yogurt brands.

On the international front the most significant development this year was the addition of cream cheese to WCB's portfolio for the first time. WCB has been a long-term supplier of cream and milk to Kraft as the major ingredients in their famous Philadelphia Cream Cheese produced at Kraft's plant in South Australia. Utilising capacity in Kraft's state-of-the-art facility, WCB has developed its own recipes for marketing to specific export markets. The Company has done considerable work in identifying various applications and benchmarking against competitor products and has developed a superior product. At the end of FY2013 WCB launched its Sungold Cream Cheese brand and commenced new business in China, Hong Kong and Taiwan. Product launches are scheduled for the coming year in the Middle East and South East Asia.



In FY2013, WCB launched its Sungold Cream Cheese brand to be manufactured by Kraft for the export market.

Functional Ingredients and Nutritionals

This year, WCB increased its sales of higher value functional skim milk powder to an ever-growing customer base. This was achieved through implementing the strategic plan covering sales, innovation and operations. The highlight of the year was securing an exclusive contract with Mitsubishi to supply a specification of milk powder that is functional in a range of high-end products, particularly in the production of canned coffee. The agreement is for an initial term of three years with provisions to extend for further terms. The specialised premium milk powders provided under the agreement will be used in the manufacture of high quality milk-based beverages and other dairy products for the Japanese market.

During the year the WCB Board also approved investment in the whey protein concentrate plant to enable the introduction of an instantised version to round out the Company's offering of a range of nutritional whey protein products. As these products are highly soluble in liquid, they are particularly beneficial in beverage products. WCB continues to see very strong demand for a premium range of whey protein products, and customer feedback indicates that WCB's product is significantly better in both quality and consistency than other offerings. In particular, demand for this product has grown in China and the US.

This year the WCB Board approved investment in a new plant to produce lactoferrin, a nutritional component in milk that is highly valued, particularly in the infant and toddler formula and nutrition markets. WCB is well on track for this plant to be operational by the end of 2013 to launch the product into the market in early 2014.

OPERATIONS REVIEW

Demand for lactoferrin has been driven by its rapidly increasing use in the Asian infant nutrition market, particularly in China. This development in the market has created an opportunity for new lactoferrin capacity to enter the market under very favourable market and pricing conditions. Subsequent investigation and business development has progressed to the point that WCB is now confident that the lactoferrin project will be able to deliver a significant incremental margin to WCB.

WCB's Prime Nutrition business continues to develop and market innovative protein-based products into the aged care and hospital sectors. The business's leading product, Enprocal®, which uses WCB's whey protein concentrate and skim milk powder as its core ingredients, is continuing to grow in large state and national aged care sectors. WCB secured significant new business in Western Australia and Queensland this year. With strong enquiries coming from NSW, Prime Nutrition has placed a sales manager in Sydney to manage this market. This year WCB signed a distribution agreement for two new products developed specifically for the Vietnamese market, with sales expected to commence in the first half of FY2014.

Consumer Goods

Packaged Milk (Sungold)

In a year where downward pricing pressure continued to impact the fresh milk market, the Sungold brand achieved volume growth and new products gained favour with the market and were recognised with industry awards.

Sungold Jersey Milk was awarded Champion Milk at the 2013 Australian Grand Dairy Awards. Sales of Sungold Jersey Milk have grown significantly throughout the year, creating new markets in the café sector and complementing the award-winning Sungold O'Frothy One. Sungold Jersey Milk was launched around two years ago and is collected from only purebred Jersey cows. Jersey milk is renowned for its rich creaminess and higher levels of protein and calcium.



The Sungold brand enjoys strong local support. Photo by Sean Pringle.



Aaron Taylor from Cryovac presents WCB's Chris Malamidis with the national Cryovac Australia Award for Club Cheese at the 2013 Dairy Industry Association of Australia (DIAA) Awards. Photo by DIAA.

With the success of Sungold Jersey Milk, there has been high demand from consumers for a Jersey Lite, and this product will be released shortly. The expanding Sungold Jersey Milk market has also helped drive sales in the Sydney market.

Similarly, Sungold flavoured milks were recognised in major dairy product awards. In particular, Sungold Xtra Iced Chocolate won two national and two Victorian titles at the Dairy Industry Association (DIAA) Awards, with Sungold FM Coffee and Sungold FM Honeycomb each also collecting a national and a Victorian DIAA award.

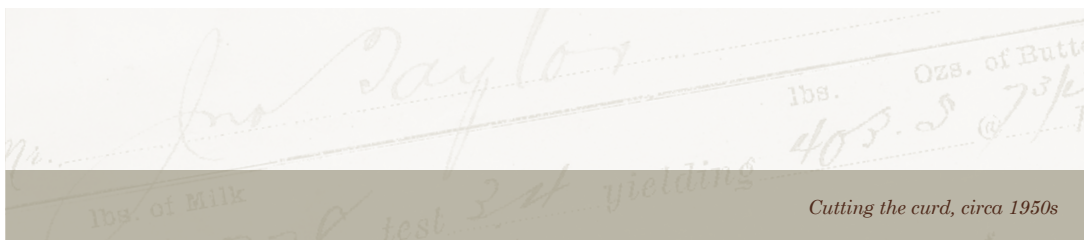
WCB also took out the Most Successful Milk Exhibitor trophy at the 2013 Sydney Royal Cheese and Dairy Produce Show. Three of WCB's milks were awarded gold medals at the 2013 Hobart Fine Food Awards.

Specialty Cheese

Specialty cheese experienced significant growth this year, with tonnage up 90.6% on the previous year. The Great Ocean Road range in Coles was extended from six to eleven products, all with national distribution. New products included Colby 500g block, Colby 500g shred, plus three new two-kilogram products which were launched in the Coles Deli. Further Great Ocean Road range extensions are expected during the coming year. The Great Ocean Road brand also featured heavily as part of the Coles "Help Australia Grow" marketing campaign. All these initiatives were a major driver for the increased volume in retail cheese in FY2013.

WCB brands are also seeing good growth across all major retail markets including Woolworths, Metcash and other smaller independent retailers and delis. Another successful launch was the 250g Emporium Aged 20 Month Aged Cheddar in ALDI; this cheese was awarded a Gold Medal at the 2013 Royal Melbourne Fine Food Awards.

While not reaching the aggressive expectations set for it in FY2013, the new specialty cheese business unit reached a volume threshold from which profitable growth will be achieved in FY2014.



Cutting the curd, circa 1950s



WCB's Emporium Selection 20 Month Aged Cheddar supplied to ALDI won gold at the 2013 Royal Melbourne Fine Food Awards.

In FY2013, WCB's cheddars continued to be well recognised at national and state dairy produce awards. WCB's cheddars won one national and four Victorian titles at the 2013 DIAA Awards, and a total of nine gold medals at the 2013 Hobart Fine Food Awards. WCB was listed as Most Successful Exhibitor (Cheese) at the 2013 Royal Queensland Food and Wine Show's Cheese and Dairy Produce Competition. The Great Ocean Road Light Tasty Cheddar, along with the Warrnambool Vintage Cheddar, also won gold at the 2013 Royal Melbourne Fine Food Awards. The Great Ocean Road range performed very well in competitions this year, with a total of six gold medals awarded for varieties in the range.

GREAT OCEAN INGREDIENTS

Great Ocean Ingredients Pty Ltd (GOI) owns and operates a manufacturing plant at the Allansford site, producing the high-value ingredient Vivinal GOS (galacto-oligosaccharides) for the infant nutrition market. GOI is the sole producer of Vivinal GOS in Australia and the product is sold worldwide to leading infant nutrition companies. GOI is a joint venture company owned equally with Royal FrieslandCampina of the Netherlands, one of the world's largest dairy cooperatives.

The plant was commissioned three years ago and is running well. This year the plant has successfully maintained high operating efficiency and throughput. It is pleasing to report that demand for Vivinal GOS has continued to experience strong growth. In order to meet this increase in demand GOI installed additional capacity to increase production. The upgrade was commissioned and in operation in July 2013.

GOI is focused on continuous improvement and during the year several initiatives were implemented leading to improved practices as well as savings in water and energy consumption per tonne of product.

GOI's Vivinal GOS has been rated highly in routine recertification of product by end users. Successful Halal and Kosher accreditations also help to give Vivinal GOS the widest possible market. Asia and North America are key markets for this product.

The joint venture continues to operate well, with WCB and Royal FrieslandCampina continuing to enjoy an excellent working relationship.

WCB JAPAN

Warrnambool Cheese and Butter Japan Company Limited (WCBJ) is a joint venture company, formed in 2008 to facilitate and enhance the sales, marketing and promotion of WCB's dairy products into the Japanese market. WCBJ is owned by WCB and Mori International Corporation of Japan.

WCBJ is focused on undertaking technical, research and product development activities for existing and new customers. These activities, together with ongoing dialogue, greatly assist in delivering specific products that meet customers' stringent specifications.

During the year considerable progress was made in expanding and extending the existing business that has been developed with many customers over the years, as well as increasing sales to new customers. In addition, success was achieved in developing new business by supplying third-party products such as cheese powders from France to the existing customer base. Expanding the WCBJ range of products available for Japan complements and enhances the existing business by providing customers with more variety, and positions WCBJ as a specialised supplier of a wider range of dairy products for the Japanese market.

WCBJ has now completed its fifth financial year and has been successful in establishing a solid business in the Japanese market. The Japanese market is WCB's largest export market and will play an important part in its long-term plans.

PROGRAM MANAGEMENT OFFICE

The Program Management Office (PMO) was introduced at the start of 2013. The PMO's primary goal is to achieve the standardisation of project management processes and methods to ensure projects are delivered on time, in full, on budget, and with sustainability. Projects managed by the PMO are those that are cross-functional business-wide initiatives, transformational in nature, significant in impact on the business, strategic and aligned with overall business strategy.



Photo by Glen Watson.

OPERATIONS REVIEW

HUMAN RESOURCES

WCB continues its commitment to employees by providing a safe and rewarding workplace and promoting shared values in a respectful, high-performance environment.

The Human Resources strategy is integrated with WCB's business strategy. The focus has been on transformational change and supporting innovation, continuous improvement and effective communication. Employee programs are managed through Board and management policies, comprising Code of Conduct, Diversity, OH&S, Equal Employment Opportunity (EEO), Whistleblower, Parental Leave and Performance Management. Ongoing program development will concentrate on Recruitment and Selection, Learning and Development and Succession Planning to further build business capability and flexibility.

HR policies are regularly reviewed against the relevant Australian federal and state laws and legislation, with changes affecting the business reported to the Nominations & Remuneration and Audit & Risk Committees. Employees and Directors are required to participate in annual EEO sessions delivered with current EEO issues or business imperatives highlighted.

Engagement with employees is important to the Company's success. The WCB induction and onboarding programs encourage alignment to Company values and commitment to the overall business goals. In addition, staff communication sessions continue to be held every six months to inform employees on business results and the benefits and impacts to the Company.

During the year the HR information technology capability was further developed to support improved program management, metrics and reporting. The intranet is being further developed through a consultation process across the business. The Knowledge Centre continues to be developed as a key online learning tool.

Leadership has continued as a key development focus through the year with established programs "Leading The Whey" and "Leadership at Work" both receiving strong support and participation.

Retention strategies continue to deliver results with annual turnover remaining consistent at around 11%, with 33% of employees having more than 10 years of service. Service Awards are presented by the CEO at staff events during the year. Flexible work arrangements have supported many employees returning from maternity leave.

The Health and Wellbeing Committee continues to promote overall wellbeing to employees through raising awareness of healthy lifestyle choices and encouraging participation in community events. The skin cancer awareness information sessions during the year were particularly well received. The annual calendar of health and wellbeing events is promoted through the committee's monthly newsletter.

WCB continued its strong focus on safety in FY2013, with its overarching five-year Safety Enhancement Plan applying continuous improvement to OH&S. As part of this program, plant risk assessments have been accelerated across the site, focusing on employee interaction with the plant and the potential for serious incidents.



WCB is very fortunate to have a loyal and long-serving workforce, with a third of employees having greater than ten years of service. Here, CEO David Lord congratulates employee Barry Cook on 40 years of service in the Company's Transport division.

WCB's implementation of risk registers across its sites has seen a significant increase in the flow of improvement opportunities being registered, prioritised and implemented on the Company's maintenance system.

To achieve the highest possible level of workplace safety throughout its work sites, WCB recognises that the knowledge, skills, cooperation, compliance and goodwill of all employees and contractors are essential components. A Safety Recognition Program has been implemented to assist in recognising and acknowledging safety-enhancing contributions made by employees and contractors.

WCB has also appointed an Operations Training Coordinator, whose focus this year has been to oversee Operations training. WCB is also undertaking an upgrade to the bulk corrosive chemical storage, which will improve safety in handling, storage, maintenance and delivery while minimising use of packaged chemicals.

SUPPORTING LOCAL COMMUNITIES

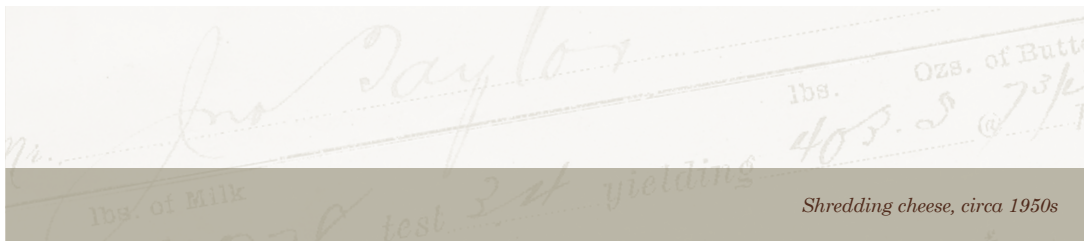
WCB plays a significant role in supporting local and regional communities in the milk supply regions. The Company provides support through corporate donations, scholarships, sponsorship and advertising, as well as support of smaller community organisations.

WCB continued its corporate donations to the South West Healthcare Medical Equipment Appeal this year, with the third of four annual donations of \$50,000.

Through its annual Deakin University Scholarship, WCB provides \$8,000 in support and a 100-hour internship at WCB to selected honours students studying any business-related discipline at the Warrnambool Campus who demonstrate a strong interest in agribusiness. This highly successful program allows WCB the opportunity to assess local talent and recruit from within the region.

Sponsorship and advertising this year included Sungold Milk Stadium – Premier Speedway, the Terang, Camperdown and Warrnambool Cups, Fun4Kids, DemoDairy and Sungold Field Days.

Sungold Field Days is a highly regarded contribution to the development and prosperity of the broader dairy industry, and an important sponsorship for Sungold.



Shredding cheese, circa 1950s



Sungold Milk has become synonymous with supporting sporting groups throughout the milk supply region, helping to encourage healthy lifestyles through involvement in sport and giving great exposure to the Sungold range. Photo by Ross McKean.

It is the only such dairy-related event in the region and is an excellent promotion of the Sungold brand and WCB. The annual event showcases the latest innovations, machinery and services to the dairy and cattle breeding sectors and generates a significant economic boost to the region.

One of Sungold's highest profile sponsorships is the ongoing Sungold Twenty20 Cricket Competition, instigated and owned by WCB, covering southwest Victoria and southeast South Australia. Sungold Twenty20 has become a leading cricket competition in country Victoria and SA and has attracted extensive media coverage, providing excellent exposure for the Sungold brand.

The Company also supports a range of smaller community organisations such as sporting clubs, schools and church groups within WCB's milk supply region, particularly through product donation.

ENVIRONMENT

Sustainability Activities

Water, energy and waste assessments continued throughout the year as part of ongoing continuous improvement programs. Alternative and renewable energy opportunities were explored and assessed. There is potential for further biogas utilisation; however, other opportunities were not considered viable, even those with potential for government funding.

WCB has actively participated in the formation of the Industry Sustainability Reporting Framework with Dairy Australia during the year. This initiative has partly been driven by the need to meet customer and stakeholder needs for supply chain sustainability information.

Energy

34,000 Gigajoules of biogas was utilised through the year, directly replacing natural gas for heating hot water at the treatment plant. Site initiatives, which included installation of LED lighting, have saved over 2,600 tonnes of CO₂ equivalent for the year.

Water

Approximately 465 megalitres (43%) of mains water was replaced over the year through the use of condensates and membrane processing across the site and other water-saving initiatives.

Recycling

A recycling rate of 55% was achieved for the year. This equates to 482 tonnes of waste materials being diverted from landfill to be recycled, and landfill savings of more than \$200,000 for the year.

The chemical re-use plant has continued to provide savings with 948 tonnes of sodium hydroxide and 146 tonnes phosphoric/nitric acid being recycled rather than being sent to sewer. More information on environmental performance and environmental regulation can be found in the Directors' Statutory and Remuneration Report on page 28.

WCB'S DEAKIN UNIVERSITY SCHOLARSHIP

– A GREAT SUCCESS

Stephanie Moloney was a recipient of WCB's 2012 Deakin University Scholarship and recently graduated with a Bachelor of Commerce. As part of her scholarship, Stephanie completed a 100-hour internship with WCB's Human Resources department. Since completing the course, WCB has employed Stephanie as a logistics coordinator.

WCB's scholarship not only gives WCB the opportunity to assess and recruit valuable local talent such as Stephanie, but gives students an opportunity for a rewarding career without having to leave the region.

Having grown up in regional Victoria, Stephanie is passionate about working in the agriculture industry. Stephanie says, "Receiving the WCB scholarship was an honour. It gave me the opportunity to implement theory I had learned at university while gaining practical experience and making valuable connections within the organisation."



WCB's 2012 Deakin University Scholarship recipient Stephanie Moloney also received the prestigious Bowater Trust Medal, among other awards for academic excellence, at her graduation this year. Stephanie is now employed at WCB. Photo of Deakin University's Professor Greg Wood and Stephanie Moloney by Simon Fox, Deakin University.

J. Taylor
 lbs. 403.5 Ozs. of Butter @ 7⁵/₁₆ per lb. 13 0 5
 lbs. of Milk test 3.8 yielding

Warrnambool Cheese and Butter LIMITED.

J. Taylor

s. of Milk lbs. Ozs.
2509 test *3.8* yielding *569*

16 Cans Skim Milk, @ *1⁷/₁₆* per Can ...
13 lbs. Butter, @ *8¹/₂* per lb. ...
 lbs. Cheese, @ per lb. ...
 Cans Surplus Milk, @ per can ...

a/c 16. 19. 4
 Shares 15
 17. 14 4

EXECUTIVE TEAM



Anthony Cook



William Hannah



Bernard Kavanagh



David Lord



Ross Martin



Paul Moloney



Bill Slater



Richard Wallace



John Williams

Anthony Cook

General Manager – Milk Supply

B Bus, CA

Mr Cook's responsibilities include milk supply and trading and field services. He joined the Company in 2000 after 12 years experience in various finance and advisory roles. Mr Cook held several senior finance positions after gaining experience domestically and internationally in audit and corporate advisory roles with a focus on the manufacturing sector.

William Hannah

Chief Financial Officer

B Com, MBA, FCPA, FCSA, FCIS, GAICD

Mr Hannah is responsible for the strategic direction and management of the financial, taxation and treasury functions and the provision of reliable business controls and financial risk management. He has been an employee since 1998. Mr Hannah has over 40 years of ASX-listed company experience in senior financial, secretarial and commercial management positions.

Bernard Kavanagh

General Manager –

Corporate Development

B Com, FCSA, FCIS, AFAIM, FAICD

Mr Kavanagh is responsible for strategic planning, corporate development and for pursuing profitable growth opportunities. He has held senior management positions in a number of areas including finance, accounting, investor relations and growth. He has extensive experience in the dairy industry including with alliances and joint ventures both in Australia and overseas. He is currently a director of Great Ocean Ingredients Pty Ltd and Warrnambool Cheese and Butter Japan Company Limited. He commenced employment with the company in 1978.

David Lord

Managing Director and

Chief Executive Officer

Grad Dip Bus (Mgt), MBA, MAICD

Mr Lord has spent 30 years in the fast-moving consumer goods sector of the food industry in various sales, marketing, operational and general management roles. He spent 14 years at Parmalat Australia Ltd, holding the position of CEO and Managing Director for eight years. He is currently a director of Great Ocean Ingredients Pty Ltd and Warrnambool Cheese and Butter Japan Company Limited.

Ross Martin

General Manager – ICT/PMO

BSc.

Mr Martin joined WCB in January 2013. His responsibilities include leading the Information Technology Team as well as Program Portfolio Management for key business projects. Mr Martin has over 36 years of dairy/beverage industry experience in diverse senior management roles with large ASX-listed and multinational FMCG companies.

Paul Moloney

Company Secretary

B Bus, CPA

Mr Moloney is responsible for advising the Board and the Company in corporate governance practices, management of the legal, risk and investor relations functions and for statutory, ASX and company compliance issues. Mr Moloney commenced employment with WCB in 2001 and prior to becoming Company Secretary had 20 years of domestic and international experience in a number of financial roles. He is currently Company Secretary for Great Ocean Ingredients Pty Ltd and is responsible for the secretarial duties of Warrnambool Cheese and Butter Japan Company Limited.

Bill Slater

General Manager – Retail Dairy

Mr Slater is responsible for management of sales, marketing and distribution of the Company's retail dairy products in the Australian domestic market and packaged consumer products internationally. He joined WCB in 2002 having gained 28 years experience in both domestic and international retail management. He has held several key management positions in enterprises involved in the sales and distribution of retail branded products.

Richard Wallace

General Manager – Operations

Dip Dairy Technology, MBA

Mr Wallace's areas of responsibility include the management of the Company's production facilities and related services, along with milk transport. He joined the Company in 1996 and has 24 years experience in the dairy industry holding a number of key management positions within manufacturing. He is currently a director of Great Ocean Ingredients Pty Ltd and Dairy Innovation Australia Pty Ltd.

John Williams

General Manager –

Sales, Marketing & Innovation

B Ec (Asian Studies), Grad Dip International Business, FAICD, FARL

Mr Williams has 23 years experience in trading hard and soft commodities with a focus on agricultural products mainly to the Asian region. He is responsible for sales, marketing and distribution of the Company's bulk dairy products both internationally and domestically. He also oversees the Company's research and development program and warehousing and logistics. He is currently a director of Australia's dairy industry peak body, Australian Dairy Industry Council Inc. and Vice President of the Australian Dairy Products Federation. He has been an employee since 2000.

CORPORATE GOVERNANCE REPORT

The Board is responsible for the governance of the Company, and oversees its operations and financial performance. It sets strategic direction, determines the appropriate risk profile and management systems, and monitors compliance in terms of the regulatory regime. Governance is of vital importance to the Company and is discussed in this section.

Summary

The ASX has produced governance principles and guidelines for adoption by listed entities on an “if not, why not” basis. By way of summary, the recommendations and their compliance or otherwise by the Company are stated in the table below.

No.	Principle/Recommendation	WCB Response
1	Principle 1: Lay solid foundations for management and oversight	
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	WCB has established charters for the Board and its committees as well as policies detailing executive responsibilities and authorities.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Done in the remuneration report in this document.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Done in this report.
2	Principle 2: Structure the board to add value	
2.1	A majority of the board should be independent directors.	Due to the constitution requiring a minimum four supplier directors and the outcome of shareholder voting, independent directors are not in the majority.
2.2	The chairperson should be an independent director.	Complies
2.3	The same individual should not exercise the roles of chairperson and chief executive officer.	Complies
2.4	The board should establish a nomination committee.	Complies
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complies, see this report.
2.6	Provide the information indicated in Guide to reporting on Principle 2.	Complies, see this report.
3	Principle 3: Promote ethical and responsible decision making	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ol style="list-style-type: none"> the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and the responsibilities and accountabilities of individuals for reporting and investigating reports of unethical practices. 	Complies, see this report.
3.2	Companies should establish a diversity policy and disclose that policy or a summary of that policy.	Complies, see this report.
3.3	Companies should disclose in their Annual Report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Complies, see this report.
3.4	Companies should disclose in each Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complies, see this report.
3.5	Provide the information indicated in Guide to reporting on Principle 3.	Complies, see this report.



No.	Principle/Recommendation	WCB Response
4	Principle 4: Safeguard integrity in financial reporting	
4.1	The board should establish an audit committee.	Complies, see this report.
4.2	Structure the audit committee so that it consists of: <ul style="list-style-type: none"> • only non executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members. 	Generally complies, see this report.
4.3	The audit committee should have a formal charter.	Complies, see this report.
4.4	Provide the information indicated in Guide to reporting on Principle 4.	Complies, see this report.
5	Principle 5: Make timely and balanced disclosure	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Complies, see this report.
5.2	Provide the information indicated in Guide to reporting on Principle 5.	Complies, see this report.
6	Principle 6: Respect the rights of shareholders	
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Complies, see this report.
6.2	Provide the information indicated in Guide to reporting on Principle 6.	Complies, see this report.
7	Principle 7: Recognise and manage risk	
7.1	The board or appropriate board committee should establish policies on material risk oversight and management.	Complies, see this report.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and to report to it on whether those risks are being effectively managed. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material risks.	Complies, see this report.
7.3	The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control which implements the policies adopted by the board and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies, see this report.
7.4	Provide the information indicated in Guide to reporting on Principle 7.	Complies, see this report.
8	Principle 8: Remunerate fairly and responsibly	
8.1	The board should establish a remuneration committee.	Complies, see this report.
8.2	Structure the remuneration committee so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors • is chaired by an independent chair • has at least three members 	Generally complies, see this report.
8.3	Companies should clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives.	Complies, see this report.
8.4	Provide the information indicated in Guide to reporting on Principle 8	Complies, see this report.

CORPORATE GOVERNANCE REPORT

Board Constitution

A new constitution was adopted at the February 2004 general meeting of the Company to enable the listing of the Company. This constitution provides for nine directors with a minimum of four supplier directors. The Board as at 30 June 2013 consisted of nine directors and two associate directors. The nine directors comprise five supplier directors (Messrs Anderson, Gall, Richardson, Vallance and Ms Antony), three non supplier directors (Messrs Davis, Carroll and Smith) and one executive director (Managing Director and Chief Executive Officer Mr Lord). The Associate Directors are Messrs McLean and Morley. Details of the directors' experience, expertise, qualifications, term of office and relationships affecting their independence are set out in the Directors Report on pages 26 and 27.

The Board, after reviewing legal advice, determined that the "supplier directors" – even though the milk supply contracts with supplier directors are on identical terms as other suppliers and are not negotiated individually with those directors – could not be regarded as "independent" within the meaning of the ASX Governance Council Guidelines (the Guidelines) having regard to their personal and material interest in milk supply contracts with the Company.

Thus, the Board does not consist of a majority of "independent" members, as recommended by the Guidelines. The number of supplier directors on the Board has been as a result of the culture of the Company that has been prevalent over the last century and a reflection of the voting by shareholders in the Company. Subject to the minimum number of supplier directors required by the constitution, shareholders will determine the proportion of and appointment of directors.

The Company's constitution can be found in the corporate governance section of the Company's website www.wcbf.com.au.

Board Structure

The Board has adopted formal written charters detailing the roles and responsibilities of the Board, Chairman and CEO to ensure these roles are clearly defined and separated. This also enables an efficient process of Board evaluation. Different individuals exercise the role of Chairman and CEO. The Board Chairman, Mr Davis, is one of the directors defined by the Board to be "independent". Both he and the CEO Mr Lord meet on a regular basis to discuss Company issues.

The Board has implemented a skills-based appointment process in relation to the appointment of new directors or the re-election of incumbent directors.

The Chairman is responsible for the setting of the Board meeting agenda. The Board and Committee charters are subject to regular review to ensure they are appropriate in the current circumstances. The non executive members of the Board meet on a regular basis without a management presence. Day-to-day management of the group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the CEO.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

Where individual Directors wish to seek independent professional advice the issue is to be discussed with the Chairman of the Board who will determine whether or not the Company will cover the cost of the independent professional advice.

Board Committees

The Directors seek to achieve appropriate best practice in corporate governance through the establishment of board committees whose function it is to assist the Board to carry out its duties in specific areas. In this respect the Audit & Risk, Nominations & Remuneration and Supplier Relations & Pricing Policy committees assist the Board in meeting its statutory and stakeholder commitments and obligations. All committees report to the Board on a regular basis.

Audit & Risk Committee

An Audit Committee was established in 1995 and became the Audit & Risk Committee in May 2009. Its charter is to review the appropriateness of the Company's accounting systems, procedures and controls, and ensure there is regulatory and statutory compliance, risk management and review of the audit function. The committee meets regularly and makes appropriate recommendations to the Board as required. The present committee members are Messrs Carroll (Chairman), Anderson, Gall, Richardson and Smith with assistance from Associate Director Mr Morley.

The Board through the Audit & Risk Committee appoints external auditors who clearly demonstrate quality and independence. Coffey Hunt has been the Company's auditor for a number of years. It is Coffey Hunt's policy to rotate audit engagement partners at least every five years unless the Board approves the extension of an audit partners involvement in the audit for a further two years. Details of an approved extension provided to Coffey Hunt audit partner Ms Narelle McLean during 2013 are disclosed in the Directors' Statutory Report.

A majority of members are not within the adopted definition of "independent", reflecting the current Board membership, but are non executive members of the Board. Mr Carroll chairs the committee with members shown above. Mr Carroll has had extensive commercial, financial and accounting experience and has previously held senior financial employment positions. Other members of the committee have extensive commercial, finance, banking and accounting experience as set out in their profiles. The Company's auditors, Coffey Hunt, participate in the committee meetings on invitation. The auditors periodically meet with the committee without management being present.

Nominations & Remuneration Committee

The purpose and charter of this committee is to make recommendations as to the appointment and retirement of senior executives, non executive and executive directors, board and CEO remuneration matters; general personnel issues such as succession planning, salary packages and administration of the Executive Performance Rights Plan; to develop and implement programs for director training and education and to evaluate and monitor the Board's performance. The current members are Messrs Richardson (Chairman) and Anderson with assistance from Associate Director Mr Morley. Having regard to the adopted definition of "independent", the committee Chairman is not independent and a majority of the committee are not independent.



Supplier Relations & Pricing Policy Committee

In October 2012 the Board combined its Supplier Relations/Industry Issues and Milk Pricing Review committees. The purpose of this committee is to recommend the payment systems, productivity amounts and incentives for milk payments; liaise with and be an effective communication channel between the Company and its milk suppliers by organising functions, events and surveys; to arrange for various communications in a timely manner; to recommend to the Board where WCB should seek representation, or should support representation by other entities or individuals; to make recommendations to the Board regarding the Company's position in relation to industry policy initiatives; and to ensure that relevant issues are communicated to WCB management, suppliers, employees, shareholders, customers and the community as appropriate. The Board determines the milk price upon recommendations from management. Its current members are Messrs Vallance (Chairman), Anderson, Carroll, Gall, Lord and Ms Antony with assistance from Associate Director Mr McLean. Having regard to the adopted definition of "independent", the committee Chairman is not independent and a majority of the committee are not independent.

Board and Management Performance

The performance of the Board, Directors and senior management is reviewed on a regular basis. The Board, through its Nominations & Remuneration Committee, has implemented a system of board and director assessment which presently is by a process of both self and peer evaluation. The feedback and consideration of the 2012 assessment by the Board led to a review of the Board skills profile. The skills profile for each individual director was compiled, in conjunction with each Director, by a consultant with a number of years experience working with boards of ASX-listed companies. Candidates to fill the casual vacancies that arose due to the resignations of Directors Davis and Irvin were required to possess a skill set that addressed the gaps identified in the Board's skill set review. Directors are encouraged to continue with their professional development based on the outcomes of the review process.

Senior management's performance is formally reviewed by the CEO as part of an annual performance and remuneration review process. The review process takes place in August each year. The performance of the CEO is reviewed annually by the Chairman and by the Board in a non executive session. The CEO's performance was last reviewed in August 2012.

Director and Executive Remuneration

Details of director and executive remuneration are stated in the Remuneration Report following this section. Remuneration for Associate Directors is the same level as other directors other than John McLean whose remuneration is \$120,000 p.a. which includes consultancy fees as well as director's fees.

Recognition of the Legitimate Interests of Stakeholders

Throughout its history, the Company has recognised that in addition to its shareholders, other groups such as milk suppliers, employees, customers and the wider local community are legitimate stakeholders in the Company business. This has been recognised by the establishment of Supplier and Employee share plans, the creation of the Supplier Advisory Forum and by significant donations to community projects and clubs. Formal recognition of these interests is contained in the Corporate Social Responsibility Policy.

Rights of Shareholders

In 2012 the Board engaged external consultants to work with management to develop an improved communications strategy to promote communications with shareholders to assist the exercise of their rights and to assist them in making informed decisions in relation to their shareholding. The CEO is responsible for investor relations matters and for the implementation of the communications strategy. The process is assisted by a website to improve shareholder communication and to make public various corporate governance documents and Company publications in an electronic format. Shareholder communications are also enhanced by the presence of the auditors at the Annual General Meeting with the Chairman's announcement that the auditors are present and available to answer questions regarding the conduct of their audit.

Financial Reporting

The Board, through its Audit & Risk Committee, has implemented steps to assist in the verification and safeguarding of the integrity of the Company financial reporting system. The Chief Executive Officer and Chief Financial Officer attest to the accuracy, correctness and compliance with accounting standards and statutory regulation of the accounts. The composition and processes of the Audit & Risk Committee have been structured and established in accordance with the ASX guidelines, further enhancing the integrity of the financial reporting process.

Market Disclosure

The Company has been a disclosing entity since January 2000. Prior to listing on the ASX, the Company had a continuous disclosure obligation pursuant to an undertaking given to ASIC as part of the capital raising in January 2000. The Corporations Act now imposes continuous and periodic disclosure obligations to the ASX as well as its statutory obligations of disclosure. To enable the Company to comply with its disclosure obligations it has adopted a Continuous Disclosure Policy and associated procedures. In brief terms, the policy provides for a process of notification of matters that may be required to be disclosed to the market.

The CEO, in consultation with the Board where appropriate or necessary, is responsible for deciding if information should be disclosed to the ASX. The Company Secretary is responsible for assisting the CEO and Board meet their continuous disclosure obligations under ASX Listing Rules, as well as liaising with the ASX and facilitating the preparation and release of company announcements. The Company Secretary must maintain a register of decisions and announcements that contains details of market-sensitive information disclosed to the market and matters considered for disclosure to the market subsequently determined to be non disclosable matters.

The Company Secretary is required under the policy to report to the Board at each of its regular board meetings as to compliance with ASX Listing Rules and the Continuous Disclosure Policy. There have been no departures from the policy. The announcements made to the ASX to date are available on the ASX website.

CORPORATE GOVERNANCE REPORT

Risk Management

The Company, through the Executive team and the Audit & Risk Committee, continually reviews its risk profile. Over a number of years, the Company has undergone risk surveys conducted by the auditors, risk consultants, insurance underwriters and its insurance brokers. As a result of these surveys, the Company has implemented an Internal Risk Review program that is addressing the identified risks. These surveys and the responses have covered both the physical and non physical risks such as financial risks. The Company is continuing to develop its systems to further improve its risk identification, mitigation and treatment program, including the establishment of a web-based risk register to monitor and manage each identified risk. To assist in the management of risk, the Company has a number of policies that address both operational and financial risk. These policies include risk management, occupational health and safety, foreign exchange hedging, fraud and corruption, share trading, continuous disclosure, whistleblower and credit control.

Ethical Decision Making

The Board has taken steps to promote ethical and responsible decision making within the Company. As regards the Directors, the Board has adopted a Code of Conduct recommended by the Australian Institute of Company Directors. This Code is specifically formulated for directors and aims to contribute to the development of a culture of accountability and investor confidence in the Board. The Code is in addition to the legal and statutory obligations to which directors are already subjected by reason of their position. This Code is now supplemented by a Code applicable to both Directors and senior executives, adopted by the Board in June 2011. The Board has also implemented a general Code of Conduct for employees. The Code covers such topics as conflicts of interest, fair dealing of fellow employees, suppliers and customers, the protection of Company assets and opportunities and the encouragement of the reporting of unlawful or unethical behaviours. To complement the codes, the Company has adopted whistleblower and fraud & corruption control policies. In February 2013 the Company engaged consultancy firm Deloitte to provide an independent whistleblower service for employees to report workplace misconduct.

The Company has also adopted a share trading policy that regulates share trading by Directors, Associate Directors, senior management and specified employees who have day-to-day access to the Company's financial position. The policy only allows limited share trading periods after major market announcements such as the release of financial results, both annual and half yearly, and the annual general meeting. The Board, Chairman and Company Secretary monitor the policy. The statutory provisions contained in the Corporations Act "insider trading" provisions supplement the policy.

Company Secretary

The Company Secretary is Mr Paul Moloney who has held that position since December 2011. He holds a Bachelor of Business degree and is a qualified member of the Certified Practising Accountants of Australia. Prior to his appointment as Company Secretary, he had had 20 years experience, both domestic and international, in a number of financial roles.



Diversity Issues

The Company has adopted a diversity policy. The terms of the policy are disclosed on the Company website, www.wcbf.com.au.

WCB's Diversity Policy, adopted in 2011, remains in force with a key vision of recognising the Company's talented and diverse workforce. The Company's competitive advantage and business success is a reflection of the quality and skill of its people, and WCB is committed to seeking out and retaining the best talent to ensure continued business growth and performance.

The principles of WCB's Diversity Policy are also supported by the Company's Equal Employment Opportunity (EEO) Policy.

The Company continues to embrace a culture of attracting and retaining a diverse range of talent through identifying and developing emerging talent within the business and applying consistency and fairness in merit-based recruitment and selection practices.

The proportion of women in WCB's workforce has remained stable this year at 28% with 27% of new hires for the year being female.

During the year a vacancy occurred on the Board and a gender balance of candidates was sought from which to make a final selection based on merit against the Board criteria. WCB continues to have one female director on the Board and one female on the Senior Management Team. The WCB Succession Plan identifies 40 employees as potentials for executive and management positions, with 35% of those being female.

A review of the WCB Parental Leave Policy confirmed that provisions remain appropriate, provide flexible options and have supported WCB's retention strategies. Of women taking maternity leave, those who elect to return to work on a part-time basis or extend their leave have been accommodated in the business.

Diversity Survey

The Diversity Survey results reported to the business in August 2012 indicated employees were aware of WCB's EEO and Diversity Policies. The feedback also confirmed that WCB is seen as providing a supportive, respectful environment through:

- having fair and transparent policies and processes for recruitment and promotions
- providing all employees with equal opportunity to participate in training and development activities.

Both men and women are provided with equal opportunity to move into leadership positions. Feedback has confirmed WCB is *"living our values"* with regard to the commitment to our Diversity Policy. *"Leading the Whey"* and *"Leadership at Work"* programs were again conducted as the primary in-house leadership programs. Participation by female employees was, overall, slightly below that of the previous year; however, at the entry level, 50% of participants were female.

WCB's 2012 annual mandatory EEO training, with its "Respecting Diversity" theme, was successfully rolled out across the business, with Directors and all employees attending.

Women's Leadership Initiatives

Women on Boards was engaged during the year to evaluate, discuss and advise on the status of women in leadership, management and board positions. Following a review of diversity metrics and women's status within WCB, Women on Boards met with the Executive and the Board. Recommendations from their subsequent report have been adopted and three initiatives progressed:

- Diversity Council, chaired by the CEO, was established with membership comprising representatives from each division. The Diversity Council is a management initiative supported by the Board's Nominations & Remuneration Committee. The Council has a 58% representation of women. The Diversity Council has a clear charter to evaluate, draft and communicate key policies to cement WCB's commitment to diversity. The inaugural meeting will be held in July 2013.
- Diversity was a focus during recruitment and selection for the WCB Supplier Advisory Forum with a broad pool of candidates sought to fill vacancies. Of four appointments, two were female.
- Women on Boards assisted in identifying successful women in local businesses who could form part of a WCB women's network and assist with development opportunities covering issues of leadership, influencing and networking. WCB has also sponsored women within the business to attend monthly networking events.

Diversity Objectives for FY2014:

Objective	Target Date
1 Diversity Council to develop a Diversity Strategy with recommendations on policies and programs that address diversity issues across the business and an implementation program. Strategy to include establishment of a diversity scorecard identifying key factors that impact on the performance of the business.	December 2013
2 Diversity Council to report on actions and achievements against the Diversity Strategic Plan and communicate goals, progress and successes to staff and stakeholders. The CEO and Human Resources Manager will report regularly to the Board's Nominations & Remuneration Committee on Diversity Council activities.	Ongoing – specific actions and dates to be established
3 Recruitment training for senior managers, managers and supervisors, to reinforce merit-based recruitment processes, EEO and consideration of diversity issues in employee selection to be included in an annual training calendar.	Ongoing
4 Investigate appropriate career development options and establish learning and development plans to support high potential women, identified in the WCB Succession Plan, to prepare them to take on senior management/executive management roles. The Human Resources Manager to report regularly to the Board's Nominations & Remuneration Committee on actions and success of this initiative.	Ongoing
5 Continue to measure progress toward increasing the percentage of women available and suitably qualified for succession to senior management positions.	Ongoing
6 The Board to continue its efforts to consider means of increasing representation of women on the Board, proactively seeking appropriately qualified women for consideration for Board vacancies.	Ongoing

DIRECTORS

The names and details of the Directors of the Company in office during the whole of the financial year, unless stated otherwise, and until the date of this report are as follows:



Francis J Davis



Terence J Richardson



R.A. Andrew Anderson



Kay Antony



Michael Carroll



John A Gall

Francis J Davis

Formal Qualifications: FCPA, F Fin, FAIM, FAICD

Position: Independent non executive Director and Chairman

Experience & Expertise: Independent non executive Director from 2000, former executive of NAB Ltd for over 30 years

Other Current Directorships: none

Former Directorships in the last 3 years: Genetics Australia Ltd

Special Responsibilities: ex-officio member of all committees except Audit & Risk

Interests in Shares: indirect ownership of 38,334 shares

Terence J Richardson

Formal Qualifications: B Ag Econ, Dip Bus St, Cert Co Dir, MAICD

Position: Supplier Director and Deputy Chairman

Experience & Expertise: Supplier Director from 2007 and dairy farmer for 35 years. He was a director of Kiwi Co-Operative Dairies Ltd for seven years and an agribusiness consultant with Agriculture New Zealand

Other Current Directorships: none

Former Directorships in the last 3 years: none

Special Responsibilities: Deputy Chairman, Chairman of Nominations & Remuneration Committee, member of Audit & Risk Committee

Interests in Shares: owns 668 shares

R.A. Andrew Anderson

Formal Qualifications: B Com, M Admin, Dip Educ, ACIS

Position: Supplier Director

Experience & Expertise: Supplier Director from July 2009. He was formerly the Senior Lecturer in Accounting and Finance at Deakin University (Warrnambool) and is an accountant in practice operating his own business specialising in rural accounting and finance. He and his wife have operated Rossander Angus, a stud angus breeding enterprise for 40 years, as well as a dairy farming operation for the past 11 years

Other Current Directorships: Brauerander Park Foundation Pty Ltd and private companies

Former Directorships in the last 3 years: none

Special Responsibilities: member of Audit & Risk, Nominations & Remuneration and Supplier Relations & Pricing Policy Committees

Interests in Shares: owns 31,688 shares

Kay Antony

Formal Qualifications: Dip Ag, GAICD

Position: Supplier Director

Experience & Expertise: Supplier Director from October 2010. She has been a dairy farmer for 16 years and a former director of Westvic Dairy

Other Current Directorships: none

Former Directorships in the last 3 years: none

Special Responsibilities: member of Supplier Relations & Pricing Policy Committee

Interests in Shares: owns jointly 1,379 shares and indirectly 6,160 shares

Michael Carroll

Formal Qualifications: B Ag Sci, M Bus Admin, Ad Mgt Program, FAICD

Position: Independent non executive Director

Experience & Expertise: Independent non executive Director from August 2009. He has over 25 years experience in the food, agribusiness and finance sectors including 18 years at NAB Ltd

Other Current Directorships: Sunny Queen Pty Ltd, Queensland Sugar Limited, Select Harvests Ltd, Rural Finance Corporation, Geoffrey Gardiner Dairy Foundation Limited, Rural Funds Management and Rural Funds Farming

Former Directorships in the last 3 years: MLA Donor Company Ltd, The Australian Farm Institute, Meat and Livestock Australia Ltd and Drapac Agriculture Pty Ltd

Special Responsibilities: Chairman of Audit & Risk Committee, member of Supplier Relations & Pricing Policy Committee

Interests in Shares: none

John A Gall

Formal Qualifications: FAICD

Position: Supplier Director

Experience & Expertise: Supplier Director between 1990 and 2007 and from October 2010, and a dairy farmer for over 40 years

Other Current Directorships: none

Former Directorships in the last 3 years: none

Special Responsibilities: Member of Audit & Risk and Supplier Relations & Pricing Policy Committees

Interests in Shares: owns directly 635,999, jointly 281,812 and 280,000, and indirectly 70,000 shares



David J Lord



John F McLean



Bruce J Morley



Raymond M Smith



Bruce G Vallance

Barry Irvin AM

Formal Qualifications: none

Position: Independent non executive Director until resignation on 20 March 2013

Experience & Expertise: Independent non executive Director from November 2010. He has been Chairman of Bega Cheese Limited since 2000 and Executive Chairman since 2008. He was appointed a Member of the Order of Australia for service to the dairy industry and to children with disabilities and their families

Other Current Directorships: Chairman of Bega Cheese Ltd and Giant Steps Sydney Ltd, director of Geoffrey Gardiner Dairy Foundation Limited, Capitol Chilled Foods Australia Ltd and Aljo Pastoral Pty Ltd

Former Directorships in the last 3 years: none

Special Responsibilities: member of Nominations & Remuneration Committee

Interests in Shares: none

David J Lord

Formal Qualifications: Grad Dip Bus (Mgt), MBA, MAICD

Position: Managing Director and Chief Executive Officer

Experience & Expertise: Managing Director and Chief Executive Officer since June 2010. He has been employed in the food industry for over 30 years, mostly in the fast-moving consumer goods sector including eight years as Managing Director and Chief Executive Officer of Parmalat Australia Ltd

Other Current Directorships: WCB subsidiary and joint venture companies

Former Directorships in the last 3 years: none

Special Responsibilities: member of Supplier Relations & Pricing Policy Committee

Interests in Shares: an indirect interest in 10,000 shares

John F McLean

Formal Qualifications: FIDM, FAICD

Position: Associate Director

Experience & Expertise: Associate Director since June 2010. Executive Director from 2000 until his retirement in 2007. He was then reappointed in April 2009 until June 2010. Employee of the Company for over 50 years including 32 years in the role of Manager/Chief Executive Officer

Other Current Directorships: Chairman Dairy Technical Services Ltd

Former Directorships in the last 3 years: none

Special Responsibilities: member of Supplier Relations & Pricing Policy Committee

Interests in Shares: owns 233,684 shares

Bruce J Morley

Formal Qualifications: B Com, ARMTC, FCPA, FCSA, FCIS, FAICD

Position: Associate Director 01/07/12 – 20/03/13 and from 01/06/13, Director 21/03/13 – 31/05/13

Experience & Expertise: Independent non executive Director from 2000 to 2010. Former Executive Director of Sigma Company Limited (now Sigma Pharmaceuticals Limited)

Other Current Directorships: none

Former Directorships in the last 3 years: Lyppard Australia Limited

Special Responsibilities: member of Audit & Risk and Nominations & Remuneration Committees

Interests in Shares: none

Raymond M Smith

Formal Qualifications: FCPA, FAICD, Dip Com

Position: Independent non executive Director from 31 May 2013

Experience & Expertise: Independent non executive Director from May 2013. Former Chief Financial Officer of Smorgon Steel Group Ltd for 11 years

Other Current Directorships: Transpacific Industries Group Ltd, Crowe Horwath Australasia Ltd (formerly WHK Group Ltd) and K&S Corporation Ltd and is also a trustee of the Melbourne & Olympic Parks Trust

Former Directorships in the last 3 years: Wilmott Forests Limited

Special Responsibilities: member of Audit & Risk Committee

Interests in Shares: none

Bruce G Vallance

Formal Qualifications: Dip App Sci (Ag), GAICD

Position: Supplier Director

Experience & Expertise: Associate Director from 2006 to 2009 and Supplier Director from May 2009. He has owned and operated a dairy farm for the last 20 years and is president of the Wannon branch of United Dairy Farmers of Victoria

Other Current Directorships: none

Former Directorships in the last 3 years: none

Special Responsibilities: Chairman of Supplier Relations & Pricing Policy Committee

Interests in Shares: owns jointly 72,639 shares and indirectly 1,775 shares

DIRECTORS' STATUTORY AND REMUNERATION REPORT

STATUTORY REPORT

The Directors submit their report of Warrnambool Cheese and Butter Factory Company Holdings Limited and the entities it controlled at the end of and during the year ended 30 June 2013.

Principal Activities

The principal activities of the holding Company and group during the course of the financial year were the manufacture, processing and sale of cheese, milk powder, butter, cream, whey protein concentrate, and bulk and processed milk. There were no significant changes in those activities in the current year.

Results

The net profit after tax attributable to members of Warrnambool Cheese and Butter Factory Company Holdings Limited is \$7.5 million.

Directors' Benefits

No Director of the Company, since the end of the previous financial year, has received or become entitled to receive a benefit of a contract made by the Company with the Director or with a firm of which he/she is a member, or with a Company in which he/she has a substantial interest other than:

- (i) an amount paid or receivable as remuneration for acting in the capacity of director as contained in the Remuneration Report of this report
- (ii) an amount paid or payable as a result of a contract to supply milk and associated dealings on terms identical to other non director milk suppliers
- (iii) an amount paid or payable in accordance with Article 59.6 of the Company's constitution for reimbursement of out-of-pocket expenses incurred in carrying out Company business
- (iv) in respect of Mr Richardson through a related party, has an interest-free feed/fertiliser advance of \$16,000 which is due to be repaid in full by 12 May 2014. The advance was provided on an identical basis to other non director suppliers.

Significant Changes in State of Affairs of the Group

In the Directors' opinion, there were no significant changes to the state of affairs of the Company or any of its subsidiaries during the financial year not otherwise disclosed in this report.

Events Subsequent to Balance Date

Other than that disclosed in the Notes to the financial accounts there were no events that occurred subsequent to the balance date that require disclosure.

Review of Operations, Financial Position, Business Strategies and Prospects

Information regarding the Company's business operations is contained in the Chief Executive Officer's Report and Operations Review. The Company's business strategies are focused on growth through organic opportunities, value-added initiatives and appropriate acquisitions and alliances. These strategies are periodically reviewed.

Future Developments and Results

The Company and its subsidiaries will continue to pursue its vision to be Australia's leading milk processing company. There is a continuing general trend in the Australian dairy industry towards globalisation and rationalisation. The Company is positioned to take advantage of opportunities arising from this process.

The Company will continue to develop its business strategies, as outlined in the CEO's report. Any further details under this heading would in the Directors' opinion cause unreasonable prejudice to the interests of the Company.

Environmental Performance

The Company continues to generally comply with all current environmental legislation and has continued to improve its environmental performance throughout the year.

Environmental Regulation

The Company is subject to considerable environmental regulation as part of its food manufacturing operations. Its activities are licensed by the Environmental Protection Agency (EPA) to allow for discharges to air and discharges of treated wastewater to land. Wastes from the premises must not be discharged to the environment except in accordance with the licence.

The discharge of waste water to the sewer system is with the approval of Wannon Water. The EPA licence requires the Company to report to the EPA on an annual basis on performance against the licence. The Company met the requirements of the Pollution Abatement Notice issued for a stack in October 2011. Engineering modifications were conducted which reduced non compliance. The EPA auditor instigated a Human Health Risk Assessment, which concluded that the particulates were not a health impact. The auditor recommended that the Company apply for a licence amendment to raise the current licence condition for the stack such that the stack would be compliant. A licence amendment application was subsequently submitted to EPA, with the EPA increasing the licence limit to the applied level. The Company will comply with the new limit.

The Company is also subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006 (Cth)*, the *National Greenhouse and Energy Reporting Act 2007 (Cth)* the *National Environment Protection Council Act 1994 (Cth)* and the *National Environment Protection (National Pollutant Inventory) Measure 1998 (Cth)*.

The Energy Efficiency Opportunities Act requires the Company to assess its energy usage, including the identification, investigation and evaluation of energy-saving opportunities, and to report publicly on the assessments undertaken, including what action the Company intends to take as a result. The Act required the Company to assess 80% of its energy usage by the end of the five-year program on 30 June 2012. The Company has assessed more than 90% of its energy usage and the public reports are available on the Company's website. Assessment work now continues into the second five year cycle.

The National Greenhouse and Energy Reporting Act requires the Company to report its annual greenhouse gas emissions and energy use. The Company has implemented systems and processes for the collection and calculation of the data required and submitted annual reports for its corporate and Allansford and Mil Lel facilities each year since 2009. For 2012 reporting, a limited assurance audit was conducted.

The *Clean Energy Act 2011 (Cth)* requires the Company to assess its liable carbon dioxide emissions from facilities to determine if it directly emits more than 25,000 tonnes per year of liable carbon dioxide (excluding transport fuel) – the threshold for carbon trading. The Company did not emit above this threshold for FY2013 for any of its facilities.

The National Environment Protection Council Act requires the Company to report under the National Environment Protection (National Pollutant Inventory) Measure consumption and emission of designated pollutants. The Company has reported these figures annually since 1998.

A Groundwater Monitoring and Management Plan and a Long Term Soil Gas Monitoring and Management Plan developed as part of the groundwater Clean Up Notice requirement have been implemented. The plans and the annual report are currently being reviewed by an EPA auditor to assess the adequacy of the plans and incorporation of amendments to improve the plans based on further data obtained through testing performed over the past year.

Dividends Paid

A fully franked final dividend payment for the financial year ending 30 June 2012 of 11.0 cents per share amounting to \$6,011,250 was paid on 28 September 2012. No interim dividend was declared.

Dividends Declared

The Board has declared a final fully franked dividend of 11.0 cents per share amounting to \$6,077,079 payable on 27 September 2013.

Options

At the date of this report the Company has not issued any options over unissued shares or interests to any person. There are no unissued shares or interests in the Company.

Directors' Shareholdings

The particulars of shares held solely in the name of each director as shown on the Register of Directors' Shareholdings and the particulars of shares in which the directors had a relevant interest at the date of this report are shown in this report.

Indemnification/Insurance of Officers or Auditors

Details of this matter are shown in the Remuneration Report including director and executives disclosures.

Proceedings on Behalf of the Company

No person has applied to the Court under Section 237 of the *Corporations Act 2001 (Cth)* for leave to issue proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the court under Section 237 of the *Corporations Act*.

Company Secretary

The qualifications and experience of the Company Secretary are shown in the Corporate Governance Report.

Auditor

Coffey Hunt continues in office in accordance with Section 327 of the *Corporations Act*. In the course of the financial year the auditors undertook non-audit work as detailed on this page. There are no company officers within the meaning of the *Corporations Act* who are former auditors.

In February 2013, pursuant to Section 342A of the *Corporations Act* regarding the modification of auditor rotation, the Board approved by resolution an extension of two years, from the end of the 2013 audit, for Coffey Hunt audit partner Narelle McLean to play a significant role in the audit of the Company. The resolution was passed on the recommendation of the Audit & Risk Committee, with Coffey Hunt providing the firms consent to the extension in writing. A copy of the Board resolution was lodged with ASIC within the required 14 day timeframe.

Auditors Independence Declaration

The Company received from its auditors a declaration, a copy of which is reproduced on page 37.

Non-audit Services Provided by Auditors

The Group employs Coffey Hunt on assignments additional to their statutory audit duties as their expertise and experience with the Group are important. These assignments are principally small in nature and link closely to work performed during audit services. Details of the amounts paid or payable to the auditor (Coffey Hunt) for non-audit services provided during the year are set out below.

The Board has considered the position and, in accordance with the advice received from the Audit & Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:

- All non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1; including reviewing or auditing the auditors own work, acting in a management or a decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, the auditor's related practices and non-related audit firms:

	CONSOLIDATED	
	2013 \$	2012 \$
(a) Taxation Services		
Coffey Hunt		
Tax compliance services, including review of company tax returns	4,150	3,200
Total remuneration for taxation services	4,150	3,200
(b) Advisory services		
Coffey Hunt		
Other minor accounting services	–	1,120
Total remuneration for advisory services	–	1,120
Total remuneration for non-audit services	4,150	4,320

DIRECTORS' STATUTORY AND REMUNERATION REPORT

REMUNERATION REPORT

The Directors of Warrnambool Cheese and Butter Factory Company Holdings Limited present the Remuneration Report prepared in accordance with by Section 300A of the Corporations Act for the Company for the year ended 30 June 2013. This Remuneration Report is audited.

This Remuneration Report is prepared in respect of the Key Management Personnel, being those persons who have authority and responsibility for planning, directing and controlling the activities of the Group. The Board has determined that the Key Management Personnel are:

- the non executive Directors of the Company as detailed earlier in the Annual Report
- those listed in the table below, referred to in this report as executives.

Name	Position
David Lord	Managing Director and Chief Executive Officer
Anthony Cook	General Manager Milk Supply
William Hannah	Chief Financial Officer
Bernard Kavanagh	General Manager Corporate Development
Ross Martin*	General Manager ICT & Program Management Office
Paul Moloney	Company Secretary
William Slater	General Manager Retail Dairy
Richard Wallace	General Manager Operations
John Williams	General Manager Sales, Marketing & Innovation

* Ross Martin joined the Company on 8 January 2013.

During the year the Company made two changes to its executive remuneration policy and framework:

- introduction of a Long Term Incentive (LTI) Plan for the CEO
- entered into agreements with executives (excluding the CEO who has a pre-existing agreement, Bernard Kavanagh and William Slater) which formalised notice periods and termination benefits.

Both of the changes will be outlined in detail later in the report.

All executives are employed by The Warrnambool Cheese and Butter Factory Company Limited.

Executive Remuneration Policy and Framework

The objective of the group's reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns reward with achievement of strategic objectives and the creation of value for stakeholders, and conforms to market practice for delivery of reward. The Board ensures through the Nominations & Remuneration Committee that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent
- acceptable to stakeholders
- aligned to the Company's strategic and business objectives.

In consultation with external consultants, the group has structured an executive remuneration framework that is market-competitive and complementary to the reward strategy of the organisation.

In assessing the appropriate remuneration structure and quantum, the Board takes into account market data for comparable roles within similar industries and ensures that remuneration is aligned to both stakeholder and the executive's interests.

Alignment to stakeholder interests:

- optimise returns to all stakeholders
- has profit as core component
- focuses on sustained growth and delivering constant return on assets
- attracts and retains high-calibre executives.

Alignment to executive interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth and profits
- provides clear structure for earning rewards.

The framework provides a mix of fixed and variable pay and a blend of short-term and long-term incentives as detailed below in Executive remuneration.

Role of the Nominations & Remuneration Committee

- To determine and review remuneration arrangements for the directors, CEO and senior executives with due regard to independence, appropriateness and performance.
- To provide assurance to shareholders that the Company's strategies and decisions relating to remuneration are formulated and implemented with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-performing board and executive team.
- To make recommendations to the Board on a periodic basis by reference to relevant market conditions, on:
 - CEO remuneration
 - assessment of the appropriateness of the nature and amount of remuneration of executives
 - director fees and committee allowances.

Further details of the committee functions, role, membership and meetings are set out in the Corporate Governance section of this Annual Report.

Voting and Comments Made at the Company's 2012 Annual General Meeting

At the Company's 2012 AGM, the remuneration report was passed on a show of hands, with no dissenters. The resolutions seeking approval of the LTI Plan and the issuing of performance rights to the CEO were also passed on a show of hands. The Company received some questions on the LTI Plan and the issuing of performance rights. The Chairman and Deputy Chairman responded to the questions and made themselves available after the close of the meeting to discuss further with interested shareholders.

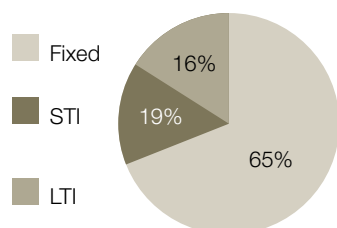
Executive Remuneration Structure

The CEO's total pay is reviewed annually by the Board, on the recommendation of the Nominations & Remuneration Committee, with reference to market-comparative data and individual performance.

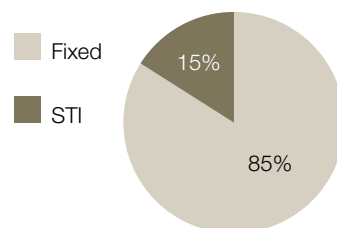
Other executives are offered a competitive total pay based upon external remuneration consultants' advice to ensure that total pay is reflective of the respective performance requirements of the position and the market for a comparable role. Total pay is reviewed annually by the CEO, with reference to market comparative data, experience and performance.

Executive remuneration (total pay) is made up of fixed pay and variable pay (Short Term Incentives (STIs) and LTIs). For FY2013 the set mix of pay was as per below.

CEO Remuneration Mix



Other Executives Average Remuneration Mix



1. Fixed Pay

Included in fixed pay are the following elements:

- base salary
- superannuation
- motor vehicle benefit or allowance
- annual leave loading
- other benefits as agreed with the Company.

Base salary

The executive has the option of receiving base salary in a variety of forms including cash and fringe benefits such as a motor vehicle. It is intended that the manner of payment is flexible without creating any additional cost to the Company.

Superannuation

For executives, the superannuation component is based on statutory superannuation obligations, on either the maximum earnings base, as amended each year by the ATO, or on base salary. In either case, it is included within the total package value. The executive at their discretion can choose to salary sacrifice part of base salary into superannuation contributions above the level of the Company's statutory superannuation obligations.

The Company has a target funding superannuation obligation for one Executive, Bernard Kavanagh, of the lump sum Retirement Benefits Limit at age 65.

2. Variable Pay (Incentive Scheme)

Executives participate with a number of other senior staff in an incentive scheme, which can be a mix of short-term and long-term incentives for the CEO and STIs for other executives. The scheme is designed to reward participants for their contribution to Company performance and shareholder returns. Its application in any particular year is determined by reference to the achievement of both corporate and individual Key Performance Indicators (KPIs).

Incentives payable for each financial year are not be determined until after the year-end statutory accounts are lodged with the ASX.

(a) Short-term incentives

Each participant in the scheme is set a number of KPIs designed to, if achieved, result in strengthening the Company's performance. KPIs are agreed to at the beginning of the financial year, and assessed at the completion of the year.

The Board, in consultation with the CEO, establishes measures for determining whether the CEO is to be paid an STI and the amount of that incentive. The CEO's STI is set at a maximum of \$200,000. KPIs for the CEO are set in agreement with, and assessed by, the Board.

Other executive's incentives are set at a maximum 20% of their base salary. KPIs for other executives are set in agreement with, and assessed by, the CEO.

The amount of the STI allocated to the achievement of corporate KPIs is 50% and the amount of the STI allocated to achievement of individual KPIs is 50%.

Corporate KPIs for FY2013 focused on financial return targets for net profit after tax, gross profit and earnings before interest and tax. Individual KPIs for FY2013 focused on incremental and transformational change aligned with the Company's strategic initiatives.

(b) Long-term incentives

As noted below, Mercer Consulting was engaged to assist the Board in the development of an LTI Plan for the CEO. The LTI Plan had been part of the original contract for the CEO, though the plan was not developed at the time the CEO was hired.

The CEO is the only executive currently participating in the LTI Plan. The Board at its discretion can invite other eligible executives to participate in the LTI Plan.

Board's objectives in introducing a plan for the CEO are to:

- align the remuneration and interests of the CEO to the group's long-term business strategy
- increase the proportion of remuneration for the CEO that is variable, striking a balance between short-term and long-term performance
- ensure retention of the CEO through an overall competitive and performance based remuneration package.

The details of the LTI Plan were presented to shareholders at the 2012 AGM and were approved by a show of hands. Following is a summary of the LTI Plan.

DIRECTORS' STATUTORY AND REMUNERATION REPORT

LTI Plan Summary

Eligibility

The Board, at its discretion, may make an offer to eligible employees annually. For FY2013 the CEO is the sole participant in the plan.

Vehicle

The incentive will be delivered in the form of Performance Rights. Upon vesting, these rights will be convertible to shares. A grant of rights does not confer any right or interest in shares until all vesting conditions in respect of such rights have been satisfied (or waived by the Board at its discretion).

Performance/vesting period

The LTI Plan will be based on three-year performance periods. Subject to Board approval, the performance periods will start at 1 July and end at the third anniversary of grant date.

The LTI vests at the end of the performance period, subject to meeting the performance hurdles (as specified in the offer letter), and continued service at WCB at time of vesting. Payment will be made after the end of the performance period as specified by the Board.

Quantum

For the year commencing 1 July 2012, the LTI opportunity was 25% of total fixed remuneration for the CEO, which equated to \$175,000. The number of performance rights granted to the CEO was 68,627 (i.e., \$175,000/\$2.55).

The grant of Performance Rights will vest over three years, or earlier at the discretion of the Board, in two separate tranches. This takes into account that this is the first award made to the CEO under the plan. The operation of this grant is described as follows:

Tranche	Vesting Date	Percentage Vested
First Tranche	Date which is 2 years after the date of First Grant (2 November 2014)	The vesting of 50% of the Performance Rights under the First Grant
Second Tranche	Date which is 3 years after the date of First Grant (2 November 2015)	The vesting of 50% of the Performance Rights under the First Grant

Performance measures

All grants under the LTI Plan will be subject to performance hurdles (KPIs) set by the Board at the beginning of each performance period, as specified in the offer letter to each employee.

In order for the Performance Rights to vest, the conditions below must be satisfied.

(a) A three-year average return on capital employed (ROCE) performance measure

The ROCE will be calculated on the Company's earnings before interest and taxation divided by capital employed which is represented by total assets less total current liabilities.

The table below presents the proportion of Performance Rights that may vest subject to the various ROCE performance levels:

Performance Level	% of Granted Performance Rights that Vest
Threshold/Minimum	0%
Between Threshold and Target	Straight line vesting
Target	50%
Between Target and Maximum	Straight line vesting
Stretch/Maximum	100%

(b) A total shareholder return (TSR) measure

A TSR vesting schedule which must be achieved is set out below:

TSR Relative to Peer Group Companies	Portion of Granted Performance Rights that Vest
Less than 50th percentile	Nil
50th percentile	50%
Between 50th percentile and 75th percentile	Straight line vesting between 50% and 100%
75th percentile and above	100% Performance Rights granted

The TSR Peer Group will consist of companies within the S&P/ASX 300, excluding those within the S&P/ASX 100 and companies within the Financials, Materials and Energy sectors.

Consideration

The Performance Rights will be granted to the participant for no consideration.

Early vesting

There will be certain trigger events that may cause an earlier vesting of the LTI. In the event of a change of control bid and a potential change in a participant's role, the Board may in its absolute discretion determine that all or a specified amount of LTI vest under the LTI Plan. In making this determination, the Board will have regard to the performance period and the performance against the performance hurdles in that period.

Any unvested amount of the LTI Plan after that determination will lapse.

Lapse of Performance Rights

The Performance Right lapses on the earlier of:

- five years after the First Exercise Date
- termination by the Board due to misconduct of the Participant
- date of termination of Participant's employment with the Company; or
- if a special circumstance (total and permanent disability, redundancy, death or any other circumstances as the Board may determine whether before or after the date of issue) arises during the exercise period then 12 months after the special circumstance arises.

For the year ended 30 June 2013 the estimated value of performance rights issued to the CEO under the LTI Plan and due to vest in 2014 and 2015 is \$44,044. This amount is disclosed in the executive remuneration table under LTIs.

Other than shares issued pursuant to the LTI Plan and Employee Share Plan there are no shares, share options, unissued shares or interests or rights in shares given to any executive. There is no current obligation upon the Company to issue any further shares under the Company Employee Share Plan.

Details of shareholdings of executives are contained in note 26 to the financial statements.

Executive Contract Details

Remuneration and terms of employment for executives are formalised in executive employment agreements. The agreements specify the components of remuneration, benefits and notice periods. A number of executives entered into new agreements during FY2013 which formalised notice periods and termination benefits.

For the CEO the Company can terminate the agreement immediately, or at any time, after notice is given by either party by making a payment equal to the value of the CEO's remuneration package in lieu of the full or remaining period of notice.

For other executives, excluding Bernard Kavanagh and William Slater who are yet to sign the new agreements, the notice period is 12 months or 4 weeks for each completed year of service (up to a maximum of 112 weeks) whichever is greater. The Company may, in lieu of giving the executive part or all of the notice, make payment to the executive, by making a payment equal to the value of the executive's remuneration package, as follows:

- if the notice period is 12 months or more – for up to 12 months of the notice period, in which case the executive's employment will continue for the balance, if any of the notice period
- if the notice period is less than 12 months – for any period up to the entire notice period.

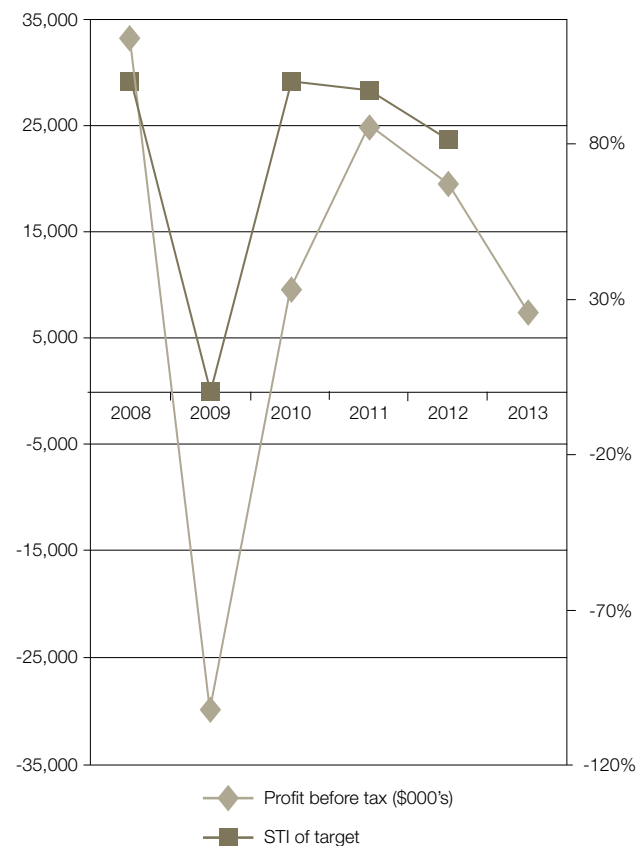
Benefits paid on redundancy are the same as for all employees, except executives (excluding the CEO, Bernard Kavanagh and William Slater), who receive 12 weeks pay in lieu of notice compared with the standard four weeks.

Summary of Key Agreement Terms

Agreement Details	David Lord	Anthony Cook	William Hannah	Bernard Kavanagh	Ross Martin	Paul Moloney	William Slater	Richard Wallace	John Williams
Base salary (base)	634,367	240,460	280,934	271,872	271,872	187,591	239,903	292,061	271,872
STI % of base	31.5%	20%	20%	20%	20%	20%	20%	20%	20%
LTI	175,000	–	–	–	–	–	–	–	–
Notice by the Company	9 months	12 months	56 weeks	1 month	12 months	12 months	1 month	64 weeks	12 months
Notice by employee	6 months	3 months	3 months	1 month	3 months	3 months	1 month	3 months	3 months

Performance of the Company

The graph below illustrates the key link between executive remuneration and the Company's performance.



DIRECTORS' STATUTORY AND REMUNERATION REPORT

Details of Executive Remuneration for Period Ending 30 June 2013

2013 Name	Short-Term Employee Benefits			Post-Employment Benefits	Long-Term Benefits	Share-Based Payments	Termination Benefits	TOTAL
	Cash Salary and Fees	Short-Term Incentives		Super-annuation	Long-Term Incentives	Long Service Leave		
		2011/12 Paid 2012/13	Non-Monetary Benefits					
	\$	\$	\$	\$	\$	\$	\$	\$
David Lord	660,384	170,000	1,598	59,924	44,044	11,241	-	947,191
Anthony Cook	239,160	32,370	-	21,212	-	(394)	-	292,348
William Hannah	292,941	45,759	1,577	23,553	-	11,413	-	375,243
Bernard Kavanagh	305,591	44,387	2,140	20,539	-	18,604	-	391,261
Ross Martin*	121,783	-	-	10,675	-	487	-	132,945
Paul Moloney	199,974	30,812	-	18,778	-	10,187	-	259,751
William Slater	253,160	30,133	-	23,366	-	8,083	-	314,742
Richard Wallace	296,904	44,932	-	27,417	-	11,461	-	380,714
John Williams	281,381	41,644	-	26,362	-	14,639	-	364,026
TOTAL	2,651,278	440,037	5,315	231,826	44,044	85,721	-	3,458,221

2012 Name	Short-Term Employee Benefits			Post-Employment Benefits	Long-Term Benefits	Share-Based Payments	Termination Benefits	TOTAL
	Cash Salary and Fees	Short-Term Incentives		Super-annuation	Long-Term Incentives	Long Service Leave		
		2010/11 Paid 2011/12	Non-Monetary Benefits					
	\$	\$	\$	\$	\$	\$	\$	\$
David Lord	649,889	0	3,011	58,444	-	5,949	-	717,293
Anthony Cook	235,481	(2,223)	-	22,363	-	17,311	1,000	273,932
John Frankcom**	184,438	-	-	10,819	-	4,125	1,000	398,287
William Hannah	254,148	(9)	1,836	23,145	-	9,618	1,000	289,738
Bernard Kavanagh	270,348	-	2,348	17,408	-	12,186	1,000	303,290
Paul Moloney***	98,649	-	-	9,676	-	8,974	-	117,299
William Slater	237,357	(3,232)	-	21,804	-	7,717	1,000	264,646
Richard Wallace	281,184	(2,822)	-	25,903	-	10,947	1,000	316,212
John Williams	233,268	(3,533)	-	21,238	-	8,582	1,000	260,555
TOTAL	2,444,762	(11,819)	7,195	210,800	-	85,409	7,000	2,941,252

* Ross Martin joined the Company on 8 January 2013. ** John Frankcom resigned on 23 December 2011. *** Paul Moloney was appointed Company Secretary on 23 December 2011.

Additional Information

For FY2012 each STI or cash bonus included in the tables above the percentage of the available short-term incentive or bonus that was paid or payable and the percentage that was forfeited because the Company's performance and person did not meet performance criteria is set out below. For FY2013 the percentage of STI or cash bonus available, but not yet determined, is set out below.

Name	CASH BONUS		
	2011/12	2012/13	Not Yet Determined
	Paid	Forfeited	
	%	%	%
David Lord	85	15	100
Anthony Cook	70	30	100
William Hannah	85	15	100
Bernard Kavanagh	85	15	100
Ross Martin	-	-	100
Paul Moloney	85	15	100
William Slater	65	35	100
Richard Wallace	80	20	100
John Williams	85	15	100

Non Executive Director Remuneration Policy

The total amount of director fees and committee allowances are determined by shareholders at the Annual General Meeting (AGM) as and when recommended by the Board. The Nominations & Remuneration Committee provides recommendations as required to the Board for this purpose. Remuneration for non executive directors was last fixed by members at the 2010 AGM held in October 2010. In accordance with the requirements of the Company constitution, the meeting fixed the total remuneration at \$700,000.

The recommended level approved by the meeting was based upon levels paid by comparable listed companies, the consideration of market surveys by various remuneration advisers, and having regard to the increasing responsibilities and workload undertaken by directors.

External remuneration advisers are consulted from time to time to assist the Nominations & Remuneration Committee and the Board in recommending director fees and committee allowances that are consistent and appropriate with market practice.

Non executive director remuneration consists of three elements:

- director fees
- committee allowances
- superannuation.

Total remuneration is inclusive of any committee fees and statutory superannuation.

As indicated in the table below, the total amount was subsequently allocated by Directors as follows:

Chairman – \$132,000

Deputy Chairman – \$99,000

Directors – \$66,000

Committee fees – \$4,800 per committee with a maximum allowance of two committees. There are no shares, share options, unissued shares, interests or rights in shares or termination benefits forming part of the remuneration package of any non executive director.

Details of Non Executive Director Remuneration for the Period Ending 30 June 2013

2013 Name	Short-Term Employee Benefits			Post-Employment Benefits	TOTAL
	Cash Salary and Fees	Short-Term Incentives	Non-Monetary Benefits	Superannuation	
	\$	\$	\$	\$	\$
R A Andrew Anderson	69,358	–	–	6,242	75,600
Kay Antony	66,422	–	–	5,978	72,400
Michael Carroll	69,358	–	–	6,242	75,600
Francis Davis	125,642	–	–	6,358	132,000
John Gall	69,358	–	–	6,242	75,600
Barry Irvin*	46,911	–	–	4,222	51,133
Bruce Morley**	13,679	–	–	1,225	14,904
Terence Richardson	99,633	–	–	8,967	108,600
Raymond Smith***	5,046	–	–	454	5,500
Bruce Vallance	66,422	–	–	5,978	72,400
TOTAL	631,829	–	–	51,908	683,737

2012 Name	Short-Term Employee Benefits			Post-Employment Benefits	TOTAL
	Cash Salary and Fees	Short-Term Incentives	Non-Monetary Benefits	Superannuation	
	\$	\$	\$	\$	\$
R A Andrew Anderson	69,358	–	–	6,242	75,600
Kay Antony	69,303	–	–	6,237	75,540
Michael Carroll	69,358	–	–	6,242	75,600
Francis Davis	121,101	–	–	10,899	132,000
John Gall	70,864	–	–	4,729	75,593
Barry Irvin	62,018	–	–	5,582	67,600
Terence Richardson	99,633	–	–	8,967	108,600
Bruce Vallance	69,358	–	–	6,242	75,600
TOTAL	630,993	–	–	55,140	686,133

* Barry Irvin resigned from the Board on 20 March 2013.

** Bruce Morley was appointed to the Board to fill a casual vacancy on 21 March 2013 and resigned on 31 May 2013. For the period of the year that Bruce Morley was not a Director he received an Associate Director fee of \$60,696.

*** Ray Smith was appointed to the Board to fill a casual vacancy on 31 May 2013.

Former CEO and Managing Director Mr John McLean fills an Associate Director position and his remuneration is \$120,000 p.a. which includes consultancy fees as well as Director's fees.

Use of Remuneration Consultants

In FY2012 the Board engaged Mercer Consulting (Mercer) to provide independent advice on the development of an LTI Plan for the CEO. The engagement continued into FY2013. Mercer undertook work to develop an appropriate peer group for the purposes of remuneration practice comparison and to develop the features of the LTI Plan. This also enabled Mercer to advise on the quantum of remuneration for the LTI Plan. The peer group included companies in similar industries and of a relevant size for the group (as determined by revenue). Mercer considered the overall remuneration levels as well as the LTI Plan designs of the peer group where available.

In developing the LTI Plan, Mercer was also engaged to assist the Board in setting the appropriate targets for the measures in the LTI Plan.

In the FY2012 report we disclosed that Mercer's fees were approximately \$55,000. With the work now complete, \$50,400 is attributable to FY2012 and \$16,800 in FY2013.

DIRECTORS' STATUTORY AND REMUNERATION REPORT

Mercer confirmed that their advice, analyses and observations have been made free from undue influence by the group's Key Management Personnel (KMP). In addition the Board entered into arrangements with Mercer to ensure that the advice was free from undue influence by KMP, including:

- the agreement for the services was executed by the Chairman of the Nominations & Remuneration Committee
- the advice from Mercer was provided directly to the Nominations & Remuneration Committee only
- Mercer attended Board and Nominations & Remuneration Committee meetings to discuss the LTI Plan design and to present advice.

As a result of this approach, the Board is satisfied that the work conducted by Mercer was made free from undue influence by KMP.

In FY2013 the Nominations & Remuneration Committee also engaged Mercer to review and comment on the Remuneration Report. This work performed did not constitute remuneration advice or recommendations as defined by the Corporations Act. Mercer's fee for this work was \$5,000. Mercer also provided actuarial services to the Company in FY2013 for a fee of \$12,700.

Insurance of Officers

Amounts disclosed for remuneration of directors and other KMP exclude insurance premiums of \$200,886 paid by the consolidated entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers.

Loans to Directors and Executives

Loans are not provided to Directors of Warrnambool Cheese and Butter Factory Company Holdings Limited or executives, except where the Director is a Supplier Director they are entitled to receive an interest-free advance to purchase feed or fertiliser on the same terms and conditions as available to all suppliers of milk to the company.

As at 30 June 2013 Supplier Director Terence Richardson, through a related party, had an interest-free feed/fertiliser advance of \$16,000 which is due to be repaid in full by 12 May 2014.

Rounding of Amounts

The Company is of a kind referred to in class order 98/0100 issued by the Australian Securities and Investments Commission relating to "rounding-off". Accordingly, amounts have been rounded-off to the nearest thousand dollars.

Meetings of Directors and Board Committees

The number of meetings of the Company's Board of Directors and of each Board committee held during the financial year ended 30 June 2013, and the number attended by each Director were as follows:

Name	Committee Meetings					
	Board Meetings	Audit & Risk	Nominations & Remuneration	Supplier Relations & Pricing Policy	Milk Pricing Review	Supplier Relations/ Industry Issues
	(15)	(15)	(9)	(2)	(1)	(1)
F. Davis	14 (15)		7 (9)	0 (2)	1 (1)	0 (1)
T. Richardson	15 (15)	14 (15)	9 (9)			
R. A. A. Anderson	12 (15)	13 (15)	6 (9)	1 (2)	1 (1)	
K. Antony	14 (15)			2 (2)	1 (1)	1 (1)
M. Carroll	13 (15)	14 (15)		1 (2)	1 (1)	
J. Gall	15 (15)	15 (15)		2 (2)		1 (1)
B. Irvin	6 (8)		5 (6)			
D. Lord	13 (15)			2 (2)	1 (1)	1 (1)
J. McLean	13 (15)			1 (2)	1 (1)	
B. Morley	15 (15)	15 (15)	9 (9)			
R. Smith	2 (3)					
B. Vallance	15 (15)			2 (2)	1 (1)	1 (1)

The total number of meetings held is shown in brackets at the top of the table. The number of meetings held at which a director was eligible to attend is shown in brackets.

Dated at Allansford, 27 August 2013



Frank Davis
Chairman



Terry Richardson
Deputy Chairman



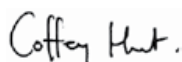
INDEPENDENT AUDITOR'S DECLARATION



As lead auditor for the audit of Warrnambool Cheese and Butter Factory Company Holdings Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Warrnambool Cheese and Butter Factory Company Holdings Limited and the entities it controlled during the period.



Coffey Hunt
Chartered Accountants



C.J. Kol
Partner

Dated at Warrnambool, 27 August 2013

SHAREHOLDERS AND ADDITIONAL INFORMATION

This section contains information which is not included elsewhere in this report that is required to be included in the Annual Report by the ASX Listing Rules.

Shareholding Interests

The top 20 shareholders at 30 June 2013 and at 14 August 2013 are shown below. The Company has received two notices of a substantial holding, one from Bega Cheese Ltd and the other from Murray Goulburn Co-Operative Company Ltd. Other than those shareholders there are no other shareholders known to the Company to have a shareholding in excess of 5% of the issued capital and thus, there are no other known "substantial holders in the entity" as defined by the ASX Listing Rules. The shareholdings of Bega Cheese Ltd and Murray Goulburn Co-Operative Company Ltd are shown on this page.

The Number of Holders of Each Class of Share

The Company shares consist of 55,246,173 ordinary shares. This includes 112,584 issued employee shares. Over the last financial year there were the following movements in share capital:

- 28/09/12 – Dividend Reinvestment Plan – 589,372
- 10/12/12 – Employee Shares – 9,078

As at 30 June 2013, there were 3,699 shareholders. As at 14 August 2013, there were 3,890 shareholders.

The Voting Rights Attached to Shares

The ordinary shares have full voting rights. That is, on a show of hands every member present at the meeting or by proxy shall have one vote and upon a poll each member shall have one vote for each share.

Marketable Holdings

There were 268 holders of less than a marketable parcel of ordinary shares at 30 June 2013 and 268 holders of less than a marketable parcel of ordinary shares at 14 August 2013.

Miscellaneous Matters

The Company shares are not listed on any stock exchange other than the ASX. The Company has not issued any equity securities as defined by the ASX Listing Rules that are of a class of unquoted equity securities within the meaning of Listing Rule 4.10.16. There is no current on-market buy-back.

Distribution Schedule of Shareholding

A distribution schedule as at 14 August 2013 follows.

Shares	Number
1 – 1,000	1,828
1,001 – 5,000	1,122
5,001 – 10,000	340
10,001 – 100,000	540
100,001 +	60

Top 20 Shareholders

As at 30 June 2013

Bega Cheese Limited	9,455,102
Murray Goulburn Co-Operative Co Ltd	9,415,959
Est Thomas C Gall	759,200
Mr John Andrew Gall	635,999
Geoffrey Charles Marsh	600,000
Bernard James Kavanagh	596,809
Chalmsbury Nominees Pty Ltd	552,188
J & H Renyard Pty Ltd	545,278
RBC Investor Services Australia Nominees Pty Ltd	440,399
Keith Allan Bonnett & June Maree Bonnett	407,593
Myrtle I Gall	406,075
J & K McKinnon Pty Ltd	384,636
Donald J Gall	373,657
J P Morgan Nominees Australia Limited	330,035
J & K McKinnon Pty Ltd	325,000
Parsley Investments Pty Ltd	300,000
Mrs Elizabeth Marie Murphy	295,485
Myrtle I Gall & John A Gall & Donald J Gall	281,812
Myrtle I Gall	280,000
Citicorp Nominees Pty Limited	271,750
Total	26,656,977
Balance Of Register	28,589,196
Grand Total	55,246,173

As at 14 August 2013

The list was the same other than:

CG Nominees (Australia) Pty Ltd	552,188
RBC Investor Services Australia Nominees Pty Limited	433,105
J P Morgan Nominees Australia Limited	340,035
Phillip G Anders	265,149

Shareholding Restrictions

There is currently no restriction on the amount of shares in the Company that may be owned by a person.



FINANCIALS AND NOTES

This financial report covers the consolidated entity consisting of Warrnambool Cheese and Butter Factory Company Holdings Limited and its subsidiaries. The financial report is presented in Australian currency.

Warrnambool Cheese and Butter Factory Company Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Warrnambool Cheese and Butter Factory Company Holdings Limited
5331 Great Ocean Road
Allansford VIC 3277

A description of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 27 August 2013. The Company has the power to amend and reissue the financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

CONSOLIDATED

	Notes	2013 \$'000	2012 \$'000
Revenue from continuing operations	2	495,851	496,599
Other income	3	653	1,151
Changes in inventories of finished goods and work in progress		(978)	20,465
Raw materials and consumables used		(376,835)	(402,875)
Depreciation and amortisation expense	4	(11,798)	(12,661)
Finance costs	4	(4,142)	(3,118)
Distribution expense		(23,506)	(18,622)
Employee benefits expense		(45,963)	(41,500)
Other expenses		(25,379)	(22,968)
Share of net profits/(losses) of joint ventures accounted for using the equity method	37	1,688	3,212
Profit/(Loss) before income tax (expense)/benefit		9,591	19,683
Income tax (expense)/benefit	5	(2,101)	(4,499)
Profit/(Loss) for the year		7,490	15,184
Other comprehensive income			
Changes in fair value of cash flow hedges		(3,404)	(840)
Income tax relating to components of other comprehensive income		1,021	252
Other comprehensive income for the year, net of tax		(2,383)	(588)
Total comprehensive income for the year		5,107	14,596
Profit/(Loss) attributable to owners of Warrnambool Cheese and Butter Factory Company Holdings Limited		7,490	15,184
Total comprehensive income attributable to owners of Warrnambool Cheese and Butter Factory Company Holdings Limited		5,107	14,596
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company		Cents	Cents
Basic earnings per share	35	13.6	27.8
Diluted earnings per share	35	13.6	27.8

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

as at 30 June 2013

CONSOLIDATED

	Notes	2013 \$'000	2012 \$'000
CURRENT ASSETS			
Cash and cash equivalents	16	3,794	1,846
Trade and other receivables	6	111,176	93,485
Inventories	7	70,804	71,782
Total Current Assets		185,774	167,113
NON-CURRENT ASSETS			
Investments accounted for using the equity method	9	23,705	23,066
Other financial assets	10	5	5
Property, plant & equipment	11	85,314	74,691
Investment properties	12	10,138	9,973
Intangible assets	14	1,628	1,628
Total Non-Current Assets		120,790	109,363
Total Assets		306,564	276,476
CURRENT LIABILITIES			
Trade and other payables	15	52,638	56,070
Borrowings	16	71,278	43,914
Current tax liabilities	17	1,546	–
Derivative financial instruments	8	4,137	374
Provisions	18	5,845	5,529
Total Current Liabilities		135,444	105,887
NON-CURRENT LIABILITIES			
Borrowings	19	8,001	8,265
Deferred tax liabilities	20	792	1,124
Provisions	21	524	455
Total Non-Current Liabilities		9,317	9,844
Total Liabilities		144,761	115,731
Net Assets		161,803	160,745
EQUITY			
Contributed equity	22	69,607	67,676
Reserves	23	9,507	11,859
Retained profits	23	82,689	81,210
Total Equity		161,803	160,745

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2013

	ATTRIBUTABLE TO OWNERS OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED				
	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2012		67,676	11,859	81,210	160,745
Profit for the year		–	–	7,490	7,490
Cash flow hedges	23	–	(3,404)	–	(3,404)
Income tax relating to components of other comprehensive income	23	–	1,021	–	1,021
Executive Performance Rights Plan valuation adjustment	23	–	31	–	31
Total comprehensive income for the year		–	(2,352)	7,490	5,138
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	22	1,931	–	–	1,931
Dividends provided for or paid	24	–	–	(6,011)	(6,011)
		1,931	–	(6,011)	(4,080)
Balance at 30 June 2013		69,607	9,507	82,689	161,803
Balance at 1 July 2011		65,016	12,446	74,138	151,600
Profit for the year		–	–	15,184	15,184
Cash flow hedges	23	–	(840)	–	(840)
Income tax relating to components of other comprehensive income	23	–	252	–	252
Total comprehensive income for the year		–	(588)	15,184	14,596
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax		2,660	–	–	2,660
Dividends provided for or paid	24	–	–	(8,112)	(8,112)
		2,660	–	(8,112)	(5,452)
Balance at 30 June 2012		67,676	11,859	81,210	160,745

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2013

		CONSOLIDATED	
	Notes	2013 \$'000	2012 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		493,301	501,256
Payments to suppliers and employees (inclusive of goods and services tax)		(490,799)	(497,756)
Dividends received		80	147
Interest received		145	158
Finance costs		(4,142)	(3,118)
Income tax paid		-	(7,222)
Income tax received		2,384	-
Net Cash Inflow (Outflow) from Operating Activities	32	969	(6,535)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant & equipment		533	10,310
Payments for land		(133)	-
Payments for property, plant & equipment		(22,611)	(15,380)
Net Cash Inflow (Outflow) from Investing Activities		(22,211)	(5,070)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		6,048	7,613
Proceeds from issues of shares		1,904	2,328
Repayment of borrowings		(3,449)	(4,324)
Dividends paid by parent entity	24	(6,011)	(8,112)
Share issue transaction costs		(7)	(13)
Net Cash Inflow (Outflow) from Financing Activities		(1,515)	(2,508)
Net Increase (Decrease) in Cash, Cash Equivalents and Overdrafts			
Cash, cash equivalents and overdrafts at the beginning of the financial year		(31,154)	(17,171)
Effects of exchange rate changes on cash, cash equivalents and overdrafts		205	130
Cash, cash equivalents and overdrafts at the end of the financial year	16	(53,706)	(31,154)

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The financial report of the consolidated entity consists of Warrnambool Cheese and Butter Factory Company Holdings Limited and its subsidiaries.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the Corporations Act 2001. Warrnambool Cheese and Butter Factory Company Holdings Limited is a publicly listed entity for the purposes of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of Warrnambool Cheese and Butter Factory Company Holdings Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(ii) Historical Cost Convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through comprehensive income, certain classes of property, plant and equipment and investment property.

(iii) Critical Accounting Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires that management exercise judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are separately disclosed.

(b) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Warrnambool Cheese and Butter Factory Company Holdings Limited (parent entity) as at 30 June 2013 and the results of all subsidiaries for the year then ended. Warrnambool Cheese and Butter Factory Company Holdings Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(z)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the group.

The subsidiaries of the group are; The Warrnambool Cheese and Butter Factory Company Limited, Australian Dairy Products Pty Ltd, Warrnambool Milk Products Pty Limited and Protein Technology Victoria Pty Ltd.

(iii) Joint Venture Entities

The interest in a joint venture is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of profits or losses of the joint venture is recognised in the statement of comprehensive income. The joint venture investment is recognised in non-current assets (note 9) and the share of movements in reserves in the balance sheet. Details relating to joint ventures are set out in note 37.

Profits or losses on establishing the joint venture and transactions with the joint venture are eliminated to the extent of the group's ownership interest until such time as they are realised by the joint venture on consumption or sale, unless they relate to an unrealised loss that provides evidence of impairment of an asset transferred.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board and Executive management.

(d) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income, based on the current income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable comprehensive income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of distributions from controlled entities and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Warrnambool Cheese and Butter Factory Company Holdings Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(e) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(f) Trade Receivables

Trade receivables are recognised at fair value less provision for impairment. Domestic trade receivables and other receivables are generally due for settlement within 30 days and export trade receivables within 60 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established where there is historical or objective evidence and where sufficient doubt as to collection exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

It is the groups normal practice to recognize the impairment loss in the statement of comprehensive income in other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to other income in the statement of comprehensive income.

(g) Foreign Currency Translation – Transactions and Balances

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable in foreign currencies are translated into Australian currency at rates of exchange current at that date. At balance date amounts received or receivable in foreign currencies are translated into Australian currency at the rate of the Forward Exchange Contract to be utilised when converting the foreign currency received or receivable to Australian currency. Resulting exchange differences are brought to account in determining the comprehensive income for the year.

(h) Inventories

Store and garage trading inventories have been valued at the lower of cost and net realisable value. Costs are assigned to individual items of stock on a latest purchase price or first-in first-out basis. Cost includes direct costs only.

Butter, cream, cheese, whey protein concentrate, packaged milk, specialty cheese and milk powder inventories are measured at the lower of cost and net realisable value. Any loss on valuing inventory at net realisable value is brought to account in determining the comprehensive income for the year. The cost of butter, cream, cheese, whey protein concentrate, packaged milk, specialty cheese and milk powder includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Costs are assigned on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion less the estimated costs necessary to complete the sale.

(i) Impairment of Assets

Goodwill and intangible assets that have an indefinite life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(j) Property, Plant and Equipment

Property, plant and equipment is initially recognised at cost, where cost includes purchase price, delivery and handling, site preparation, professional fees, installation and assembly, commissioning costs, employee benefits costs directly attributable to the construction or purchase and borrowing costs associated with qualifying assets.

Subsequent to initial recognition property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Land is not depreciated. Depreciation on other assets is calculated on a straight line method to allocate their cost or revalued amounts over their estimated useful lives, as follows:

Class of Fixed Asset	Depreciation Rate
Buildings	3–4%
Plant and equipment	6–33%
Motor vehicles	10–25%
Computer equipment	6–50%

Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

An assets carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount (note 1(i)).

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is the group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(k) Non-Current Assets Held For Sale

Non-current assets classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying value and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value, less costs to sell, of an asset, but not in excess of any impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets (including those as part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest or other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group held for sale are presented separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(l) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense.

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases (note 28).

(m) Investments and Other Financial Assets

Classification

The group classifies its investments in the following categories: financial assets at fair value through comprehensive income, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial Assets at Fair Value Through Comprehensive Income

Financial assets at fair value through comprehensive income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 6) in the balance sheet.

(iii) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturity that management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

(iv) Available for Sale Financial Assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and Derecognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through comprehensive income are expensed in comprehensive income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through comprehensive income' category are included in the statement of comprehensive income in the period in which they arise.

Impairment

The group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(n) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 33).

(ii) Recognised Internally Developed Intangibles

Expenditure on the development of recognised intangibles (excluding goodwill) for internal use is capitalised as an intangible asset. Internally developed intangibles with a finite useful life are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight line method to allocate the cost of internally developed intangibles over their estimated useful life.

(o) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(p) Borrowings

Borrowings are initially measured at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(q) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset in which case they are capitalised as part of the cost of that asset.

(r) Derivatives and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 8. Movements in the hedging reserve in shareholders' equity are shown in note 23.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in comprehensive income within other income or other expense.

Amounts accumulated in equity are reclassified to comprehensive income in the periods when the hedged item affects comprehensive income. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to comprehensive income.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the comprehensive income within other income or other expense.

(s) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid.

The group recognises revenue when the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and the specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of Finished Goods

Revenue for commodity products and for retail trade products is recognised at the time of dispatch or when the products are held in storage for future delivery at the request of the customer.

(ii) Other

A sale is recorded when goods have been dispatched or at the point of sale to a customer and the associated risks have passed to the carrier or customer.

(t) Employee Benefits

(i) Short Term Obligations

Liabilities for wages and salaries, annual leave, and rostered days off are recognised in other creditors and are measured as the amount expected to be paid when the liabilities are settled. Liabilities for vested sick leave, payable on termination, are recognised in the provision for employee benefits at the amounts expected to be paid when the liabilities are settled.

Annual leave and vested sick leave amounts are all recorded as current liabilities, even though it is not expected all amounts will be paid within 12 months, as the employee has a legal entitlement to these amounts and could at their discretion utilise that entitlement. In determining amounts recognised as liabilities the group gives consideration to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments greater than 12 months are discounted using market yields on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(ii) Long Term Employee Benefit Obligations

A liability for long service leave to which employees are legally entitled at the reporting date is recognised in the provision for employee benefits in accordance with (i) above. The liability for long service leave expected for which the employee is yet to be legally entitled and therefore settled in more than 12 months from reporting date is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-Based Payments

Share-based compensation benefits are provided, at the company's discretion, to employees via the Warrnambool Cheese and Butter Factory Company Holdings Limited employee share scheme. Information relating to this scheme is set out in note 36.

(iv) Bonus Plans

The group recognises a liability and an expense for bonuses where there is a contractual obligation or where there is past practice that has created a constructive obligation.

(v) Executive Performance Rights Plan

With shareholder approval the group implemented an executive performance rights plan in October 2012. Rights vesting as a part of the plan are recognised in the statement of comprehensive income and in equity over the vesting period. (refer note 1(x))

(v) Retirement Benefit Obligations

Contributions to the defined contribution section are recognized as an expense as they become payable.

The defined benefit section is based on a lump sum retirement benefit limit at age 65. This fund is managed by the way of an actuarial review and amounts are expensed as recommended by the actuarial.

(u) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the reporting period but not distributed at the end of the reporting period.

(v) Provisions

Provisions are recognised where a present obligation exists and the entity has no realistic alternative but to make a future sacrifice of economic benefits to settle the obligation.

(w) Earnings Per Share

(i) Basic Earnings Per Share

Basic earnings per share is determined by dividing net profit after tax attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

(ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in determining basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) Share-based Payments

Goods or services received or acquired in a share-based payment transaction shall be recognised when the goods or as the services are received. A corresponding increase in equity shall be recognised if the goods or services were received in an equity-settled share-based payment transaction. The equivalent increase in equity shall be based on the fair value of the goods and services received or on a fair value determined by reference to the fair value of the equity instruments granted at grant date.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

The fair value of rights granted under the Warrnambool Cheese and Butter Factory Company Holdings Limited Executive Performance Rights Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Executive Performance Rights Plan is administered by the Warrnambool Cheese and Butter Factory Company Holdings Limited Nominations and Remuneration Committee. When the rights are exercised, the Nominations and Remuneration Committee transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

Under the Executive Performance Rights Plan, shares issued by the Warrnambool Cheese and Butter Factory Company Holdings Limited Executive Performance Rights Plan to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

The fair value of deferred shares granted to employees for nil consideration under the Executive Performance Rights Plan is recognised as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at each reporting date and adjustments are recognised in profit or loss and the share-based payment reserve.

The deferred shares are acquired by the Warrnambool Cheese and Butter Factory Company Holdings Limited Executive Performance Rights Plan on market at the grant date and are held until such time as they are vested, see note 23.

(y) Investment Property

Investment properties are held for long-term rental yields or capital appreciation or both and is not occupied by the group. Investment property is carried at fair value, representing open-market value determined annually by an independent valuer who holds a recognised and relevant professional qualification.

Changes to fair value are recorded in the comprehensive income as part of other income.

(z) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange. Acquisition related costs not directly attributable to the acquisition are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill (refer note 1(n)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in comprehensive income as a bargain purchase.

Where the settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to their present value as at the date of exchange. The discount rate used is the group's weighted average cost of capital.

Contingent consideration is classified as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

(aa) Government Grants

Grants from the Government are recognised at their fair value where there is reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to capital are accounted for by deducting the grant in arriving at the carrying amount of the asset.

(ab) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ac) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

(ad) Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(ae) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The group has reviewed the standards and does not believe that they will have a material impact of the financial statements.

(i) AASB 9 Financial Instruments (effective 1 July 2013)

In December 2010 the AASB officially introduced a standard for the classification, measurement and de recognition of financial assets and financial liabilities. The group will adopt the standard from the operative date, which is one year after the effective date.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Venture Arrangements, AASB 12 Disclosure of Interests in Other Entities (effective 1 January 2013), AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures (effective 1 January 2014)

In August 2010, the AASB issued a suite of five new and amended standards which address the accounting for joint ventures, consolidated financial statements and associated disclosures. The group will adopt the standard from the operative date, which is one year after the effective date.

(iii) AASB 13 Fair value Measurement (effective 1 January 2013)

In September 2010, the AASB issued an amended standard which explains how to measure fair value and aims to enhance fair value disclosures. The group will adopt the standard from the operative date, which is one year after the effective date.

(iv) AASB 19 Employee Benefits (effective 1 January 2013)

In September 2011, the AASB issued an amended standard which explains how to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future, and an expense when the entity consumes the economic benefit arising from services provided by an employee in exchange for employee benefits. The group will adopt the standard from the operative date, which is one year after the effective date.

(af) Parent Entity Financial Information

The financial information for the parent entity, Warrnambool Cheese and Butter Factory Company Holdings Limited, disclosed in note 38 has been prepared on the same basis as the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 2. Revenue		
Sales Revenue		
Sale of goods	480,545	483,481
Sale of services	16,264	9,447
	496,809	492,928
Other Revenue		
Rent	856	833
Interest	145	158
Dividends	80	147
Net foreign exchange gains/(losses)	(2,073)	2,487
Other	34	46
	(958)	3,671
Revenue from continuing operations	495,851	496,599
Note 3. Other Income		
Net gain/(loss) on disposal of property, plant and equipment	392	704
Fair value gains on investment properties	32	–
Government grants (a)	229	447
	653	1,151
(a) Government grants		
Grants for regional development \$32,000 (\$2012: \$0), employee training of \$0 (2012: \$2,500), energy grants credits scheme of \$197,000 (2012: \$305,000) and Export Development Program \$0 (2012: \$140,000) were recognised as other income' by the Group during the financial year. There are no unfulfilled conditions or other contingencies attached to these grants. The Group did not benefit from any other forms of government assistance.		
Note 4. Expenses		
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	958	914
Plant & equipment	10,840	11,747
Total depreciation	11,798	12,661
<i>Finance Costs</i>		
Interest and finance charges paid/payable	4,142	3,118
Write down of inventories to net realisable value	801	3,400
Impairment losses – trade receivables	460	79
Research and development	3,500	4,261
Employee benefits provided for	4,249	4,119

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 5. Income Tax		
(a) Income tax expense		
Current tax	1,591	3,029
Deferred tax	535	1,590
Under (over) provided in prior years	(25)	(120)
Aggregate income tax expense/(benefit)	2,101	4,499
<i>Deferred income tax (benefit) expense included in income tax expense/(benefit) comprises:</i>		
Decrease (increase) in deferred tax assets (note 13)	510	2,677
(Decrease) increase in deferred tax liabilities (note 20)	25	(1,087)
	535	1,590
(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit/(loss) from operations before income tax expense/(benefit)	9,591	19,683
Income tax calculated @ 30% (2012 – 30%)	2,877	5,905
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Depreciation and amortisation	84	85
Entertainment	31	31
Research and development	(350)	(400)
Sundry items	(9)	(38)
Share of net profits/(losses) of joint ventures	(507)	(964)
Under (over) provision in prior years	(25)	(120)
Income tax expense/(benefit)	2,101	4,499
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax – (debited) credited directly to equity (notes 13 and 20)	(867)	(110)
	(867)	(110)

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 6. Current Assets – Trade and Other Receivables		
Trade receivables	96,974	72,373
Provision for impairment of receivables (a)	(340)	(800)
	96,634	71,573
Other receivables (c)	12,860	20,031
Prepayments	1,682	1,881
	111,176	93,485
(a) Impaired trade receivables		
<p>As at 30 June 2013 current trade receivables of the Group with a nominal value of \$344,000 (2012: \$834,000) were impaired. The amount of the provision was \$340,000 (2012: \$800,000). The individually impaired receivables mainly relate to businesses that are in unexpectedly difficult economic situations. It was assessed that a portion of the receivable is expected to be recovered.</p> <p>The ageing of these receivables is as follows:</p>		
1 to 3 months	–	–
3 to 6 months	–	–
Over 6 months	344	834
	344	834
Movements in the provision for impairment of receivables are as follows:		
At 1 July	800	800
Provision for impairment recognised during the year	–	79
Receivables written off during the year as uncollectible	(460)	(79)
Unused amount reversed	–	–
	340	800
<p>The creation and release of the provision for impaired receivables has been included in 'other expenses' in the statement of comprehensive income. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.</p>		
(b) Past due but not impaired		
<p>As of 30 June 2013, Group trade receivables of \$13,009,000 (2012: \$12,825,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:</p>		
Up to 3 months	10,999	11,542
3 to 6 months	2,010	1,128
Over 6 months	–	155
	13,009	12,825

(c) Other receivables

These amounts generally arise from transactions outside the usual activities of the Group. Interest may be charged on other receivables.

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 25.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain receivables is insignificant as is the fair value of any collateral sold or repledged. Refer note 25 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 7. Current Assets – Inventories		
Raw materials and stores – at cost	30,398	25,897
Work in progress – at cost	510	86
Finished goods – at net realisable value	4,360	26,242
Finished goods – at cost	35,536	19,557
	70,804	71,782
(a) Inventory expense		
Inventory recognised as an expense during the year ended 30 June 2013 amounted to \$356,893,702 (2012: \$365,731,745).		
Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to \$801,000 (2012: \$3,400,000). This expense has been recognised in 'raw materials and consumables used' in the statement of comprehensive income.		
Note 8. Derivative Financial Instruments		
Current liabilities		
Forward foreign exchange contracts – cash flow hedges (a)	4,137	374
	4,137	374
(a) Instruments used by the Group		
The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.		
The Group exports dairy products to numerous countries. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to sell US dollars, which is the common currency for international dairy sales.		
The Group's risk management policy is to hedge 100% of contracted sales and 50% of anticipated sales transactions in US dollars for no more than the subsequent 12 months. The contracts are timed to mature when funds are scheduled to be received for major export shipments.		
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.		
(b) Risk exposures		
Information about the Group's exposure to credit, foreign exchange and interest rate risk is provided in note 25.		
Note 9. Non-Current Assets – Investments Accounted for Using the Equity Method		
Interest in joint ventures (note 37)	23,705	23,066
	23,705	23,066
Note 10. Non-Current Assets – Other Financial Assets		
<i>Other unlisted securities</i>		
Equity securities	5	5
	5	5

These financial assets are carried at cost. Unlisted securities are traded in inactive markets that do not give indication as to fair value, as such they are valued at cost.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 11. Non-Current Assets – Property, Plant & Equipment

	Constr'n in progress \$'000	Freehold land \$'000	Buildings \$'000	Plant & equipment \$'000	Motor vehicles \$'000	Furniture, fixtures & fittings \$'000
Consolidated 2013						
Year ended 30 June 2013						
Opening net book amount	3,869	2,620	14,086	40,145	3,536	593
Additions	6,614	–	991	7,184	5,217	225
Disposals	–	–	–	(38)	(20)	–
Depreciation charge	–	–	(958)	(7,251)	(1,321)	(198)
Closing net book amount	10,483	2,620	14,119	40,040	7,412	620
At 30 June 2013						
Cost or fair value	10,483	2,620	22,240	121,307	10,767	2,359
Accumulated depreciation	–	–	(8,121)	(81,267)	(3,355)	(1,739)
Net book amount	10,483	2,620	14,119	40,040	7,412	620
Consolidated 2013						
Year ended 30 June 2013						
Opening net book amount		1,812	181	6,078	1,770	74,690
Additions		2,333	–	–	–	22,564
Disposals		(1)	–	–	(83)	(142)
Depreciation charge		(1,145)	(19)	(410)	(496)	(11,798)
Closing net book amount		2,999	162	5,668	1,191	85,314
At 30 June 2013						
Cost or fair value		13,641	481	8,845	22,417	215,160
Accumulated depreciation		(10,642)	(319)	(3,177)	(21,226)	(129,846)
Net book amount		2,999	162	5,668	1,191	85,314

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 11. Non-Current Assets – Property, Plant & Equipment (cont.)

	Constr'n in progress \$'000	Freehold land \$'000	Buildings \$'000	Plant & equipment \$'000	Motor vehicles \$'000	Furniture, fixtures & fittings \$'000
Consolidated 2012						
At 1 July 2011						
Cost or fair value	3,524	2,620	20,116	106,606	4,047	2,028
Accumulated depreciation	–	–	(6,256)	(68,341)	(2,225)	(1,391)
Net book amount	3,524	2,620	13,860	38,265	1,822	637
Year ended 30 June 2012						
Opening net book amount	3,524	2,620	13,860	38,265	1,822	637
Additions	345	–	1,140	10,197	2,583	180
Disposals	–	–	–	(81)	(41)	(11)
Depreciation charge	–	–	(914)	(8,236)	(828)	(213)
Closing net book amount	3,869	2,620	14,086	40,145	3,536	593
At 30 June 2012						
Cost or fair value	3,869	2,620	21,256	114,442	6,281	2,146
Accumulated depreciation	–	–	(7,170)	(74,297)	(2,745)	(1,553)
Net book amount	3,869	2,620	14,086	40,145	3,536	593
		Computer equipment \$'000	Crown land improv's \$'000	Effluent plant \$'000	Leased plant & equipment \$'000	Total \$'000
Consolidated 2012						
At 1 July 2011						
Cost or fair value		10,480	481	8,845	24,209	182,956
Accumulated depreciation		(8,191)	(277)	(2,358)	(21,814)	(110,853)
Net book amount		2,289	204	6,487	2,395	72,103
Year ended 30 June 2012						
Opening net book amount		2,289	204	6,487	2,395	72,103
Additions		937	–	–	–	15,382
Disposals		(1)	–	–	–	(134)
Depreciation charge		(1,413)	(23)	(409)	(625)	(12,661)
Closing net book amount		1,812	181	6,078	1,770	74,691
At 30 June 2012						
Cost or fair value		11,346	481	8,845	23,736	195,022
Accumulated depreciation		(9,534)	(300)	(2,768)	(21,966)	(120,331)
Net book amount		1,812	181	6,078	1,770	74,691

Valuation of land and buildings

On transition to Australian Equivalents of International Accounting Standards, AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* allows companies to elect to use fair value as deemed cost. The company has elected to do so, as such land and buildings fair value at 30 June 2006 was deemed cost on transition to AIFRS.

Asset Life Changes

During the year the company reviewed the useful life of its major property, plant and equipment assets (as per Note 1).

The revised estimate had the impact of decreasing depreciation expense \$1,403,825, increased profit after tax by \$982,678 and increased net assets by \$982,677 in the current year and for the following years the expense is expected to remain similar.

Non-current assets pledged as security

Refer note 19 for information on non-current assets pledged as security by the Group.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 12. Non-Current Assets – Investment Properties		
At fair value		
Opening balance 1 July	9,973	9,973
Acquisitions	133	–
Net gain (loss) from fair value adjustment	32	–
Closing balance 30 June	10,138	9,973
(a) Amounts recognised in profit/(loss) for investment property		
Rental income	767	755
Direct operating expenses from property that generated rental income	(12)	(26)
	755	729
Valuation basis		
<p>The basis of valuation of investment properties is fair value being the amounts for which properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The 30 June 2013 revaluations were based on independent assessments by Certified Practising Valuer C.J. Ham & Murray Pty Limited conducted in June 2013.</p>		
Non-current assets pledged as security		
Refer note 19 for information on non-current assets pledged as security by the Group.		
Leasing arrangements		
The consolidated entity has properties that are leased to tenants under long-term operating leases with rentals payable monthly.		
Minimum lease payments under non-cancellable operating leases of properties not recognised in the financial statements are receivable as follows:		
Within one year	766	420
Later than one year but not later than five years	1,678	–
	2,444	420

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 13. Non-Current Assets – Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Doubtful debts	102	240
Employee benefits	2,595	2,893
Finance leases	77	65
Audit fees	40	39
Accrued expenses	70	73
Quality claims	–	21
Business related capital expenses	309	373
Borrowing costs	1	–
	3,194	3,704
<i>Amounts recognised directly in equity</i>		
Share issue expenses	1,183	429
Cash flow hedges	288	162
Deferred tax assets	4,665	4,295
Set-off deferred tax liabilities pursuant to set-off provisions (note 20)	4,665	4,295
Net deferred tax assets	–	–
Movements:		
Opening balance at 1 July	4,295	6,952
(Credited) charged to the statement of comprehensive income (note 5)	(510)	(2,677)
(Credited) charged to equity	880	20
Closing Balance 30 June	4,665	4,295
Deferred tax assets to be recovered within 12 months	1,342	2,050
Deferred tax assets to be recovered after more than 12 months	3,323	2,245
	4,665	4,295

Note 14. Non-Current Assets – Intangible Assets

	Goodwill \$'000	Total \$'000
Consolidated 2013		
Year ended 30 June 2013		
Opening net book amount	1,628	1,628
Closing net book amount	1,628	1,628
At 30 June 2013		
Cost	1,628	1,628
Net book amount	1,628	1,628

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 14. Non-Current Assets – Intangible Assets (cont.)

Consolidated 2012	Goodwill \$'000	Total \$'000
Year ended 30 June 2012		
Opening net book amount	1,628	1,628
Closing net book amount	1,628	1,628
At 30 June 2012		
Cost	1,628	1,628
Net book amount	1,628	1,628

(a) Impairment tests for goodwill

Goodwill and intangible assets with indefinite useful lives are allocated to the Groups cash-generating units (CGU's) according to which CGU generated those assets on acquisition. A summary of amounts of goodwill and indefinite life intangibles allocated is presented below.

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cash-generating unit		
Cheese/Whey	1,523	1,523
Specialty Cheese	105	105
	1,628	1,628

The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets covering no more than a five-year period. Cash flows beyond the five-year period are extrapolated using a zero growth rate.

(b) Key assumptions used for value-in-use calculations

In performing value-in-use calculations for applicable CGU's, the company has applied a growth rate of 0% (2012 0%) and a post-tax discount rate of 11% (2012: 11%) to discount the forecast future attributable post tax cash-flows.

These assumptions have been used for the analysis of each CGU. Budgeted gross margin was based on past performance and expectations for the future. It is not considered a change in any of the key assumptions would be required.

Note 15. Current Liabilities – Trade and Other Payables

Trade payables	46,829	50,324
Other payables (a)	5,809	5,746
	52,638	56,070

(a) Amounts not expected to be settled within the next 12 months

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts represent leave that is not expected to be taken in the next 12 months.

Annual leave obligation expected to be settled after 12 months	389	1,627
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NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 16. Current Liabilities – Borrowings		
SECURED		
Bank overdrafts	57,500	33,000
Bills payable	12,142	9,818
Lease liabilities	1,636	1,096
	71,278	43,914
Cash, cash equivalents and overdrafts at the end of the financial year		
Bank Overdrafts (Note 19)	57,500	33,000
Cash and cash equivalents	(3,794)	(1,846)
	53,706	31,154
(a) Security and fair value disclosures		
Details of the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 19.		
(b) Risk exposures		
Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 25.		
The bank overdrafts information above contains Cash and cash equivalents. This is due to the banks ability to offset all bank accounts against overdrafts or borrowings.		
Note 17. Current Liabilities – Current Tax Liabilities		
Income tax	1,546	–
	1,546	–
Note 18. Current Liabilities – Provisions		
Employee benefits (a)	5,845	5,459
Quality claims	–	70
	5,845	5,529
(a) Amounts not expected to be settled within the next 12 months		
The current provision for long service leave included all unconditional entitlements where employees have completed the required period of service and also where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.		
Long service leave obligation expected to be settled after 12 months	2,151	2,016
(b) Movements in provisions		
Movements in each class of provision during the financial year, other than employee benefits, are set out below.		
Quality Claims		
Consolidated 2013		
Carrying amount at start of year	70	611
Charged/(credited) to the statement of comprehensive income – additional provisions recognised	–	70
Amounts used during the period	(70)	(611)
Carrying amount at end of year	–	70

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 19. Non-Current Liabilities – Borrowings		
SECURED		
Bills payable	2,215	5,497
Lease liabilities	5,786	2,768
	8,001	8,265
Further information relating to loans from related parties is set out in note 31.		
(a) Secured liabilities and assets pledged as security		
Total secured liabilities (current and non-current) are as follows:		
Bank overdrafts	57,500	33,000
Bills payable	14,357	15,315
Lease liability	7,422	3,864
Total secured liabilities	79,279	52,179
The bank overdraft and bills payable of the Group are secured by a fixed and floating charge over the whole of the Group's assets and an interlocking guarantee from all companies within the Group. Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.		
Bank loans are secured by a negative pledge that imposes certain covenants on the Group.		
(a) Minimum capital adequacy of 45% as at 30 June 2013		
(b) Minimum interest cover of 1.9 times as at 30 June 2013		
(c) Stock and debtor to working capital debt of 2 times as at 30 June 2013		
The carrying amounts of assets pledged as security for current and non-current borrowings are:		
Current		
Trade and other receivables	111,501	93,485
Inventories	70,804	71,782
Total current assets pledged as security	182,305	165,267
Non-current		
Investments accounted for using the equity method	23,705	23,066
Other financial assets	5	5
Property, plant & equipment	84,432	74,691
Investment properties	10,138	9,973
Intangible assets	1,628	1,628
Total non-current assets pledged as security	119,908	109,363
Total assets pledged as security	302,213	274,630

	2013		2012	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
The carrying amount and fair values of borrowings at balance date are:				
On-balance sheet				
Bank overdraft	57,500	57,500	31,154	31,154
Bills payable	14,357	12,521	15,315	14,536
Lease liabilities	7,422	8,301	3,864	3,864
Non-traded financial liabilities	79,279	78,322	50,333	49,554

None of the classes of borrowings are readily traded on organised markets in standardised form. Fair value is inclusive of costs which would be incurred on settlement of liability. The fair value of on-balance sheet borrowings is based upon market prices where a market exists or by discounting expected future cash flows by the current interest rates for liabilities with similar risk profiles.

(c) Risk exposures

Information about the Group's exposure to interest rate changes is provided in note 25.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 20. Non-Current Liabilities – Deferred Tax Liabilities		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Prepayments	85	77
Inventories	298	285
Depreciation	729	750
Unrealised foreign exchange gains	88	175
Accrued revenue	62	–
Investment property	1,747	1,738
Business related capital expenses	405	364
	3,414	3,389
<i>Amounts recognised directly in equity</i>		
Revaluation of land and buildings	2,030	2,030
Executive Performance Rights Plan valuation	13	–
Deferred tax liabilities	5,457	5,419
Set-off deferred tax assets pursuant to set-off provisions (note 13)	4,665	4,295
Net deferred tax liabilities	792	1,124
Movements:		
Opening balance at 1 July	5,419	6,597
Credited (charged) to the statement of comprehensive income (note 5)	25	(1,087)
Credited (charged) to equity	13	(91)
Closing Balance 30 June	5,457	5,419
Deferred tax liabilities to be settled within 12 months	775	731
Deferred tax liabilities to be settled after more than 12 months	4,682	4,688
	5,457	5,419
Note 21. Non-Current Liabilities – Provisions		
Employee benefits – long service leave	524	455
	524	455

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

PARENT ENTITY

	2013 Number of Shares	2012 Number of Shares	2013 Value \$'000	2012 Value \$'000
Note 22. Contributed Equity				
(a) Share capital				
Ordinary shares – fully paid	55,246,173	54,647,723	69,607	67,676
	55,246,173	54,647,723	69,607	67,676

	Date	Notes	Number of Shares	Issue Price \$	\$'000
(b) Movement in ordinary share capital					
Opening balance					
Ordinary share capital	30-Jun-12		54,647,723		67,676
Dividend reinvestment (Final Div)	28-Sep-12	(c)	589,372	3.23	1,898
Employee shares	10-Dec-12	(d)	9,078	3.74	33
Total movements in share capital			598,450		1,931
Balance	30-Jun-13		55,246,173		69,607

(c) Shareholders of Warrnambool Cheese and Butter Company Holdings Limited receive dividends paid on their shareholdings in cash or shares or a combination of both.

(d) Under the Employee Share Plan, at the discretion of the board, an issue of \$1,000 worth of shares per annum, at no cost, can be made to each eligible employee. Eligible employees are all permanent employees with at least one year's equivalent full time service and all casual/seasonal employees with at least two year's equivalent full time service. During 2013, a total of 9,078 shares were issued to employees.

(e) A Supplier Share Plan is in place where company milk suppliers are entitled, at certain times, to purchase shares at a discount rate to the current market. The times when this offer is open is at the discretion of the company. At 30 June the plan was not open. No shares were issued under this plan this financial year.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other listed entities, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital, where net debt is borrowings less cash and cash equivalents and total capital is equity plus net debt.

During 2013, the Group's strategy, which was unchanged from 2012, was to maintain a gearing ratio within a 25% to 50% range or above or below for a short-term in unforeseen circumstances. The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

CONSOLIDATED

	2013 \$'000	2012 \$'000
Total borrowings	79,279	52,179
Less cash and cash equivalents	(3,794)	(1,846)
Net debt	75,485	50,333
Total equity	161,803	160,745
Total capital	237,288	211,078
Gearing ratio	32%	24%

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 23. Reserves and Retained Profits		
(a) Asset revaluation reserve		
Movements		
Balance 1 July	5,221	5,221
Balance 30 June	5,221	5,221
(b) Capital reserve		
Movements		
Balance 1 July	7,014	7,014
Balance 30 June	7,014	7,014
(c) Hedging reserve		
Movements		
Balance 1 July	(377)	211
Revaluation – gross	(3,404)	(840)
Deferred tax (note 20)	1,021	252
Balance 30 June	(2,760)	(377)
(d) Executive Performance Rights Plan reserve		
Movements		
Balance 1 July	–	–
Revaluation – gross	44	–
Deferred tax (note 20)	(13)	–
Balance 30 June	31	–
Balance of reserves at the end of the financial year	9,507	11,859
(e) Retained profits		
Movements		
Balance 1 July	81,210	74,138
Net profit/(loss) for the year	7,490	15,184
Dividends provided for or paid	(6,011)	(8,112)
Balance 30 June	82,689	81,210

(f) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in accounting policy note 1(j).

(ii) Capital reserve

The capital reserve is used to record capital profits made on the non-reciprocal contribution of a non-current asset.

(iii) Hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(r). Amounts are recognised in the profit and loss when the associated hedge transaction affects profit and loss.

(iv) Executive Performance Rights Plan Valuation Adjustment

The Executive Performance Rights Plan Valuation Adjustment is used to record increments and decrements on the value of the rights as described in note 1(x). Amounts are recognised in the profit and loss when the associated revaluation transaction affects profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

PARENT ENTITY

	2013 \$'000	2012 \$'000
Note 24. Dividends		
(a) Dividends provided for or paid out of prior years profits		
Ordinary shares		
Final dividend of 11.0 cents per fully paid share paid 28 September 2012 fully franked @ 30%	6,011	5,933
Total dividends provided for or paid out of prior years profits	6,011	5,933
(b) Dividends provided for or paid out of current years profits		
Ordinary shares		
Interim dividend of 0.0 cents per fully paid share paid during 2013 fully franked @ 30%	–	2,179
Total dividends provided for or paid out of current years profits	–	2,179
(c) Dividends not recognised at year end		
Ordinary shares – final dividend		
Since year end the Directors have declared the payment of a final dividend of 11.0 cents per fully paid share, fully franked @ 30%. The aggregate amount of the proposed dividend to be paid out of retained profits at 30 June 2013, but not recognised as a liability at year end, is	6,077	6,011
Total dividends not recognised at year end	6,077	6,011
(d) Franked dividends		
The franked portions of the dividends declared after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2013.		
Franking credits available for subsequent financial years based on a tax rate of 30% (2012 – 30%)	32,425	33,304

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- (c) franking credits that may be prevented from being distributed in subsequent financial years.

Note 25. Financial Risk Management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Financial risk management is carried out by the treasury function within the finance department. The finance department identifies, evaluates and hedges financial risks in accordance with approved Board practices and policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risk, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group exports commodities and is exposed to foreign exchange risk from currency exposures to the US dollar. The risk is measured using sensitivity analysis and cash flow forecasting. Forward contracts and options are used to manage foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 25. Financial Risk Management (cont.)

The Group's risk management policy is to hedge 100% of contracted and 50% of anticipated sales transactions in US dollars for no more than the subsequent 12 months. 100% of projected sales qualify as "highly probable" for hedge accounting purposes.

The Board has resolved that in exceptional circumstances further hedges may be taken outside the above policy on approval by any two of the Chairman of the Board, the Chairman of the Audit & Risk Committee and the Chief Executive Officer. Any such further hedges must then be reported to the board at the next formal meeting of the Board of Directors.

The Group's exposure to foreign currency risk at reporting date was as follows:

	2013 USD \$'000	2012 USD \$'000
Forward Exchange Contracts sell foreign currency (cash flow hedges)	64,751	40,086

Group Sensitivity

Based on financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have increased \$400,107/decreased \$327,360 (2012 – increased \$206,000/decreased \$367,000), as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. Exposure for 2013 and 2012 was due to an ineffective hedge position on forward exchange contracts. Equity would have been \$4,175,000 lower/\$5,103,000 higher (2012 – \$2,269,000 lower/\$2,773,000 higher) had the Australian dollar weakened/strengthened by 10% against the US dollar, arising from forward foreign exchange contracts designated as cash flow hedges. Equity is more sensitive to movements in the Australian dollar/US dollar exchange rate in 2013 than 2012 because of the decreased amount in forward exchange contracts recognised as effective hedges.

(ii) Cash flow and fair value interest rate risk

The Groups interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group practice is to fix rates for approximately 50% of its long-term borrowings. This practice has been continued during 2013. All borrowings were denominated in Australian dollars in 2013 and 2012.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	2013		2012	
	Weighted Average Interest Rate %	Balance \$'000	Weighted Average Interest Rate %	Balance \$'000
Bank overdrafts and bank loans	3.5%	66,690	3.6%	39,980

An analysis by maturity is provided in (c) below.

Group Sensitivity

The Group had no material sensitivity to movements in interest rates at 30 June 2013 or 30 June 2012.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of financial assets (notes 6, 8 and 10). The Group generally retains title over goods until full payment is received.

The Group trades with recognised, creditworthy third parties, and as such collateral is generally not requested nor is it the Group's practice to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, including assessment of financial position, past experience, industry reputation and credit rating. For new export customers the Group may take security in the form of letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. At 30 June 2013 the Group had trade credit insurance of AUD\$29,991,000 on selected export customers.

Receivables balances are monitored on an ongoing basis to ensure all accounts are trading within agreed terms. Receivables outside terms are proactively managed with the result that the Group's exposure to bad debts is generally not significant.

There are no significant concentrations of credit risk within the Group and financial instruments are spread across three financial institutions, who presently have Standard and Poor's rating of AA-, to minimise the risk of default of counterparties.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 25. Financial Risk Management (cont.)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, through the availability of funding via adequate amounts of committed credit facilities and the ability to close-out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Groups treasury function maintains flexibility in funding by keeping committed credit lines available with its major banking partner.

The Group has access to the following undrawn borrowing facilities at the reporting date:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Bank overdrafts	23,794	11,346
Bank loans and bills	18,290	32,515
	42,084	43,861

The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice. The bank loans may be drawn at any time and are subject to annual review. Bank loans have an average maturity of 2.0 years (2012 – 2.0 years)

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – At 30 June 2013	Less than 6 months \$'000	6 – 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
<i>Non-derivatives</i>						
Non-interest bearing	51,844	–	–	–	51,844	51,844
Variable rate	67,612	1,223	1,770	–	70,605	70,484
Fixed rate	1,493	1,504	2,773	3,971	9,741	8,776
	120,949	2,727	4,543	3,971	132,190	131,104
Group – At 30 June 2012	Less than 6 months \$'000	6 – 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
<i>Non-derivatives</i>						
Non-interest bearing	56,070	–	–	–	56,070	56,070
Variable rate	38,149	458	1,373	–	39,980	39,980
Fixed rate	2,050	1,637	5,032	2,161	10,880	10,353
	96,269	2,095	6,405	2,161	106,930	106,403

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 26. Key Management Personnel Disclosures

(a) Directors

The following persons were directors of Warrnambool Cheese and Butter Factory Company Holdings Limited during the financial year:

Chairman – non-executive

Francis J Davis

Executive director

David J Lord, CEO

Non-executive directors

R A Andrew Anderson

Kay Antony

Michael Carroll

John A Gall

Barry A Irvin (until 20/03/2013)

Bruce Morley (from 21/03/2013 to 31/05/2013)

Terence J Richardson

Raymond M Smith (from 31/05/2013)

Bruce G Vallance

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Anthony P Cook	General Manager Milk Supply	The Warrnambool Cheese and Butter Factory Company Limited
William D Hannah	Chief Financial Officer	The Warrnambool Cheese and Butter Factory Company Limited
Bernard J Kavanagh	General Manager Corporate Development	The Warrnambool Cheese and Butter Factory Company Limited
Paul A Moloney	Company Secretary	The Warrnambool Cheese and Butter Factory Company Limited
William J Slater	General Manager Retail Dairy	The Warrnambool Cheese and Butter Factory Company Limited
Richard C Wallace	General Manager Operations	The Warrnambool Cheese and Butter Factory Company Limited
John S Williams	General Manager Sales, Marketing & Innovation	The Warrnambool Cheese and Butter Factory Company Limited
Ross Martin (from 8/01/2013)	General Manager ICT & Program Management Office	The Warrnambool Cheese and Butter Factory Company Limited

All of the above were other key management personnel in 2012, except Ross Martin who joined the company on 08 January 2013.

	CONSOLIDATED	
	2013 \$	2012 \$
(c) Key management personnel compensation		
Short-term employee benefits	3,728,459	3,071,131
Post-employment benefits	283,734	265,940
Long-term benefits	129,765	85,409
Share-based payments	–	7,000
Termination benefits	–	197,905
	4,141,958	3,627,385

Under the *Corporations Act 2001* and Regulation 2M.3.03 the Group is required to report remuneration information in the Director's report. The same remuneration information is required in the financial statements in accordance with AASB124 Related Party Disclosures. The standard, to avoid duplication, has provided relief so that required information, if disclosed in the Director's report, does not need to be included in the financial statements. Remuneration information contained in the Director's report is subject to audit to ensure requirements of accounting standards are met.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 26. Key Management Personnel Disclosures (cont.)

(d) Equity instrument disclosures relating to key management personnel

The number of shares in the Company held during the financial year by each director of Warrnambool Cheese and Butter Factory Company Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period under the employee share plan.

2013	Balance at start of year	Net change	Balance at year end
Directors			
R A Andrew Anderson	30,647	1,041	31,688
Kay Antony	1,334	6,205	7,539
Michael Carroll	–	–	–
Francis J Davis	38,334	–	38,334
John A Gall	1,267,641	170	1,267,811
David J Lord	10,000	–	10,000
Terence J Richardson	668	–	668
Raymond Smith	–	–	–
Bruce G Vallance	72,022	2,392	74,414
Executives			
Anthony P Cook	74,006	35	74,041
William D Hannah	1,143	–	1,143
Bernard J Kavanagh	597,841	–	597,841
Ross Martin	–	–	–
Paul A Moloney	1,291	45	1,336
William J Slater	921	–	921
John S Williams	1,286	44	1,330
Richard C Wallace	49,297	1,679	50,976
	Balance at start of year	Net change	Balance at year end
2012			
Directors			
R A Andrew Anderson	13,905	16,742	30,647
Kay Antony	1,334	–	1,334
Michael Carroll	–	–	–
Francis J Davis	23,334	15,000	38,334
John A Gall	1,267,439	202	1,267,641
Barry A Irvin	–	–	–
David J Lord	10,000	–	10,000
Terence J Richardson	668	–	668
Bruce G Vallance	67,501	4,521	72,022
Executives			
Anthony P Cook	73,718	288	74,006
William D Hannah	888	255	1,143
Bernard J Kavanagh	596,809	1,032	597,841
Paul A Moloney	993	298	1,291
William J Slater	666	255	921
John S Williams	988	298	1,286
Richard C Wallace	47,156	2,141	49,297

(e) Loans to key management personnel

Loans are not provided to directors of Warrnambool Cheese and Butter Factory Company Holdings Limited or executives, except where the Director is a Supplier Director they are entitled to receive an interest free advance to purchase feed or fertiliser on the same terms and conditions as available to all suppliers of milk to the company.

As at 30 June 2013 Supplier Director Terence Richardson, through a related party, had an interest free feed/fertiliser advance of \$16,000 which is due to be repaid in full by 12 May 2014.

(f) Other transactions with key management personnel

No amounts were paid to key management personnel.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:

	CONSOLIDATED	
	2013 \$	2012 \$
Amounts recognised as expense		
Interest rebate	–	6,981
	–	6,981

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$	2012 \$
Note 27. Remuneration of Auditors		
(a) Audit and other assurance services		
Coffey Hunt		
Audit and review of financial statements	156,000	155,001
Total remuneration for audit and other assurance services	156,000	155,001
(b) Taxation services		
Coffey Hunt		
Tax compliance services, including review of company tax returns	4,150	3,200
Total remuneration for taxation services	4,150	3,200
(c) Advisory services		
Coffey Hunt		
Other minor accounting services	–	1,120
Total remuneration for advisory services	–	1,120
Total remuneration for auditors	160,150	159,321

The Group employs Coffey Hunt on assignments additional to their statutory audit duties as their expertise and experience with the Group are important. These assignments are principally small in nature and linked closely to work performed during audit services.

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 28. Commitments		
(a) Capital commitments		
Commitments for the acquisition of plant & equipment contracted for at the reporting date but not recognised as liabilities payable	24,935	12,132
Not later than one year	24,935	12,132
(b) Lease Commitments: Group as lessee		
<i>(i) Non-cancellable operating leases</i>		
The Group leases offices and storage facilities under non-cancellable operating leases expiring within one to four years. The leases have varying terms, escalation clauses and renewal rights.		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	229	231
Later than one year but not later than five years	493	654
	722	885
<i>(ii) Cancellable operating leases</i>		
The Group also has rental properties on short-term cancellable leases.		
Commitments in relation to operating leases contracted for at reporting date but not recognised as liabilities, payable:		
Within one year	14	14
	14	14

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 28. Commitments (cont.)		
(b) Lease Commitments: Group as lessee (cont.)		
<i>(iii) Finance Leases</i>		
The Group leases part of its tanker fleet with a carrying amount of \$7,402,000 (2012: \$3,864,000) under finance leases expiring within one to four years. Under the terms of the lease, the Group has the option to acquire the leased assets on expiry of the leases.		
Commitments in relation to finance leases are payable as follows:		
Within one year	2,015	1,321
Later than one year but not later than five years	6,287	3,069
Minimum Lease Payments	8,302	4,390
Less: Future finance charges	(900)	(526)
Total finance lease liability	7,402	3,864
Representing lease liabilities:		
Current (note 16)	1,636	1,096
Non-current (note 19)	5,786	2,768
	7,421	3,864

The weighted average interest rate implicit in the finance leases is 5.93% (2012 – 6.88%)

Note 29. Investments in Controlled Entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of Shares	Equity Holding	Equity Holding	Cost of parent entity investment	
			2013 %	2012 %	2013 \$'000	2012 \$'000
The Warrnambool Cheese and Butter Factory Company Limited	Australia	Ordinary	100	100	15,124	15,124
Australian Dairy Products Pty Ltd	Australia	Ordinary	100	100	1	1
Warrnambool Milk Products Pty Limited	Australia	Ordinary	100	100	7,455	7,455
Warrnambool Milk Products Pty Limited	Australia	Preference	100	100	2,609	2,609
Protein Technology Victoria Pty Ltd	Australia	Ordinary	100	100	7,082	7,082
					32,271	32,271

All subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 (as amended) issued by the Australian Securities Investment Commission. For further information refer to note 30.

Note 30. Deed of Cross Guarantee

Warrnambool Cheese and Butter Factory Company Holdings Limited, The Warrnambool Cheese and Butter Factory Company Limited, Australian Dairy Products Pty Ltd, Warrnambool Milk Products Pty Limited and Protein Technology Victoria Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities Investments Commission.

As the above companies represent the entire Group of companies in this consolidated report there are no differences to the consolidated financial statements from that of the Group of companies party to the deed of cross guarantee.

Note 31. Related Party Transactions

(a) Parent entity

The parent entity within the Group is Warrnambool Cheese and Butter Factory Company Holdings Limited.

(b) Subsidiaries

Interest in subsidiaries are set out in note 29.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 31. Related Party Transactions (cont.)

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(d) Transactions with related parties

Transactions between the parent entity and other entities in the consolidated entity consist of wholemilk sales, services and transfer of tax related amounts under a tax sharing agreement.

	PARENT ENTITY	
	2013 \$	2012 \$
The following transactions occurred with related parties:		
Sales of good and services		
Sale of wholemilk to subsidiaries	294,952,808	331,239,726
Directors		
At balance date R.A.A. Anderson, K. Antony, J.A. Gall, T.J. Richardson and B.G. Vallance were directors and suppliers of milk to the company.		
Payments to directors for milk and associated dealings are on an identical basis as other non-director milk suppliers. Any associated dealings are disclosed as an other transaction with key management personnel in note 26(f).		
(e) Outstanding balances arising from sales/purchase of goods and services		
The following balances are outstanding at the reporting date in relation to transactions with related parties: <i>Current receivables/(payables) – (tax funding agreement)</i>		
Wholly-owned tax consolidated entities	-	-
No provision for impairment of receivables has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or impaired debts due from related parties.		
(f) Loans to/from related parties		
<i>Loans to subsidiaries</i>		
Beginning of the year	94,802,578	103,012,205
Loan advance	-	-
Loan repayments received	(9,832,231)	(8,209,627)
End of year	84,970,347	94,802,578

There is no interest charged on loans to subsidiaries.

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Note 32. Reconciliation of Profit/(Loss) after Income Tax to Net Cash Inflow (Outflow) from Operating Activities		
Operating Profit/(loss) after income tax	7,490	15,184
Depreciation and amortisation	11,847	12,661
Non-cash employee benefits expense – share-based payments	65	345
Fair value adjustment to investment property	(32)	-
Net (gain)/loss on sale of non-current assets	(392)	(704)
Share of (profits)/losses of joint ventures	(1,688)	(3,212)
Revaluation of foreign investment	17	(16)
Dividends received joint ventures	1,032	-
Fair value adjustments to derivatives	359	2,034
<i>Change in operating assets and liabilities:</i>		
Decrease (increase) in trade debtors	(17,896)	(6,798)
Decrease (increase) in inventories	978	(20,465)
Decrease (increase) in deferred tax assets	(4,665)	(784)
Increase (decrease) in trade creditors	(3,431)	(2,626)
Increase (decrease) in provision for income taxes payable	1,546	(2,197)
Increase (decrease) in deferred tax liabilities	5,354	252
Increase (decrease) in other provisions	385	(209)
Net Cash Inflow (Outflow) from Operating Activities	969	(6,535)

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 33. Segment Information

The board has determined the operating segments based on the reports reviewed by the board and executive that are used to make strategic decisions. The board and executive meet regularly to discuss, review and plan strategic initiatives.

The board and executive considers the business from a product group perspective and has identified three reportable segments. Commodities consist of dairy products, cheese, skim milk powder, butter, cream and whey protein concentrate which are manufactured in Australia and sold in domestic and export markets to wholesale customers. Consumer goods consists of branded products sold for retail sale, namely Sungold and Great Ocean Road (packaged milk), Enprocal (nutritional products) and Warrnambool and Great Ocean Road (cheese products). Other consists of revenue generating units that do not relate to either commodities or retail segments. Information about segment assets and liabilities are not reported to the board and executive.

(a) Strategic information provided to the board and executive

The segment information provided to the board and executive for the reportable segments for the year ended 30 June 2013 is as follows:

	Commodities \$'000	Consumer Goods \$'000	Other \$'000	Total \$'000
30 June 2013				
Total segment revenue	784,170	56,870	21,110	862,150
Inter-segment revenue	(360,959)	(113)	(4,718)	(365,790)
Revenue from external customers	423,211	56,757	16,392	496,360
Adjusted EBIT	12,151	(2,045)	2,193	12,299
Share of joint ventures profits/(losses)				1,688
Unrealised financial instruments gains/(losses)				(399)
EBIT				13,588
30 June 2012				
Total segment revenue	821,638	42,613	21,359	885,610
Inter-segment revenue	(383,146)	(145)	(4,727)	(388,018)
Revenue from external customers	438,492	42,468	16,632	497,592
Adjusted EBIT	17,263	(1,428)	3,560	19,395
Share of joint ventures profits/(losses)				3,212
Unrealised financial instruments gain/(losses)				36
EBIT				22,643

(b) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the board and executive is measured in a manner consistent with the statement of comprehensive income.

Revenues from external customers are derived from the sale of dairy commodities on a wholesale basis and consumer goods on a wholesale and retail basis. A breakdown of revenue and results is provided in the table above.

Segment revenue reconciles to total revenue as follows:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Total segment revenue	862,150	885,610
Intersegment eliminations	(365,790)	(388,018)
Interest revenue	145	158
Total revenue (note 2 and note 3)	496,504	497,750

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 33. Segment Information (cont.)

(ii) Adjusted EBIT

The board and executive assess the performance of the operating segments based on a measure of EBIT. This measure excludes effects of any non-recurring expenditure from the operating segments such as restructuring costs. Furthermore, the measure excludes the effect of equity-settled share based payments, unrealised gains/losses on financial instruments and equity accounted share of profits/losses from joint ventures. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

A reconciliation of adjusted EBIT to operating profit before income tax is provided as follows:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Adjusted EBIT	12,299	19,395
Interest revenue	145	158
Finance costs	(4,142)	(3,118)
Share of joint ventures' profits/(losses)	1,688	3,212
Unrealised financial instrument gains/(losses)	(399)	36
Profit/(loss) before income tax (expense)/benefit	9,591	19,683

Note 34. Contingent Liabilities

(a) Milk vat loan arrangement

The Group has a contingent liability to refund existing suppliers a portion of the interest under a specific milk vat loan arrangement. The liability is extinguished immediately a supplier ceases to supply milk to the company. At 30 June 2013 the maximum amount of the contingent liability was \$128,000 (2012: \$47,000).

(b) Financial guarantees

(i) Warrnambool Cheese and Butter Japan Company Limited joint venture

The Group entered into an arrangement with the loan provider to guarantee the working capital loan to be taken out by the joint venture on commencement of operations late 2009. The guarantee becomes payable if Warrnambool Cheese and Butter Japan Company Limited defaults on the loan. The guarantee is reviewed annually by the Group and the loan provider to determine the amount to be guaranteed as the joint ventures operations expand. The guarantee has a maximum contingent liability of AUD\$7,682,000. At 30 June 2013 the Group's contingent liability, based on the loan amount in Warrnambool Cheese and Butter Japan Company Limited financial accounts was AUD\$5,410,447. No liability is expected to arise.

From the 1 September 2013, the guarantee will no longer be required.

	CONSOLIDATED	
	2013 \$'000	2012 \$'000

Note 35. Earnings Per Share

(a) Basic earnings per share

Profit/(loss) attributable to the ordinary equity holders of the company	13.6	27.8
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(b) Diluted earnings per share

Profit/(loss) attributable to the ordinary equity holders of the company	13.6	27.8
--	------	------

	CONSOLIDATED	
	2013 Number of Shares	2012 Number of Shares
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and alternative basic earnings per share	55,096,794	54,525,348

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

Note 36. Share-Based Payments

(a) Employee share scheme

A scheme under which shares may be issued by the Company to employees for no consideration was approved by shareholders at the 2004 annual general meeting. Eligible employees (excluding executive directors) are employees with at least one year's equivalent full time service and all casual/seasonal employees with at least two year's equivalent full time service.

Under the scheme, eligible employees may be granted up to \$1,000 worth of fully-paid ordinary shares in Warrnambool Cheese and Butter Factory Company Holdings Limited from time to time for no consideration. The market value of the shares issued under the scheme measured by the weighted average share price on the day of issue of the shares, is recognised in the balance sheet as share capital and as part of employee benefits expense in the period the shares are granted.

Offers under the scheme are at the discretion of the Company and shares may not be sold until the earlier of three years after issue or cessation of employment by the Group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five days immediately before the date of the offer.

	PARENT ENTITY	
	2013 Number of Shares	2012 Number of Shares
Shares issued under the plan to participating employees	9,078	87,975

Each participant was issued with shares worth \$1,000 based on the weighted average market price of \$3.74.

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
(b) Expenses arising from share-based payment transactions		
Total expenses arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows:		
Shares issued under employee share scheme	34	344

NOTES TO THE FINANCIAL STATEMENTS

30 June 2013

CONSOLIDATED

	2013 \$'000	2012 \$'000
Note 37. Interest in Joint Ventures		
<p>The Group has a 50% interest in Great Ocean Ingredients Pty Ltd, which is resident in Australia and the principal activity of which is to manufacture galacto-oligosaccharides (GOS) for sale to infant formula manufacturers.</p> <p>The Group has a 49% interest in Warrnambool Cheese and Butter Japan Company Limited, which is resident in Japan and the principal activity of which is to trade dairy commodities in the Japanese market.</p> <p>The interest in Great Ocean Ingredients Pty Ltd and Warrnambool Cheese and Butter Japan Company Limited is accounted for in the consolidated financial statements using the equity method of accounting (note 9).</p> <p>Information relating to all the joint ventures is set out below.</p>		
Carrying amount of investment in joint ventures	23,705	23,066
Share of joint venture's assets and liabilities		
Current assets	29,759	21,706
Non-current assets	31,710	37,954
Total assets	61,469	59,660
Current liabilities	21,194	13,257
Non-current liabilities	18,685	21,305
Total liabilities	39,879	34,562
Net assets	21,590	25,098
Share of joint venture's revenue, expenses and results		
Revenues	58,318	68,840
Expenses	(55,698)	(64,456)
Profit/(loss) before income tax	2,620	4,384
Income tax (expense)/benefit	(932)	(1,172)
Profit/(loss) after income tax	1,688	3,212
Share of joint venture's commitments		
Capital commitments	345	121

PARENT ENTITY

	2013 \$'000	2012 \$'000
Note 38. Parent Entity Information		
Parent entity assets and liabilities		
Current assets	113,850	116,340
Non-current assets	28,362	30,703
Total assets	142,212	147,043
Current liabilities	34,027	41,462
Non-current liabilities	1,625	-
Total liabilities	35,652	41,462
Net assets	106,560	105,581
Contributed equity	69,607	67,676
Retained profits	36,953	37,905
Total equity	106,560	105,581
Parent entity profit/(loss)		
Profit/(loss) before income tax	7,227	4,129
Income tax (expense)/benefit	(2,168)	(1,239)
Profit/(loss) after income tax	5,059	2,890
Parent entity total comprehensive income		
Total comprehensive income for the year	5,059	2,890

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes, as set out on pages 39 to 76, are in accordance with the Corporations Act 2001, including
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001*; and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the economic entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date.
- (b) there are reasonable grounds to believe that Warrnambool Cheese and Butter Factory Company Holdings Limited will be able to pay its debts as and when they become due and payable.
- (c) the financial statements and notes comply with the International Financial Reporting Standards, as stated in note 1(a)(i).
- (d) at the date of this declaration there are reasonable grounds to believe that the members of the group of companies identified in note 30 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 30.

The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Frank Davis
Chairman



Terry Richardson
Deputy Chairman

Allansford
27 August 2013

INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report to the Members of Warrnambool Cheese and Butter Factory Company Holdings Limited

Report on the Financial Report

We have audited the accompanying financial report of Warrnambool Cheese and Butter Factory Company Holdings Limited (the consolidated entity), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, a summary of significant accounting policies, and other explanatory information and the directors' declaration of the company and the consolidated entity comprising the company Warrnambool Cheese and Butter Factory Company Holdings Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1(a)(i), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion,

- (a) the financial report of Warrnambool Cheese and Butter Factory Company Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a)(i).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 35 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Warrnambool Cheese and Butter Factory Company Holdings Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Coffey Hunt.

Coffey Hunt
Chartered Accountants

C.J. Kol

C.J. Kol
Partner

Dated at Warrnambool, 27 August 2013

5 YEAR SUMMARY

For the Year (\$'000)	2013	2012	2011	2010	2009
Sales Revenue	496,504	497,750	504,148	416,252	441,095
Profit Before Interest and Tax	13,733	22,801	30,582	16,870	(24,559)
Profit Before Tax	9,591	19,683	24,798	9,689	(30,051)
Profit After Tax	7,490	15,184	18,492	8,804	(19,934)
Dividend	6,075	8,190	8,087	3,995	797
At Year End (\$'000)					
Total Assets	306,564	276,476	251,746	246,201	234,106
Total Liabilities	144,761	115,731	100,146	144,226	137,373
Equity	161,803	160,745	151,600	101,975	96,733
General					
Number of Milk Suppliers	570	580	556	565	495
Number of Employees	424	419	405	396	397
Key Measures					
Return on Assets (%)	2.4	5.5	7.4	3.6	(8.5)
Return on Equity (%)	4.6	9.4	12.2	8.6	(20.6)
Dividend per Share (cents)	11.0	15.0	15.0	10.0	2.0
Gearing Ratio (%)	31.8	23.8	1,706.0	49.9	51.3

CORPORATE DIRECTORY

CHAIRMAN OF DIRECTORS

Francis Davis

DEPUTY CHAIRMAN OF DIRECTORS

Terence Richardson

DIRECTORS

David Lord
Andrew Anderson
Kay Antony
Michael Carroll
John Gall
Ray Smith
Bruce Vallance

ASSOCIATE DIRECTORS

John McLean
Bruce Morley

COMPANY SECRETARY

Paul Moloney

BANKERS

National Australia Bank Ltd
330 Collins Street
Melbourne 3000

Australia and New Zealand
Banking Group Limited
530 Collins Street
Melbourne 3000

SOLICITORS

Minter Ellison
525 Collins Street
Melbourne 3000

AUDITORS

Coffey Hunt
199 Koroit Street
Warrnambool 3280

SUBSIDIARY COMPANIES

The Warrnambool Cheese and Butter Factory Company Limited
Australian Dairy Products Pty Ltd
Protein Technology Victoria Pty Ltd
Warrnambool Milk Products Pty Limited

JOINT VENTURES

Great Ocean Ingredients Pty Ltd
Warrnambool Cheese and Butter Japan Company Limited

REGISTERED OFFICE

5331 Great Ocean Road
Allansford 3277

Telephone (03) 5565 3200
Facsimile (03) 5565 3156

Email wcbf@wcbf.com.au
Website www.wcbf.com.au

PLACE OF INCORPORATION

Victoria, Australia

AUSTRALIAN COMPANY NUMBER

071 945 232

GROUP AUSTRALIAN BUSINESS NUMBER

15 071 945 232

