

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

Statement of: **Maldwyn Beniston**

Dated: 28 November 2013

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I, Maldwyn Beniston of Level 15 Freshwater Place, 2 Southbank Boulevard, Southbank VIC 3006, General Manager Ingredients at Murray Goulburn Co-operative Co. Limited say as follows:


1. Where, in this statement:
 - (a) I use a capitalised expression, that term is as defined in the Glossary unless otherwise provided;
 - (b) I refer to information provided to me by a third person, I believe that information to be true and correct and, at the time I was provided with that information, I believed it to be true and correct, unless I state to the contrary;
 - (c) I refer to an email, letter or report sent by me to others reporting on or referencing discussions, meetings or other communications in which I participated or to which I was a party, the email, letter or report accurately records those discussions, meetings or other communications, unless I state to the contrary;
 - (d) I refer to an email or other communication sent by me to others in which I express an opinion, belief or view, I held that opinion, belief or view at the time of sending that email or other communication, unless I state to the contrary; and
 - (e) I refer to the minutes of any Board meeting at which I was present, I have been shown those minutes and believe them to be an accurate record of the meeting.
2. In this statement, I refer to documents by reference to the relevant tab number in Exhibit [#]. I have received the documents contained in Exhibit [#] for the purpose of preparing this statement.

1 Background and role

3. I have over 35 years of experience in the dairy industry.
4. From 1970 to 1975 I worked in a systems administration role in the electricity supply industry in Wales.

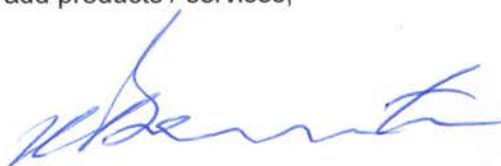


5. In 1975 I moved to New Zealand and took up a systems administration role at the New Zealand Dairy Board (NZDB). At that time the NZDB was the single seller desk for all New Zealand dairy exports. The NZDB was required to purchase dairy products that were offered for sale by manufacturers and it had an unlimited credit line with the Reserve Bank of New Zealand. During my time in this role, the New Zealand dairy manufacturing industry underwent a period of consolidation and there was a need to diversify the Ingredients range that was being produced.
6. In 1978 I transferred into the products division of the NZDB. I began in the proteins section, where I worked my way up to Manager of the proteins business unit. My primary responsibilities in this role focused on product sales and product development and innovation. It was from this time onwards that the NZDB's (and later Fonterra's) overseas network began to develop.
7. In 1984 I took on the role of Manager and later the CEO of the Whey Corporation – a subsidiary of the NZDB. The Whey Corporation acquired all New Zealand whey assets and coordinated the whey industry in an efficient manner. The establishment of the Whey Corp was necessary, because scale efficiency and a coordinated industry approach was required to maximise the commercial viability of New Zealand's whey industry.
8. In 1988 I moved from my role at the Whey Corporation to become the Head of the Skim Milk Products and Related Products business unit at the NZDB. This unit was responsible for providing Ingredients to the NZDB's major export customers.
9. In the lead up to the creation of Fonterra, I was seconded to the Four Companies Study team in around 1994 or 1995. This team was tasked with building a business case concerning a cost benefit analysis of consolidation of the New Zealand dairy industry into 1 or 2 companies. This was the beginning of the process, which later (in 2001) culminated in the creation of Fonterra. Part of the scope of the project included the possible removal of the NZDB as the single desk export seller. In 2001 Fonterra was established through the merger of New Zealand Dairy Group, Kiwi Co-operative Dairies and the NZDB. The New Zealand Dairy Group and Kiwi Co-operative Dairies were previously the two largest dairy processing co-operatives in New Zealand and processed 95% of New Zealand milk.
10. From 1996 to 2001 I worked for the NZDB in postings in the United States. Between 1996 and 1999 I worked in Miami as the Regional Ingredients Head for



Latin America. From 1999 to 2001 I worked as President of New Zealand Milk Products at Santa Rosa in California. New Zealand Milk Products was a division of the NZDB.

11. In 2001 I moved to Melbourne and spent 6 months away from the business. I returned to Wellington in around April 2002 to take a contractor position with Fonterra. During this time my role was focused on improving the efficiencies of Fonterra's global sales structure.
12. In June 2003 I joined a Fonterra due diligence team in relation to a project that involved Fonterra increasing its stake in Bonlac from 25% to 50%. I was then involved in executing the documentation to establish Fonterra Australia, which was to hold Fonterra's 50% interest in the Bonlac joint venture. My position at Fonterra Australia was General Manager. Bonlac was responsible for the manufacturing of dairy products in Australia and Fonterra Australia was responsible for the marketing and sales of the products.
13. In 2004 I left the dairy industry and took on the role of Manager Food and Beverage at Sugar Australia. Sugar Australia was a joint venture between CSR and Mackay Sugar Co-operative. In this role I was responsible for business to business sales of bulk sugar.
14. In 2006 I took on the role of General Manager of Ingredients at Murray Goulburn, which is the position that I currently hold.
15. The role is a general management role within Murray Goulburn as a member of the Executive Team. I manage Murray Goulburn's largest business unit, which relates to the strategic development and sales of Nutritionals and Ingredients on international and domestic markets. The unit delivers approximately 55% of Murray Goulburn's revenues.
16. My direct report is to the Managing Director. My direct reports are 5 regional sales and marketing managers, the head of the Japanese office, as well one customer service manager and my executive assistant.
17. My key deliverables include:
 - (a) developing annual sales budgets and achieving results;
 - (b) driving growth of sustainable value add products / services;



- (c) maintaining strong customer relationships;
- (d) providing accurate reports to the Board of Directors;
- (e) executing Executive Committee responsibilities; and
- (f) participating in wider organisation development and improvement initiatives.

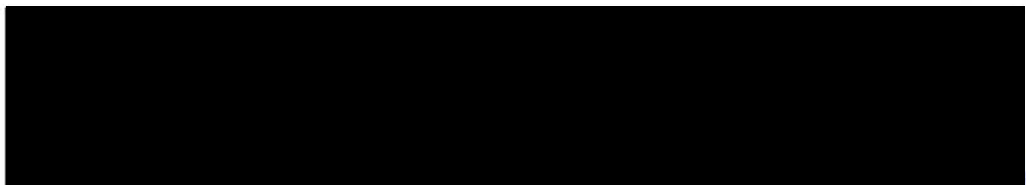
2 Ingredients product portfolio

2.1 Overview of Murray Goulburn's Ingredients portfolio

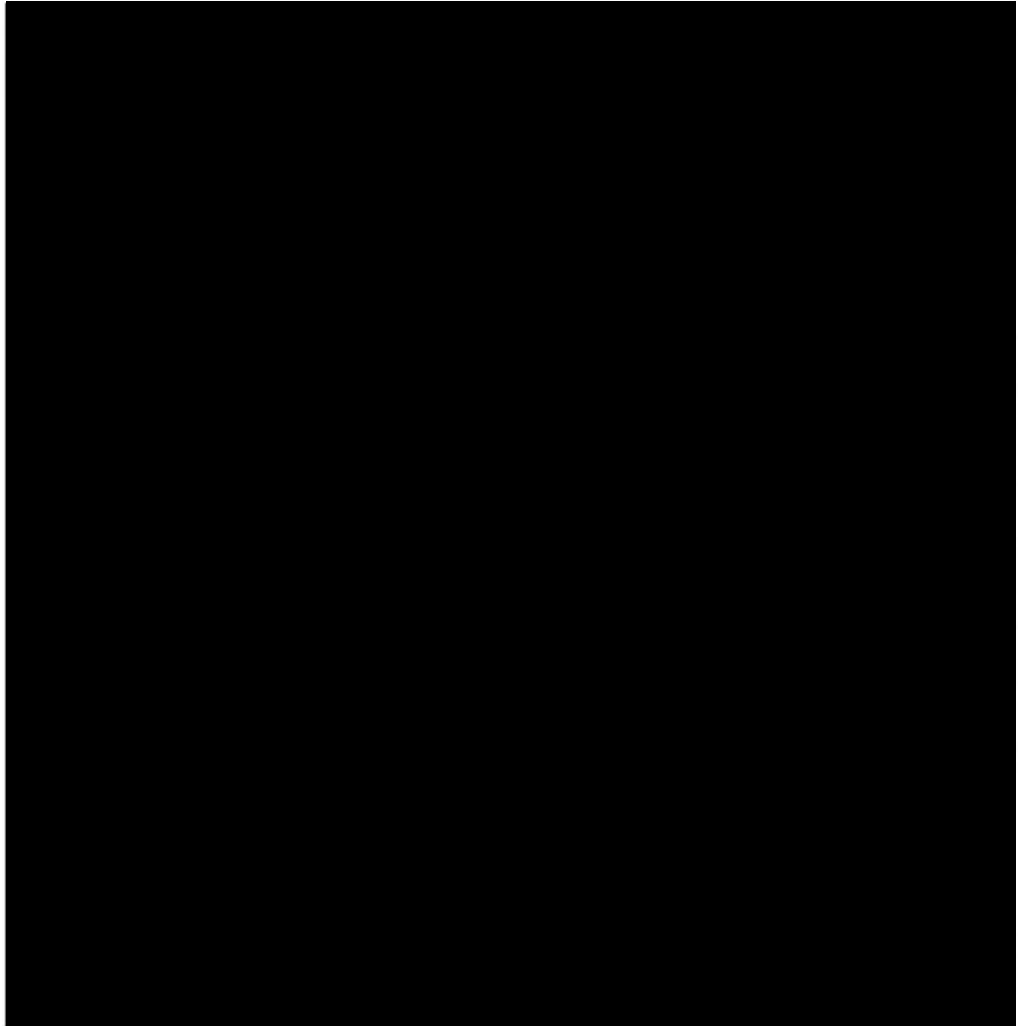
18. Murray Goulburn produces a comprehensive range of Ingredients. In the 2013 financial year, Murray Goulburn sold over [REDACTED] of Ingredients, which it supplied in Australia and to approximately 50 export markets.
19. The Ingredients portfolio can be divided up along a value continuum, with commodity products at the low end of the continuum and specialty Ingredients at the upper end. As products move further up the value continuum they achieve a higher premium above the base commodity price. This is due to the higher degree of customisation and risk that is involved in making more specialised products.

2.2 Allocation of milk within Murray Goulburn

20. Murray Goulburn's strategic objective is to produce as many products at the upper end of the continuum as possible. Because value add products achieve a higher premium, Murray Goulburn is able to increase the value that is obtained for each litre of milk that it processes. Of the milk that is processed into Ingredients, approximately [REDACTED] currently goes into the production of base commodities, and [REDACTED] is produced into customised, value add or specialty ingredients. The volume of Ingredients that was produced and supplied in each of the Ingredients segments, as well as the revenue derived from each of these segments, for the previous 3 financial years is contained in table 1 and table 2 below.



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21. Maximising the value that the company can obtain per litre of milk that it processes affects milk allocation decisions within the Murray Goulburn business, as raw milk is allocated in a manner that will maximise the profit that is obtained on a per litre of raw milk basis. Traditionally, domestic packaged products have produced a higher value on this basis, and have been preferred in milk allocation decisions.

22. Milk allocation decisions are also influenced by other business rationale, such as the need to supply key strategic customers, and plant restrictions. Due to its perishable nature, raw milk must be processed within 50 hours of receipt. This has an effect on how Murray Goulburn processes raw milk as some production processes are capable of processing milk more efficiently than others. This is

¹ Other includes international retail, downgraded products and research and development products. International retail now has its own sales channel from 2012 and has been excluded from consideration.

² Other includes international retail, downgraded products and research and development products. International retail now has its own sales channel from 2012 and has been excluded from consideration.

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only an issue during the peak period for raw milk production – typically the 4 to 6 week period occurring from September to December each year. During peak time Murray Goulburn is required to allocate milk to the plants and production processes capable of the most efficient processing of large volumes of milk.

23. Within the Ingredients division, Murray Goulburn allocates Ingredients to its core strategic customers in both domestic and international markets. Remaining supply volumes are then arbitrated on both domestic and export markets depending on price.
24. There is also an interdependence of production volumes and prices of separate products within the Ingredients division. This is because many production processes produce more than one Ingredient product. Taking cream as an example, centrifugal separation produces both skim milk and cream, this means that increasing the supply of skim milk and its derivative products will have the effect of increasing the supply of cream. Decreasing demand for butter, AMF and Buttermilk will also increase cream supplies as there is less demand for the cream to be processed into derivative products. A flowchart outlining the various production processes required to produce particular Ingredients is attached at annexure MB1.

2.3 Base commodities

25. Commodities are at the bottom end of the value continuum. Features of commodity products include little or no product differentiation and limited supply security. The prices for commodity ingredients are highly susceptible to the commodity cycle and production volumes. Table 3 below contains a list of the commodity ingredients currently produced by Murray Goulburn.

Table 3: Commodity ingredients produced by Murray Goulburn

Product	Description	[Confidential: Volume produced and sold in FY 13 (tonnes)]
Commodity skim milk powder (SMP)	SMP is produced from the evaporation and spray drying of skim milk. Standard SMP contains a maximum milk fat of 1.5%. Murray Goulburn produces SMP with either a 33% or 34% protein level.	
Standard full cream milk powder (FCMP)	Full cream milk powder is produced through the standardisation, evaporation and spray drying of whole milk. Base commodity FCMP contains either 26% or 28% fat and a minimum protein level of 34%.	



Butter	Butter is produced through the process of churning cream.	
Cheddar cheese	Cheese is produced from whole milk, which is first standardised before a starter and coagulant is added, this product then undergoes curd formation, which forms cheese and whey.	
Anhydrous milk fats (AMF) and butteroil	AMF is produced from cream, either through centrifugal separation and vacuum dehydration of cream, or through vacuum dehydration of butter.	
Butter milk powder (BMP)	Buttermilk is produced from butter - butter undergoes evaporation and spray drying to produce buttermilk powder	
Casein	Casein is a protein based product produced from skim milk. The skim milk undergoes an acid or rennet coagulation treatment. This product is then dried to produce casein.	
Caseinates	Caseinates are protein based products produced from skim milk. The skim milk undergoes an acid or rennet coagulation treatment before undergoing a neutralisation process to produce caseinates.	
Whey powder	Non- hygroscopic whey powder is produced through the evaporation, crystallisation and spray drying of cheese whey (itself a product of curd formation). Demineralised whey powder is produced through a similar process, except that the whey undergoes the initial process of demineralisation.	
Whey protein concentrate (WPC) (35% protein)	Whey protein concentrate is produced through the ultrafiltration, evaporation and spray drying of cheese whey. Murray Goulburn produces two types of commodity whey protein concentrate – casein WPC 35% and cheese WPC 35%.	
Lactose	Lactose is also produced when cheese whey is ultrafiltered to produce whey protein concentrate. The permeate from the ultrafiltration process undergoes evaporation, crystallisation and filtration and then is dried to produce lactose.	
Mozzarella	Mozzarella is a type of cheese, which is produced in a similar process to cheddar cheese.	
Recombined powder blends including animal powder blends	This product category includes powder blends used as a replacement milk for calf feeding.	

2.4 Customised ingredients

26. Further up the value continuum are customised ingredients. Features of customised ingredients include minor product differentiation and higher supply security when compared to base commodities. Pricing is still closely tied to the commodity price and is susceptible to the commodity cycle and milk supply.

27. Sources of differentiation in customised ingredients include specification and functional enhancements, packaging, customer relationships and customer service.
28. Customised products are often similar to base commodity ingredients, except that they have enhanced functional and physical characteristics when compared to commodity ingredients. For this reason, many product types appear in both the commodity and customised categories. Table 4 below contains a list of the customised ingredients that Murray Goulburn currently produces.

Table 4: Customised ingredients produced by Murray Goulburn

Product	Description	[Confidential: Volume sold in FY 13
Customised butteroil and AMF	See description in base commodity table above.	
Buttermilk powder	See description in base commodity table above.	
Customised bulk butter and blends	See description in base commodity table above. Customised bulk butter and blends include dairy blends as well as higher specification butter products.	
Caseinates	See description in base commodity table above.	
Cheddar cheese	See description in base commodity table above. Customised cheddar products are made to a variety of specifications. These include low fat cheddar, mature cheddar, sweet cheddar for the UK market, and gouda varieties.	
FCMP	See description in base commodity table above. Instant full cream milk powder and FCMP for Japanese blending are considered customised ingredients.	
Bulk frozen cream	Fresh cream is frozen to produce bulk frozen cream. A small amount of culture may also be added.	
Milk protein concentrate – 70% protein.	Milk protein concentrate is produced when skim milk undergoes ultrafiltration. The product that is retained through ultrafiltration is then spray dried to produce milk protein concentrate. The product that passes through the ultrafilter is retained as milk permeate.	
Modified milk powders	These powders include instant fat filled milk powder.	
Mozzarella and pizza cheese	See description in base commodity table above. The products include customised mozzarella types and customer pizza mozzarella.	
Customised skim milk powders	Customised skim milk powders include high heat stabilised SMP, medium heat	



	SMP, and instant SMP.	
Lactose	See description in base commodity table above. Customised lactose products also include nutraceutical lactose.	
whey protein concentrate	See description in base commodity table above.	

2.5 Value add ingredients

29. Value add ingredients are characterised by significant differentiation from commodity products, high supply security and high levels of customer service. Price premiums are driven by in-market value and are less affected by the commodity price cycle. Value add ingredients command a significant price premium on commodity prices.
30. Sources of differentiation include the ability to make products to customer specifications, product enhancements to optimise tariff treatment, packaging, customer relationships and customer service.
31. Table 5 below contains a list of the value add ingredients that Murray Goulburn currently produces.

Table 5: Value add ingredients produced by Murray Goulburn

Product	Description	Volume sold in FY 13
Value add cheddar type cheeses	Two types of bulk cheese are considered value add ingredients. Value add cheddars includes low fat varieties, frozen cheddar and UK cheddar.	
Cream cheese	Cream cheese has a 36% fat content and is used predominantly in the bakery trade. Cream cheese is produced by concentrating cream and adding specific enzymes to adjust the pH and give specific flavour characteristics.	
High fat FCMP	See description in base commodity for a description of the production process for FCMP. High fat milk powder contains 42% fat content. Also included in this product type is creamed whey cheese powder.	
Frozen cream and frozen 40% natural cream cheese (FNCC)	There are three types of frozen cream. A 40% fat frozen cheese for the South East Market and a 69% fat frozen cheese are supplied into the Middle East market and a 52% fat frozen cheese is supplied into the Japanese market. See description of frozen cream in customised table above.	
Hard cheese types	These cheese types include parmesan,	

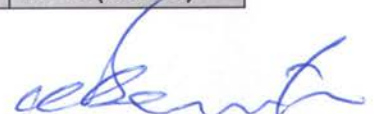
	panova and romano cheeses.	
Milk protein concentrate (85% protein) (MPC 85)	See description of milk protein concentrate in the customised table above. MPC 85 contains 85% protein.	
Whey powder	See the base commodity table for a description of the production processes for whey powder.	
Whey protein concentrate	MSWP is a value add whey protein concentrate. This product is a modified sweet whey powder, made under a supply agreement with one of Murray Goulburn's global customers.	
Other		

2.6 Nutritionals

32. Complementary to the value add category of Ingredients is Murray Goulburn's Nutritional's range. This range includes base powders, infant formulas, follow on formula, growing up milk powders (**GUMPS**) and adult milk formulas.
33. Murray Goulburn offers Nutritional products as either base powders or finished nutritional products. Base powders typically contain mixtures of SMP, whey powder, vegetable oil and possibly other customer driven additives. Nutritional food manufacturers then blend these base powders with specific micronutrients, such as oligosaccharides (**GOS**) or lactoferrin, and market these products under their own brand names. Murray Goulburn also produces finished nutritional products, which it supplies to international Nutritionals companies. These products are made to customer specification and require customer input regarding their design.
34. There is a higher degree of risk in production of Nutritional products as compared to commodity or customised products. The value add premiums embedded within the final selling price are only available for products that meet customer specification. There is no spot market for off-specification product with the consequence that off-specification stock will usually be sold as animal feed. This fact, and the high level of customer input into product development, makes it crucial to establish relationships with large customers that can 'pull through' the demand for Nutritional products. Nutritional manufacture requires highly trained technicians as well as high levels of quality control.
35. Table 6 below contains a list of the Nutritionals that Murray Goulburn currently produces.

Table 6: Nutritional ingredients produced by Murray Goulburn

Product	Description	Volume sold in FY 13 (tonnes)
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Base Powders	Base nutritional powders. These powders are typically finished by the customer before being marketed as Nutritional powders.	
Infant formula	Finished Nutritional powders for consumption by children up to 6 months.	
Follow on formula	Nutritional formula for children aged from 6 months up to 18 months to 2 years.	
Growing up milk powders	Nutritional milk powders for children aged over 18 months.	
Other	Specialised nutritional powder ingredient (Pregnant Mothers, Nu-Mega).	
BioActives	Encompasses both High-value, minor component dairy ingredients (eg lactoferrin and Glyco Macro Peptide) and Other highly functional dairy ingredients (mineral whey powder and frozen mineral whey concentrate).	
Total		

2.7 Specialty ingredients

36. Specialty ingredients are characterised by significant product differentiation and high switching costs for customers. The prices for these products are not heavily influenced by the commodity price cycle and involve high margins on commodity prices.
37. Specialty ingredients are produced in lower volumes compared to other ingredient categories, they are sold at high profit premiums and are inherently higher cost and high risk products. As such, to be a successful manufacturer of specialty Ingredients scale is required in the other ingredients categories ingredients so that innovative developments can be fully funded.
38. Sources of differentiation amongst speciality ingredients include functional capabilities, technical support, technical flexibility and strong customer relationships.
39. Table 7 below contains a list of the specialty ingredients that Murray Goulburn currently produces.

Table 7: Specialty ingredients produced by Murray Goulburn

Product	Description	Volume sold in FY 13
Lactoferrin	Lactoferrin is a micronutrient present in milk and contains very high levels of iron. Lactoferrin is extracted through a series of complex processes, which are	

	extremely resource intensive.	
Yogurt powder	A specialised powder used in the production of yogurt.	
Ice cream plus milk solids	This product is produced from casein whey powder.	
Natra Sal MWC	A mineral whey concentrate with specific flavour enhancing characteristics that is supplied to a specific customer in the Japanese market.	

40. Murray Goulburn regards itself as a market leader in the production and sale of the specialty ingredient lactoferrin, which is a micronutrient used as an input in Nutritional products. Murray Goulburn currently has capacity to make approximately [REDACTED] of lactoferrin per year, and is able to sell lactoferrin at approximately [REDACTED]. Although lactoferrin is able to achieve extremely high premiums, its production is incredibly resource intensive, as it takes approximately 20 million litres of milk to produce 1 tonne of lactoferrin. Other applications of lactoferrin are discussed at confidential annexure MB2.

2.8 Bulk liquid ingredients

41. Murray Goulburn also sells bulk liquid ingredients in Australia. These bulk liquid ingredients are processed by Murray Goulburn before being supplied to customers. This is a distinct category of products compared to bulk raw milk, which is not processed before being supplied. These ingredients cannot be exported because of their perishable status. The bulk liquid ingredients that Murray Goulburn currently sells are listed in table 8 below.

Table 8: Bulk liquid ingredients produced by Murray Goulburn³

Product	Description	Volume supplied in FY 13 (tonnes)
Bulk cream	Cream is produced when fresh milk undergoes centrifugal separation. Bulk cream is typically supplied in tankers with a 25,000 litre capacity and has a 40% minimum fat specification.	[REDACTED]
Skim milk	Skim milk is produced through	[REDACTED]

³ The volumes of bulk liquid ingredients supplied by Murray Goulburn in the 2013 financial year are attached at confidential annexure MB3.

	centrifugal separation of fresh milk.	
Semi-skim milk	Semi-skim milk is produced through partial centrifugal separation of fresh milk, it contains a higher fat content than skim milk due to the fact that not all of the cream is removed from the milk.	
Wholemilk concentrate	Wholemilk concentrate is produced through a process involving centrifugal separation. Through this process, the cream content of the milk is increased, so the product consists of approximately 8% fat.	
Milk permeate	Milk permeate is a natural product produced as part of the process for creating milk protein concentrate from skim milk. Skim milk is put through an ultrafiltration process, which filters the protein from the milk permeate. The protein is then spray dried to form milk protein concentrate, while the milk permeate is retained and used in other applications, such as standardisation of protein levels in milk products.	

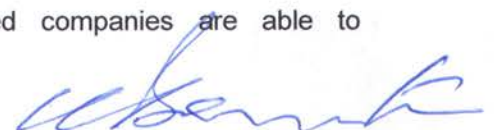
3 Supply of Ingredients in Australia – excluding bulk liquid ingredients

42. Currently, the majority of Murray Goulburn's Ingredients business is export orientated. In the 2013 financial year, Murray Goulburn sold approximately 50,000 tonnes of Ingredients (excluding bulk liquids) throughout Australia.
43. Murray Goulburn estimates that its current share of domestic Ingredients sales is approximately [REDACTED] Murray Goulburn supplies a full range of Ingredients in Australia. The products it supplies in the highest volumes in Australia are cheese, SMP and butter.
44. Murray Goulburn sells Ingredients to domestic Ingredients resellers and food manufacturers, including table cream suppliers, ice cream manufacturers and dessert and bakery manufacturers. The top 5 domestic customers are [REDACTED]
[REDACTED] A list of Murray Goulburn's domestic customers is attached at confidential annexure MB4.⁴

⁴ Contact details of a representative sample of Murray Goulburn's customers is attached at confidential annexure MB5.



45. As stated in the overview at section 2.2 above, the volumes of particular Ingredients that Murray Goulburn supplies in Australia are contingent on global pricing trends.
46. The price in Australia is also influenced by readily available imports. Murray Goulburn estimates that approximately 21% of sales of Ingredients in Australia is supplied by imported products. Many imports come from New Zealand and the United States, both these countries are the beneficiaries of zero tariff trade agreements. As a result, in some cases importers are able to supply dairy products into Australia at prices below those that can be achieved by Murray Goulburn in export markets. Imports are supplied into Australia across all Ingredients categories. Projected levels of imports in each Ingredients category for the 2014 financial year are listed in confidential annexure MB6. Barriers to importation are relatively low and primarily consist of importation licencing, customs clearance and freight costs.
47. Fonterra's Global Dairy Trade platform has also influenced the price of Ingredients in Australia as it has created a readily available channel for imports and some customers are using this channel to infer global prices. Murray Goulburn has experienced a loss of domestic business, as some customers are increasingly sourcing supply from Fonterra through this platform.
48. WCB currently provides a range of Ingredients products in Australia, including cheese, skim milk powders, butter milk powders, butter and whey protein concentrates. Other major suppliers of Ingredients in Australia include Fonterra and Bega. Fonterra is the largest participant in the market and supplies a full range of Ingredients from both Australia and New Zealand. Bega Tatura also supplies a large number of Ingredients. Other smaller suppliers include United Dairy Power, Burra Foods, Longwarry Food Park, Lion and Richmond Dairy. Murray Goulburn's assessment of volumes for Ingredients sales in Australia for the 2014 financial year is contained in confidential annexure MB6.
49. Most Australian suppliers are able to adjust their production across their Ingredients portfolio according to demand trends in Australian and on international markets. The discussion of Murray Goulburn's production processes at paragraph 24 applies more generally to other Ingredients manufacturers. In a similar manner to Murray Goulburn, other manufacturers are likely restrained in their ability to adjust manufacturing to demand forecasts by plant restrictions and existing customer demands. Globally integrated companies are able to



complement domestic production and supply with Ingredients produced internationally. This is particularly the case with Fonterra, which supplies New Zealand sourced products along-side its Australian products in the Australian market.

50. Murray Goulburn also supplies a small volume of Nutritional products in Australia. I do not believe that WCB currently supplies equivalent products in Australia. Murray Goulburn does not sell lactoferrin in Australia through lack of demand.

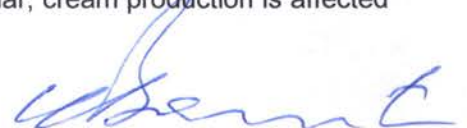
4 Supply of bulk cream in Australia

51. In the 2013 financial year, Murray Goulburn supplied over [REDACTED] [REDACTED] of bulk cream in Australia. However, Murray Goulburn forecasts that it will only supply approximately [REDACTED] of bulk cream in the 2014 financial year. [REDACTED]

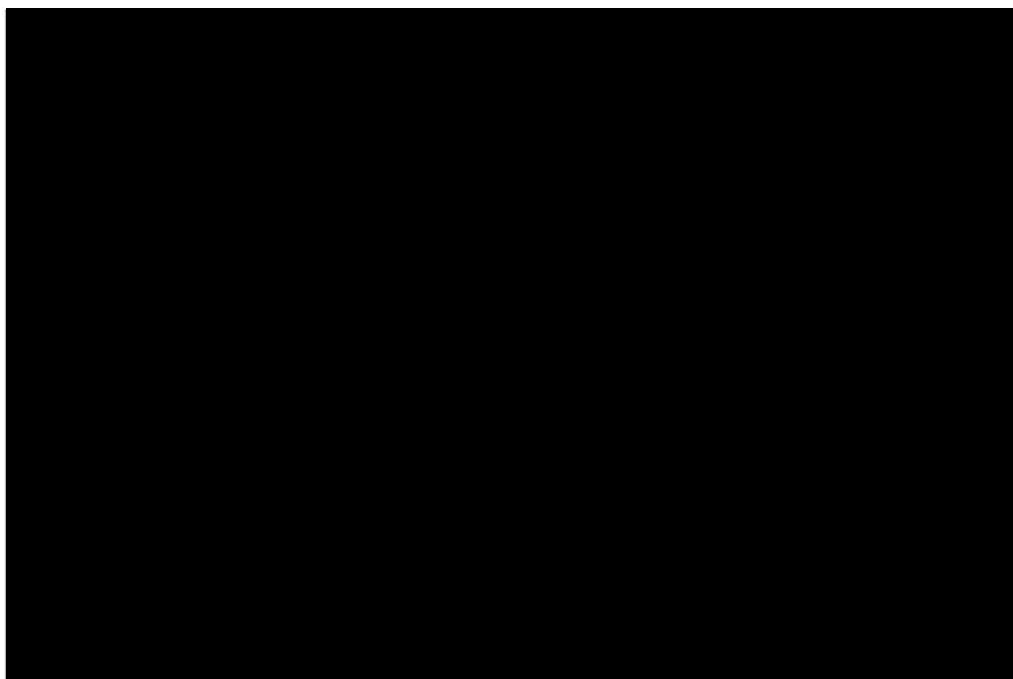
52. [REDACTED]

53. Murray Goulburn's response to [REDACTED] demonstrates the fluidity of supply in supplying bulk cream. Murray Goulburn chose to convert the product, which would otherwise have been supplied as bulk cream, into butter and offered to supply this butter on the global market. This decision coincided with the beginning of the buying season in Russia. This meant that Murray Goulburn was able to supply butter into Russia, at a value that was in excess of what it would otherwise have been able to achieve had the product been sold as bulk cream.

54. The supply of bulk cream in Australia is highly competitive and fluid with the volume of bulk cream supplied by Murray Goulburn subject to the allocation factors discussed in section 2.2 above. In particular, cream production is affected



by prices and production volumes of skim milk and its derivative products as well as the prices for products that can be derived from cream, such as butter. The volume of bulk cream supplied by Murray Goulburn has been highly variable over the past 10 years. The graph in figure 1 below demonstrates the variability in bulk cream supply by Murray Goulburn.

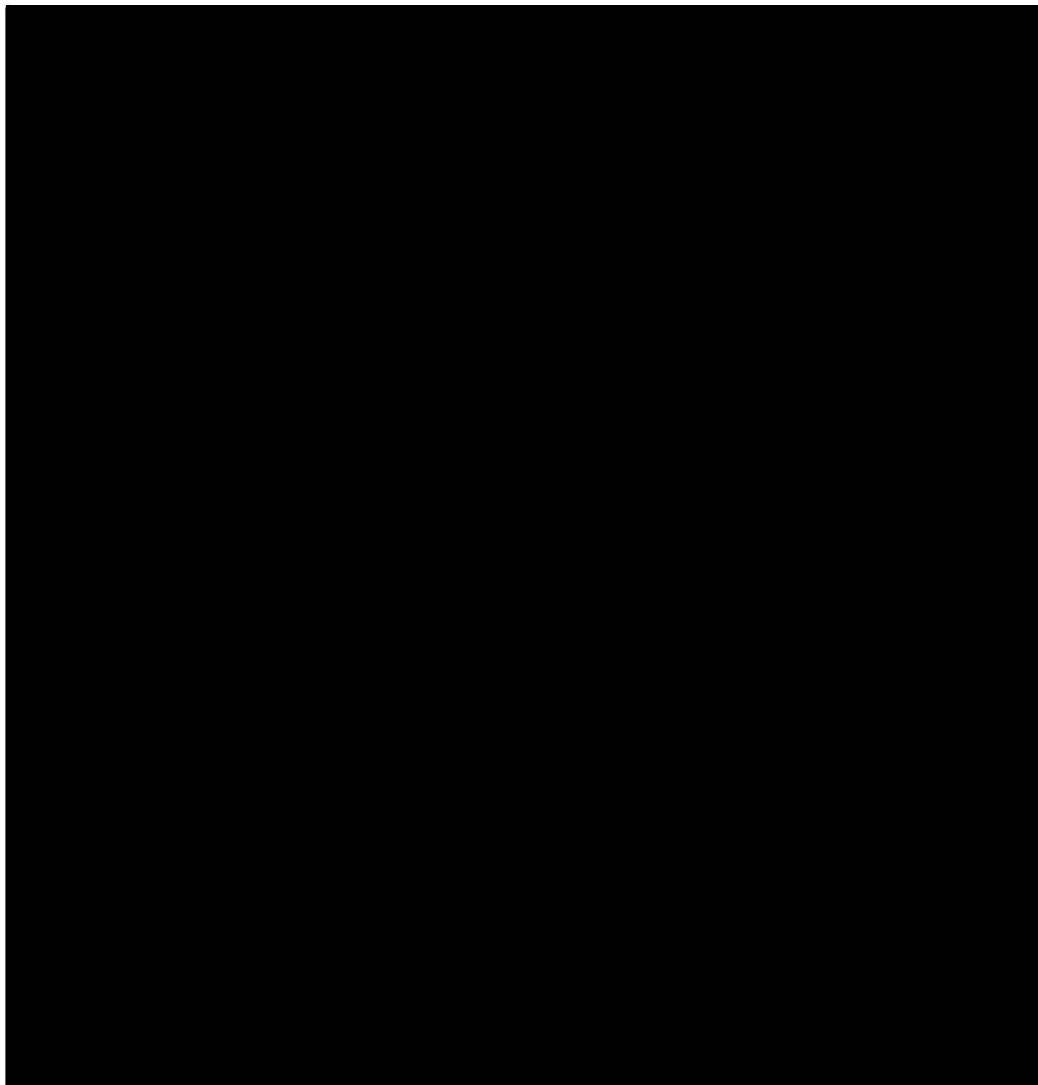


55. Another trend currently affecting the domestic supply of cream is the softening of prices in Japan for butter and AMF (both produced from cream). This has caused an upturn in the availability of domestic bulk cream, followed by aggressive marketing in Australia.
56. Milk powders, and in particular FCMP, are considered as an alternative to cream in some applications, such as ice cream production. However, this is not the case for other more specific applications, such as table cream.
57. Frozen cream is not considered a viable substitute for fresh cream in Australia. Although the functional properties of frozen cream would allow it to be a viable substitute for fresh cream in most applications, the extra cost involved in processing frozen cream is prohibitive to it being considered as a substitute. The extra costs relate to the freezing of the cream and refrigerated transport. Frozen

⁵ Murray Goulburn internal data.

cream is produced for export because it is a tariff efficient mechanism of exporting milk fat into some international markets.

58. Murray Goulburn currently supplies bulk cream into [REDACTED]. [REDACTED] The projected volumes and estimated shares in the supply of bulk cream for the 2014 financial year are contained in table 9 below.



5 Supply of bulk processed milk in Australia

59. Murray Goulburn supplies skim milk, semi-skim milk, wholemilk concentrate and milk permeate in Victoria in the volumes set out in section 2.8 above. Through processing fresh milk and on-supplying it, Murray Goulburn is able to charge



[Handwritten signature]

customers a premium on the raw milk value. This premium relates to the processing costs as well as the management and distribution function provided by Murray Goulburn in delivering a reliable source of milk to food manufacturing customers.

60. In 2013, Murray Goulburn supplied approximately [REDACTED] of bulk processed milk in Victoria. Its main customers were [REDACTED]
61. Other companies that supply bulk processed milk include Fonterra, Bega, Burra Foods, United Dairy Power and Richmond Dairy. There are no imported bulk processed milk products.
62. WCB does not currently supply bulk processed milk to customers located in Australia.

6 Supply of Ingredients internationally

63. As discussed in this section 6, over the past decade, Australia's dairy export industry has contracted by approximately 40%. This has occurred at a time of substantial growth in Australia's key export markets. If Murray Goulburn is unable to increase its milk volumes and allocate these volumes to export markets, the opportunities to grow Australia's dairy industry will be foregone and exploited by other dairy producing countries.

6.1 Overview of the supply of Ingredients internationally

64. Approximately 8% of the global milk supply is processed into products that are traded in international Ingredients markets. As such, the international markets are thinly traded and highly susceptible to variations in raw milk production. The market shares of the main exporting regions are set out in table 10 below.

Table 10: Market shares of main exporting regions⁷

Exporting region	Volume share (%)
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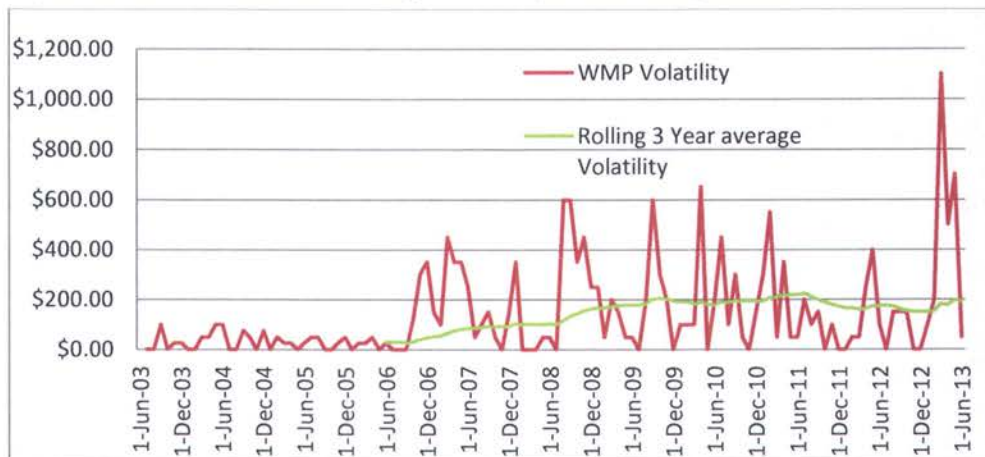
⁷ Source: Dairy Australia - Australian Dairy Industry in Focus 2013, attached at annexure MB7.

New Zealand	37
European Union	31
USA	11
Australia	7
Argentina	5
Uruguay	3
Ukraine	2
Other	4

65. Price volatility on international markets has also increased in since 2007. Prior to this time, price volatility was low due in part to European subsidies and government stockpiling. However, during 2007 global economic conditions caused a massive production gap and a corresponding increase in price. In response to this shortage, there was a removal of European subsidies and suspension of EU interventions. As a result of this the market was exposed to the underlying volatility that had previously been suppressed through regulatory intervention. Global prices dropped during the GFC but recovered to the high pre-GFC levels in late 2009. Since this recovery there is some evidence that prices have continued to rise and may now be moving further up into a new price band. Figure 2 below shows the increased volatility in FCMP prices since the beginning of 2007. Graphs showing price volatility in SMP, butter and cheese are attached at annexure MB8.



Figure 2: Month on month volatility in FCMP (US\$/Mt change MoM)⁸



66. The global prices for dairy ingredients are fundamentally driven by supply and demand. Because the market is thinly traded, price stability is susceptible to a number of external influences, these include global weather events, exchange rates and changing tariff treatments. Strong demand growth in Asia, and particularly in China have been trending prices up, although volatility continues to affect the market.

67. The supply of Ingredients to International markets is dominated by Fonterra. Fonterra currently exports approximately 1.7 million tonnes of Ingredients per year, with approximately 37% market share. This is in comparison to Murray Goulburn, which exported less than [REDACTED] of Ingredients in the last financial year. I believe that internationally, Murray Goulburn is the second largest single source of Ingredients by export sales and is the only other Ingredients producer that offers a comprehensive product range. A large part of the export market is made up of global dairy product traders, such as Hoogwegt Dairy, Interfood and Ecoval/Louis Dreyfus Commodities. The large US producers are primarily internally focused, and usually participate in export markets through global dairy traders. However, some of the larger producers are increasing their capabilities to participate directly in export markets.

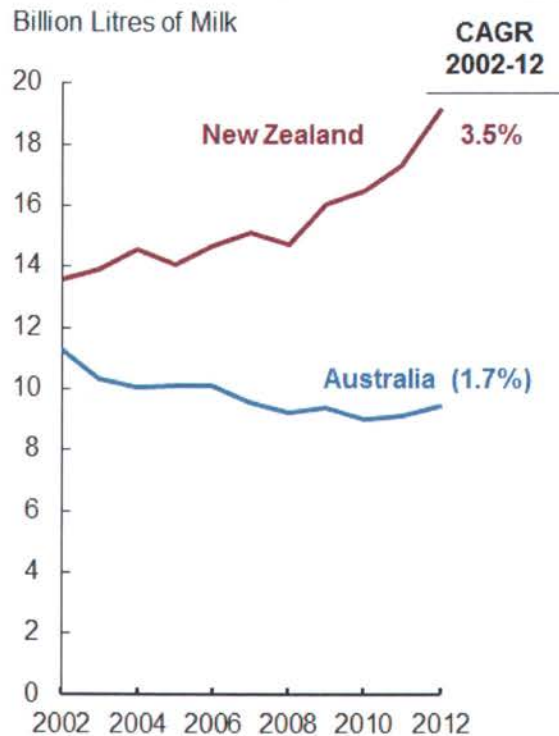
6.2 Australia's position in international dairy markets has substantially declined over the past decade

68. Australia's dairy exports have decreased over the past decade, with volumes down by approximately 40%. This is largely attributable to a reduction in raw milk

⁸ Source: Dairy Australia monthly published price lists.

production between 2002 and 2012, which is partially a function of climatic conditions. As demonstrated in figure 3 below, Australia's raw milk production has declined by 1.7% per year from 2002 to 2012. In contrast, New Zealand has increased its milk production by an average of 3.5% per year.

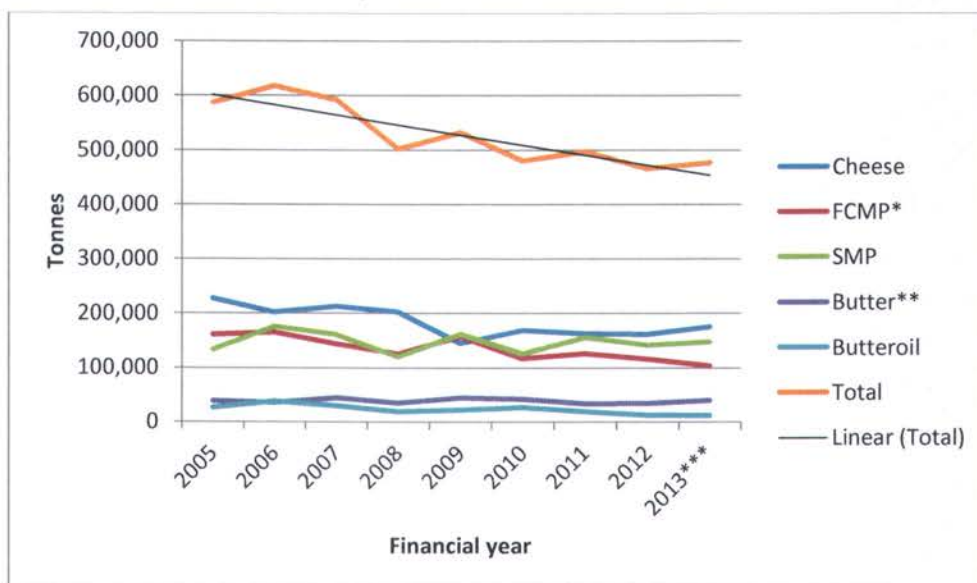
Figure 3: Australian dairy production from 2002 to 2013⁹



69. The decline in Australia's dairy production has led to a reduction in Australia's export volumes. The decline of export volumes from 2005 is demonstrated in figure 4 below. The products that have contributed the largest amount to the overall decline in export volumes are cheese and FCMP.

⁹ Source: See document titled 'ABARES dairy tables 2012' attached at exhibit tab 1 of MB9; New Zealand Dairy Statistics 2011-2012 attached at annexure MB10.

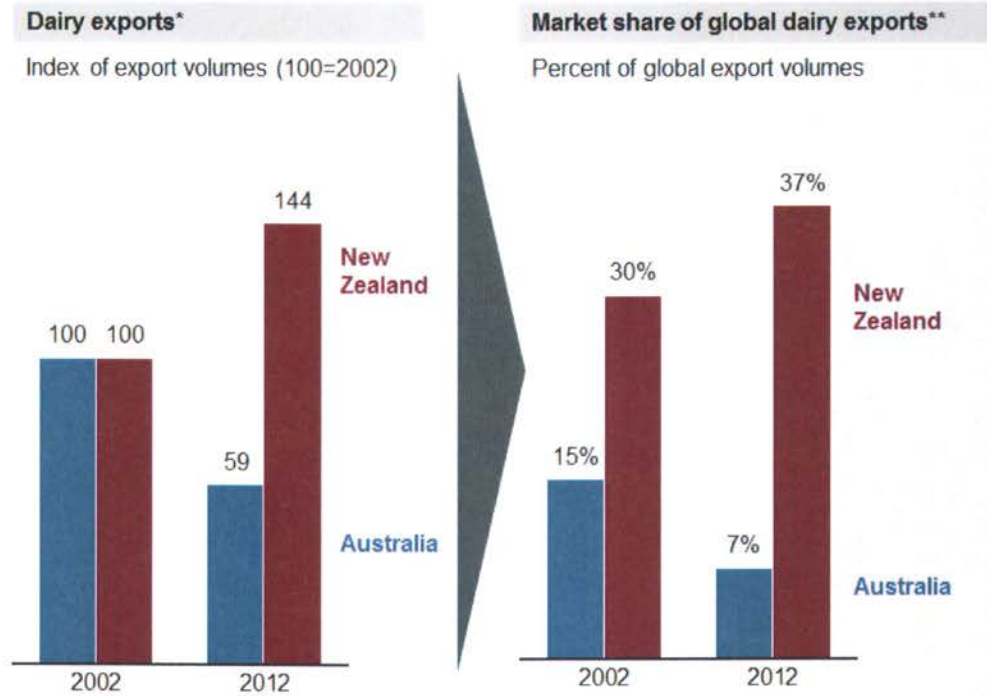
Figure 4: Australian exports by volume from 2004/05 to 2012/13¹⁰



70. This decline in Australian dairy exports has coincided with robust growth in international dairy markets, which has largely been driven by an increase in consumption of dairy products in developing countries. As a result, Australia's export volume share has dropped from 15% in 2002 to 7% in 2012. Over the same time period New Zealand has achieved substantial growth in exports. In the ten year period between 2002 and 2012, New Zealand increased its export volumes by 44%. This equates to an increase in its share of the International ingredients sales from 30% to 37%. Figure 5 below compares Australia's and New Zealand's performances in export markets between 2002 and 2012. The figure on the left shows the change in export volumes from a 2002 baseline. The figure on the right shows how this change in volumes has affected each country's share of export volumes.

¹⁰ Source: Dairy Australia - Australian Dairy Industry in Focus 2013 attached at annexure MB7; Dairy Australia - Australian Dairy Industry in Focus 2010 attached at annexure MB11; Dairy Australia - Australian Dairy Industry in Focus 2011 attached at annexure MB12; Dairy Australia - Australian Dairy Industry in Focus 2012 attached at annexure MB13. This data includes exports of both Ingredients and retail products. *FCMP includes infant powder **Butter includes dairy blends converted at the rate of 1kg butter blend = 0.7kg butter *** 2013 data is provision.

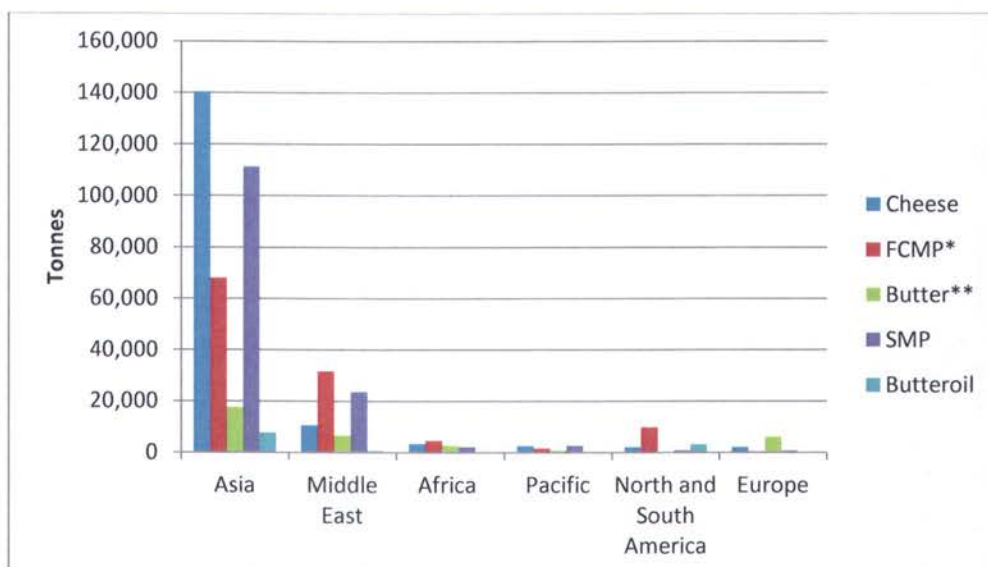
Figure 5: Comparison of the performance of Australia and New Zealand in export markets between 2002 and 2012¹¹



71. Asia and the Middle East are Australia's largest export markets. Figure 6 below shows Australia's exports by region for the 2012 financial year across major commodity products.

¹¹ See document titled 'ABARES dairy tables 2012' attached at exhibit tab 1 of MB9; New Zealand Dairy Statistics 2011-2012 attached at annexure MB10. * Export volume index includes milk powder, cheese, butter, casein and other dairy products on a milk equivalent basis ** Estimated share of global milk, whole milk powder, skim milk powder, cheese, butter and casein exports on a milk equivalent basis.

Figure 6: Australian exports by volume for 2012 financial year¹²



6.3 Fonterra has led New Zealand's success in international dairy markets

72. In stark contrast to the Australian dairy industry's performance over the past decade, the New Zealand dairy industry has flourished. This has is largely attributable to the formation and growth of Fonterra. Supported by a united industry and supply stability, Fonterra has been able to make efficient investments in large scale, state of the art, processing facilities. This gives Fonterra market scale.
73. Fonterra's success in supplying ingredients internationally is underpinned by a number of factors, which have created scale efficiencies, high product quality and reliability:
- scale efficiencies derived from having a consolidated manufacturing process with large scale modern manufacturing units – Fonterra owns the largest and most efficient milk driers in the world;
 - a structural surplus in raw milk in New Zealand – over 90% of New Zealand's milk supply is processed into Ingredients that are sold on the global market – this is a competitive advantage because there is a guaranteed supply into, and focus on, export markets;

¹² Source: Dairy Australia - Australian Dairy Industry in Focus 2013 attached at annexure MB7; Dairy Australia - Australian Dairy Industry in Focus 2010 attached at annexure MB11; Dairy Australia - Australian Dairy Industry in Focus 2011 attached at annexure MB12; Dairy Australia - Australian Dairy Industry in Focus 2012 attached at annexure MB13. This data includes exports of both Ingredients and retail products. *FCMP includes infant powder **Butter includes dairy blends converted at the rate of 1kg butter blend = 0.7kg butter.

- (c) a relatively low cost raw milk production model;
 - (d) quality standards that have built up over many years of being in the Ingredients export business. This has created a reputation in the industry for high quality products, this reputation is enhanced by New Zealand's brand as a sustainable milk producer, as a large proportion of dairy cattle are grass fed;
 - (e) high stability of milk supply; and
 - (f) milk growth of 3.5% per annum as a result of structural factors, partly arising out of Fonterra's creation. This growth is also related to the relative importance of agriculture to the New Zealand economy and the relative attractiveness of dairy as a land use option.
74. Ingredients manufacturing conditions in Australia are similarly conducive to success in export markets. By comparison to New Zealand, the Australian market has:
- (a) a large structural surplus in milk in Australia – approximately 50% of the raw milk supply is processed into globally traded Ingredients. This competitive advantage is unique to New Zealand and Australia;
 - (b) high quality standards and a reputation for quality that has been built over many years of experience in Ingredients production and export markets. Similar to New Zealand, Australia also has a reputation as a sustainable milk producer;
 - (c) by global standards, a relatively low cost milk production model, with a majority of dairy cattle being grass fed; and
 - (d) by global standards, a relatively stable milk supply.
75. However, there is a substantial difference in the factors that have a relationship with the consolidation of, and investment in, the New Zealand dairy industry. Australia does not currently have the scale efficiencies or manufacturing technology that Fonterra has developed, with there being only limited infrastructure investment in Australia over the last decade. Furthermore, Australia has not had the milk growth that has been occurring in New Zealand.



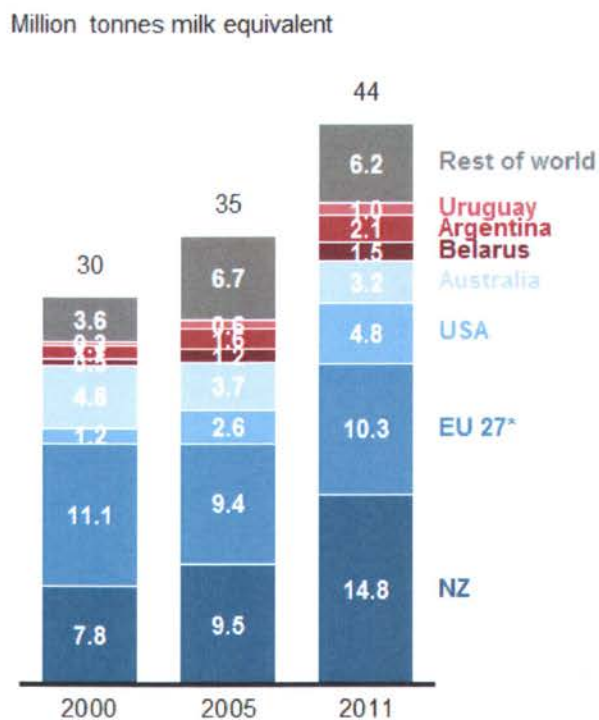
76. Due to Fonterra's size and dominance in the international marketplace, it is able to act as a price setter for most products that are linked to the commodity price. In 2008, Fonterra introduced the Global Dairy Trade – an auction platform for commodity dairy products including SMP, FCMP, and in lower volumes butter, cheddar cheese and casein. The Global Dairy Trade runs commodity auctions every two weeks. It publishes the auction results, which allows for discovery of indicative prices up to 6 months in advance.

6.4 Meeting demand growth in Asia and other international markets

77. As discussed above, strong demand from Asia has been driving growth in the dairy industry in recent years and it is anticipated that this will continue into the future. Future growth in global dairy demand is forecast to be approximately 2% per annum from 2013 to 2022, with demand from developing countries anticipated to be between 1.6% to 2.8%. Factors influencing this demand increase from developing countries include robust income growth, expanding populations, further westernisation of diets and greater access to refrigeration facilities. In China alone, there is expected to be a 38% increase in consumption of dairy products in 2022, when compared to a 2010 to 2012 base.
78. These growth forecasts follow several years of sustained growth in international dairy markets, however as discussed above at paragraphs 68 to 69, Australia has decreased both its milk production volume and dairy export volume during this time. This has had a dramatic effect on Australia's ability to take advantage of the growth in international markets. Figure 7 below shows the export volumes of major dairy export regions between 2000 and 2011.



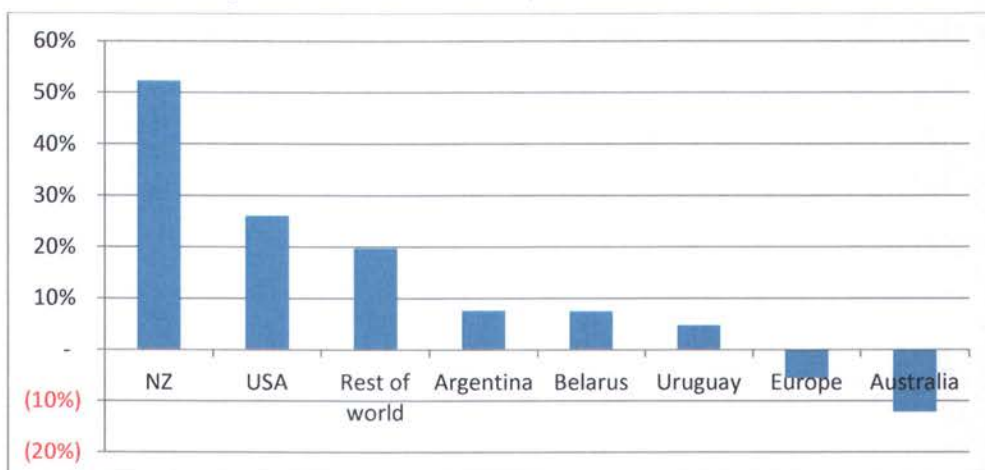
Figure 7: Export volumes of major dairy exporting regions between 2000 and 2011¹³



79. While there has been significant growth in international markets, Australia has been unable to capture this growth. Figure 8 below shows Australia's relative share of growth on the international market between 2000 to 2011 compared to other exporting countries.

¹³ Source: International Farm Comparison Network – A global review attached at annexure MB14; International Dairy Federation World Dairy Situation 2012 attached at annexure MB15. Global dairy exports includes the following commodities: butter and butteroil, SMP, WMP and cheese. Conversions of product volumes into milk equivalents based on "Total Solids Content" proposed by IDF; Excludes intra-trade of EU member states.

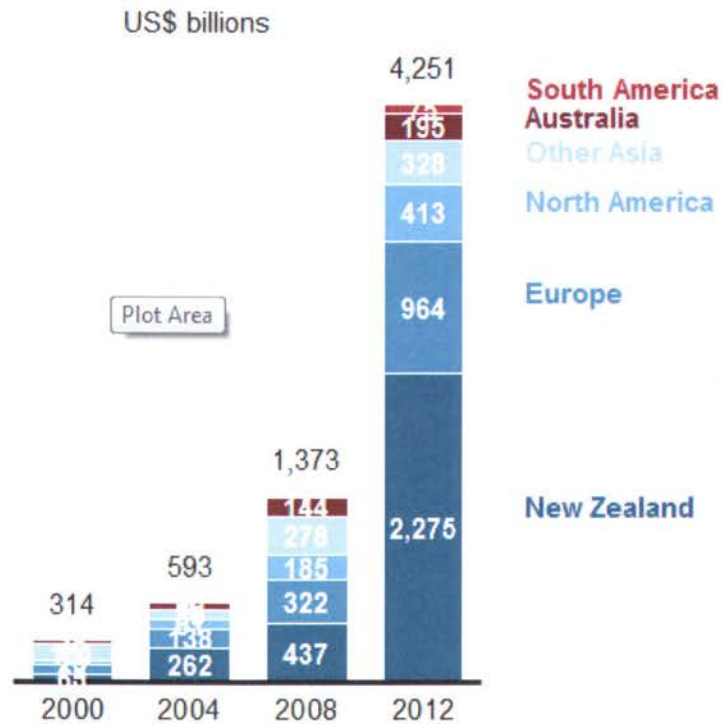
Figure 8: Share of growth in international export markets between 2000 and 2011¹⁴



80. Similarly, despite Australia's proximity and good trade relations with China, Australia has failed to fully capitalise on the recent growth in demand arising out of China. Figure 9 shows the increase in value of exports to China from 2000 to 2012.

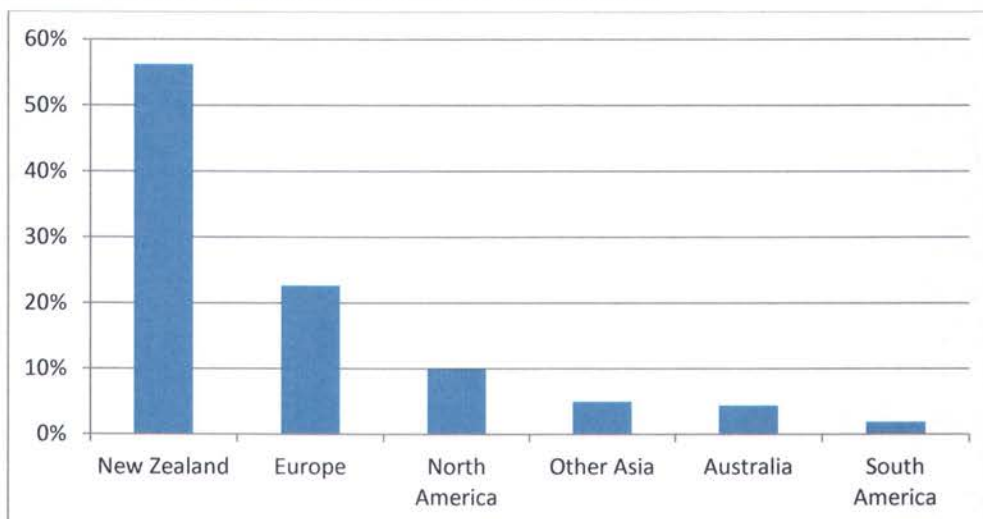
¹⁴ Source: International Farm Comparison Network – A global review attached at annexure MB14; International Dairy Federation World Dairy Situation 2012 attached at annexure MB15. Global dairy exports includes the following commodities: butter and butteroil, SMP, WMP and cheese. Conversions of product volumes into milk equivalents based on "Total Solids Content" proposed by IDF; Excludes intra-trade of EU member states.

Figure 9: Major dairy producing region's share of exports to China between 2000 and 2012¹⁵



81. Furthermore, as can be seen in figure 10, Australia has only obtained a 4% share of China's growth since 2000. In comparison, New Zealand has achieved a 56% share of this growth.

¹⁵ Source: 'Murray Goulburn - China dairy imports 2013' - file attached at tab 1 of confidential exhibit MB16. Includes all dairy products. Shares calculated in \$US.

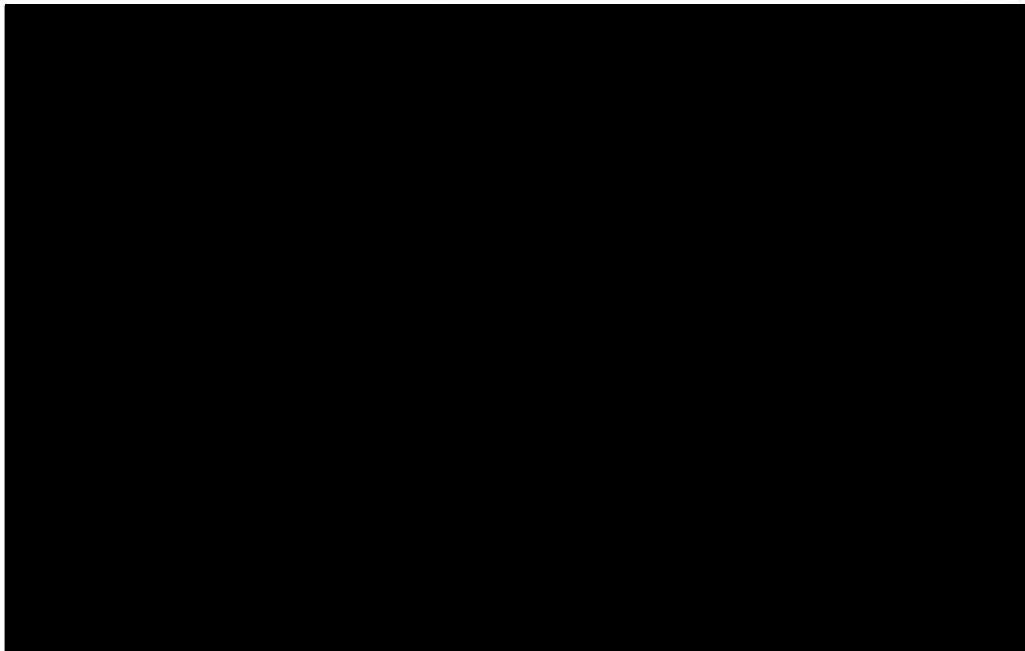
Figure 10: Share of growth demand from China in (\$US)¹⁶

82. The increase in demand for dairy products in developing countries has been met with a strong increase in dairy production. In the decade prior to 2012, dairy production in China increased by an average of 6.9% per annum, while in the decade from 2012 to 2022, dairy production in China is expected to increase at a rate of 2.4% per annum.
83. Furthermore, while New Zealand's ability to further increase production may be tapering off, other dairy producing countries are poised to take advantage of exports growth. Consolidated dairy manufacturing companies in the US and Argentina in particular have been increasingly active in export markets. By 2022, dairy exports from the US alone are expected to increase by 55% compared to 2012 levels. European dairy manufacturers are also likely to be increasingly active in international markets as the European quota system is removed from 2015.
84. A combination of increasing home-grown production in Asia, and increasing exports from the US, Argentina and Europe means that Australia has a limited window of time to take advantage of its current position and structural strengths (see paragraph 74). If Australia is unable to increase its production and increase its share of growth over the next decade, it is likely to lose relevance in the global dairy industry.

¹⁶ Source: 'Murray Goulburn - China dairy imports 2013' - file attached at tab 1 of confidential exhibit MB16. Includes all dairy products. Shares calculated in \$US.

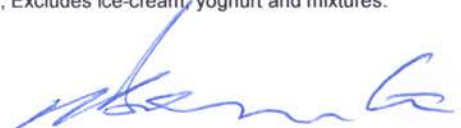
6.5 Murray Goulburn's position

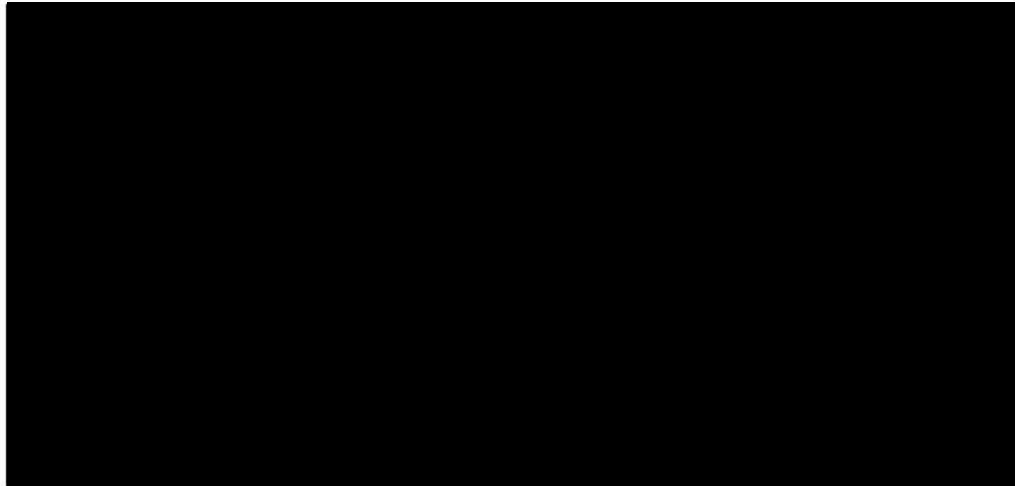
85. Murray Goulburn currently exports a full range of Ingredients into approximately 50 countries. Murray Goulburn's largest export markets for the 2013 financial year were [REDACTED]. The full list of countries that Murray Goulburn exported to in the 2013 financial year is attached at confidential annexure MB17.
86. Murray Goulburn is the leading Australian exporter in many Asian export markets. As demonstrated in figure 11 below, Murray Goulburn's exports constitute approximately [REDACTED] of the Australian exports into Asia.



87. Furthermore, Murray Goulburn is heavily focused on Asian export markets. As can be seen in figure 12 below, over [REDACTED] of Ingredients exports from Australia, New Zealand and the Pacific are supplied into Asia.

¹⁷ Source: See the document titled 'Dairy Australia – Australia Exports' attached at tab 2 of Exhibit MB9; the document titled 'Murray Goulburn export summary FY13' attached at tab 2 of confidential exhibit MB16; and see document titled 'Murray Goulburn international retail summary FY13' attached at tab 3 of confidential exhibit MB16. Based on FY13 data. Includes Cheese, Butter/Oils, WMP, SMP, Whey products, Casein, milk, other powders and concentrates; Excludes ice-cream, yoghurt and mixtures.





88. Murray Goulburn exports to over [REDACTED] customers. The largest customers by volume are [REDACTED]

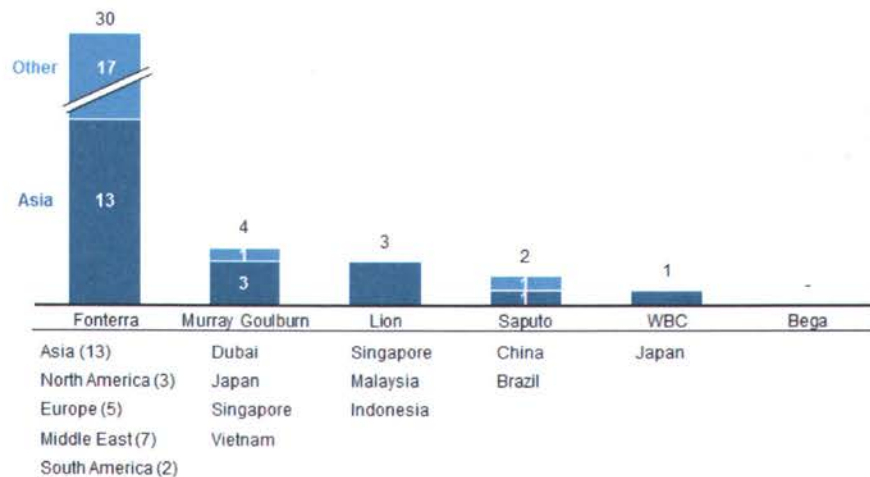
Most of Murray Goulburn's customers are [REDACTED]

[REDACTED] The full list of Ingredients export customers that Murray Goulburn supplied to in the 2013 financial year is attached at confidential annexure MB20.

89. Murray Goulburn maintains in-market offices in Dubai, Japan, Singapore and Vietnam. Currently only the Japan office is used to service Ingredients customers, this office manages customer relationships, facilitates sales and forecasts supply. However, for regulatory reasons sales are formally conducted out of Australia rather than the Japanese office. The Dubai, Singapore and Vietnam offices are currently used to support Murray Goulburn's retail and foodservice export business. With an expansion in scale of Murray Goulburn's Ingredients business, these offices could form the foundation for an in-market global network, akin to Fonterra's extensive global network. Figure 13 below depicts the number of in-market offices operated by the major Australian dairy producers and Saputo.

¹⁸ Source: Murray Goulburn Annual Report 2013 attached at annexure MB18; the document titled 'Dairy Australia - Canada, Argentina, US exports' attached at tab 3 of exhibit MB9; and UN Statistics Division standard country and area codes classification attached at annexure MB19. * Includes countries in the region Western Asia as defined by the UN; Includes Cheese, Butter/oils, WMP, WMP, Whey products, Casein, milk, other powders and concentrates, ice-cream, and yoghurt; Excludes mixtures ** Based on volume fractions.

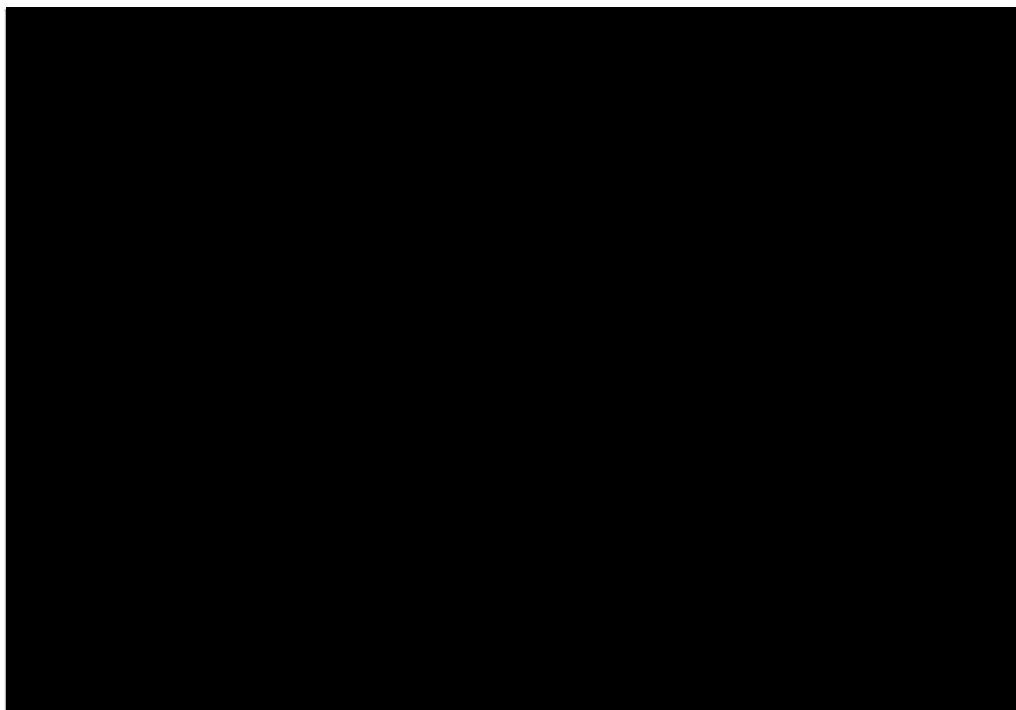
Figure 13: In-market offices operated by Australian dairy producers and Saputo¹⁹



90. In-market offices are important because they allow for Murray Goulburn to be within close proximity of its customers. This assists Murray Goulburn to develop deeper customer relationships across a broad spectrum of a customer's operations, including sales, management and research and development. The benefit of developing such relationships is that it facilitates sustainable innovation – that is the identification and pull through of long term value add opportunities. An example of such an opportunity is discussed below at paragraphs 128 and 133.
91. Murray Goulburn's go to market model varies depending on the market that it is operating in. In Japan it sells products through the large trading houses, Sogo Shosha – Mitsubishi being the largest – although Murray Goulburn maintains relationships with the end customers. The end customers pay the trading houses a commission for the sales and the services provided by them. In other countries, Murray Goulburn supplies directly with customers either through spot markets or mainly with 3 to 6 month sales contracts. Murray Goulburn is limited in its ability to offer sales on long term supply contracts because of price risks. Murray Goulburn uses global dairy trading companies to gain access to some remote markets that it otherwise does not have a large exposure to.

¹⁹ Similar to Murray Goulburn, some of Fonterra's in-market offices are focused on retail products rather than Ingredients. Saputo's Chinese office may recently have closed. Sources include Murray Goulburn Annual Report 2013 attached at MB18; extracts from Fonterra website regarding location of offices attached at annexure MB21; extracts from Lion website regarding location of offices attached at annexure MB22; locations of Devondale sites attached at annexure MB23; Saputo Annual Report 2012 attached at annexure MB24; and extracts from WCB website regarding location of offices attached at annexure MB25.

92. Murray Goulburn's Ingredients export sales over the past 10 years have declined in line with the decrease in Australia's overall dairy exports. In 2003, Murray Goulburn was exporting over [REDACTED], whereas exports were [REDACTED] in the [REDACTED]. [REDACTED] Figure 14 below shows Murray Goulburn's yearly export sales volumes since 2000.

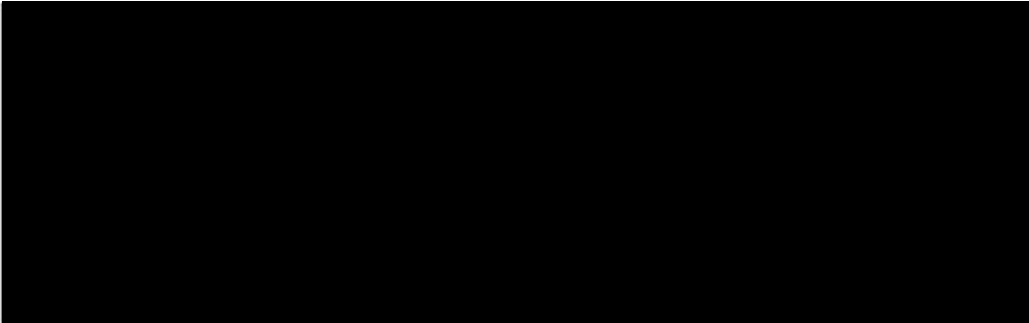


93. Murray Goulburn's export volumes have declined as a result of the limited milk supply available to Murray Goulburn to service export markets. This has forced Murray Goulburn, particularly in recent times, to pull out of several markets. In particular, Murray Goulburn has reduced its footprint in the Middle East. It now only sells to high value or highly strategic clients. This decline in Murray Goulburn's ability to supply has coincided with an a sustained increase in demand for Ingredients products.
94. While Murray Goulburn products are still able to attract a premium in the market (see paragraph 123), it's supply constraints have caused reputational damage to Murray Goulburn's brand. [REDACTED]

²⁰ Source: Murray Goulburn internal data. See document titled 'Murray Goulburn 10 year export volumes' at tab 4 of confidential exhibit MB16. *Forecasted volume for the 2014 financial year.



95.



96. Murray Goulburn's supply constraints diminish its ability to service premium customer and place Murray Goulburn at risk of losing relevance in the global dairy market. With this loss of relevance comes an inability to leverage Murray Goulburn's current position as the second largest participant in the export market and counterbalance to Fonterra. Murray Goulburn losing relevance in the global market is akin to Australia as a whole losing relevance in the global market as there is no other producer in Australia who commands a material share of the total global dairy trade. I note that none of the Australian dairy producers that are foreign owned (Lion, Fonterra Australia and Lactalis) have a material share of global trade.
97. One of the effects of Murray Goulburn contracting its business to highly strategic and high value clients is that it has a reduced ability to manage the risk associated with the increased volatility in global dairy prices through diversification and depth in its product offering.

6.6 WCB's position

98. WCB currently exports approximately 65% of the Ingredients that it produces. WCB exports cheddar cheese and WPC 80 protein into Japan. Other export products supplied by WCB include skim milk powders and cream cheese.
99. By comparison to Murray Goulburn, WCB operates as a weak seller in the Japanese market. Murray Goulburn's strength in the Japanese market means it is able take price leadership and will usually announce prices first during a sales cycle – this price is set to maximise value for Murray Goulburn. I have noticed a pattern whereby WCB systematically positions its price below Murray Goulburn, rather than seeking to maximise value.

A handwritten signature in blue ink, appearing to read "Dennis".

100. WCB only has one in-market office in Japan, which is operated as a joint venture with Mori International Corporation of Japan. I believe that WCB uses this office to facilitate relationships with its Japanese customers. The structure of the Japanese market, in particular the importance of the large trading houses in this market, means that high levels of customer service are expected and required.
101. WCB also has a presence in the Middle East market, where it primarily supplies cheese products through a local agent. This is not a market that Murray Goulburn currently has major presence in, although it is seen as an important growth market.
102. In terms of the specialty ingredient lactoferrin, WCB, in partnership with Tatua Co-operative Dairy Company, recently announced that it has entered into an understanding with a Chinese entity regarding exclusive distribution of lactoferrin into China, Hong Kong and Taiwan.

6.7 Saputo's position

103. Saputo's main Ingredients presence is in the supply of cheese and whey products. Saputo's operations in Canada are highly protected and regulated through Canada's dairy supply management system. As a result of supply management, domestic cheese prices in Canada are inflated, such that it is largely uneconomical for Saputo to sell Canadian cheese as Ingredients on the global market.
104. To the best of my knowledge, Saputo once had an in-market office in Shenzhen, which it uses to service Chinese customers, particularly in relation to the supply of whey powders into China and Japan. Reports indicate that this office may have recently closed. Saputo also has an in-market presence in Brazil, although I am not familiar with the function and operation of this office.
105. Saputo is the one of the largest cheese producers in Argentina, it has two production plants and limited vertical integration into farms. Saputo exports approximately 80% of its Argentinian cheese, most of which is supplied into other countries in the South American and North American regions, although small quantities may be traded in the Asian market. Large amounts of hard cheese are currently being exported from Argentina into the US. Saputo is currently increasing its production of Argentinian mozzarella to be traded on international markets. Saputo also sells cheese from Argentina into Russia due to a beneficial tariff structure.



106. Saputo also has a large presence in the US, which was enhanced through its recent acquisition of Morningstar Foods from Dean Foods for US\$1.45b. Saputo has 28 plants in the US and is one of the top 3 US cheese producers. Most of the cheese produced by Saputo in the US is consumed on the US domestic market. However, Saputo may be exporting some US cheese into the Middle East.


6.8 Bega's position

107. In December 2011, Bega consolidated its 70% interest in Tatura Milk through a full merger. Approximately 32% of the new entity's sales are derived from export activities. Bega currently exports butter, AMF, milk concentrate, SMP, whole milk powder, nutritional powder and cream cheese.
108. Although Bega licences the 'Bega' brand to Fonterra in Australia, it has retained the use of this brand in international markets. Bega exports retail cheese into the Middle East, Philippines and Taiwan.
109. Other features of Bega's export business include a recent increase in its cream cheese capacity from 15,000 tonnes to 22,000 tonnes as well as two significant joint ventures. The first joint venture is with Snow Brand and is in relation to a retail canning plant on Bega's Tatura site. The second joint venture is with Ingredia of France in relation to the production of WPC 85.

7 **Supply of Nutritionals internationally**

110. There is currently a huge growth demand for Nutritional products, with forecast demand growth for Nutritional products in Asia, and particularly China, in excess of 10% per year. Murray Goulburn currently has capacity to produce and export approximately [REDACTED] of Nutritional products per annum, it projects that supply from its current customers [REDACTED]. Furthermore, Murray Goulburn estimates that demand from its existing customer base alone [REDACTED] by 2020.
111. In the 2013 financial year, Murray Goulburn produced and sold almost [REDACTED] of Nutritional products, with [REDACTED] being the largest importers of products from Murray Goulburn. The total revenue derived from Nutritional products during this year was over [REDACTED]. A list of volumes and revenue arranged by customer is attached at confidential annexure MB27.

112. Murray Goulburn runs a manufacturing sales and distribution facility in Qingdao Province in China. This plant blends and packages infant, and growing up nutritional formulas for consumption in China's domestic market. In addition to the blended and packaged products, Murray Goulburn exports finished retail products that are packaged in Australia and sold through our operation in Qingdao. Murray Goulburn currently exports approximately [REDACTED] [REDACTED] of Nutritional formula into China to be processed through its Qingdao operations.
113. These products are then sold and distributed through Chinese distributors and sold in baby shops and pharmacies. The Chinese market attaches a very large premium value to Murray Goulburn products that are imported from Australia, particularly products that are finished and packaged prior to export.
114. [REDACTED]
115. Around 2008 or 2009 WCB entered into a 50:50 joint venture arrangement with Royal Friesland Campina to manufacture a Nutritional ingredient. The joint venture constructed a plant on the WCB Allansford site and uses WCB's lactose stream from the manufacture of cheese to manufacture Nutritional ingredients such as Vivinal GOS. This is a prebiotic ingredient and is used in finished Nutritional products. I understand that Royal Friesland Campina owns the sales and marketing rights for all ingredients produced through this arrangement.
116. I believe Saputo does not currently produce Nutritional products.
117. The necessary requirements for the creation of Nutritionals production capability include:
- (a) access to production facilities capable of producing high quality base ingredients, being high quality SMP and whey powder. Access to competitively priced high quality vegetable oils and specialty micronutrients, such as GOS or lactoferrin is required;

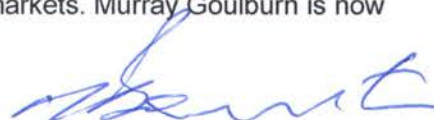


- (b) the development and ownership of intellectual property and technical know-how regarding the particular processes and production methods required to create products with highly specific characteristics;
- (c) strong customer relationships, with commitments from at least one large global customer to underwrite the necessary investment requirements. A relationship with a large customer is also required to generate enough volume demand to operate a scaled cost effective plant;
- (d) access to raw milk supply and control over the entire supply chain, from raw milk collection from the farm to the finished and packaged product. This is particularly important in China, where there are increasingly tight regulations regarding product safety standards; and
- (e) having quality control systems in processing plants, which approach pharmaceutical standards.

8 Public benefits from Murray Goulburn's proposed acquisition of WCB

8.1 1 Murray Goulburn's acquisition of WCB will improve the international competitiveness of Australia's dairy industry

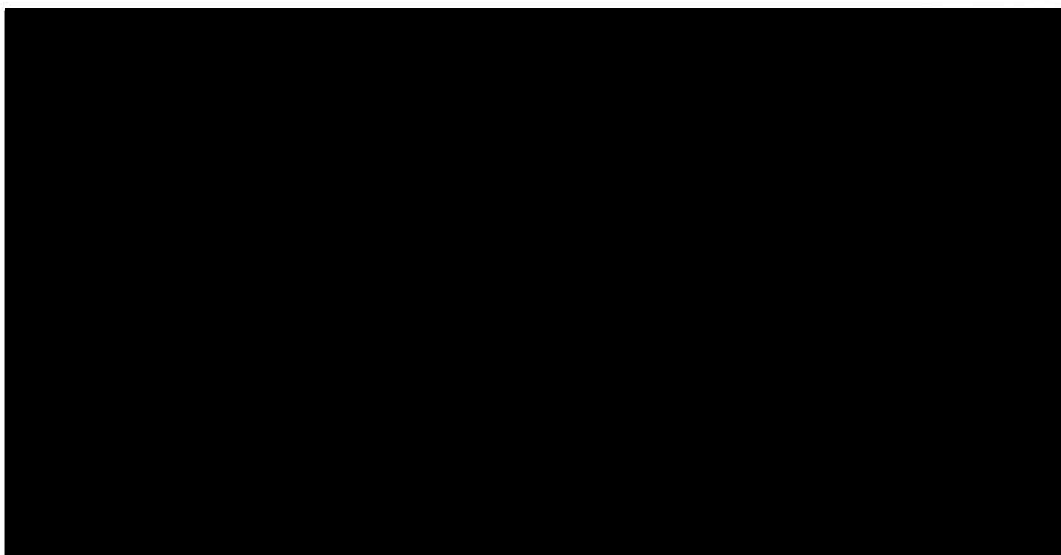
118. Murray Goulburn's acquisition of WCB will enhance both its scale and production efficiency. Scale will be enhanced through Murray Goulburn's access to WCB's pool of approximately [REDACTED] litres of raw milk. Production efficiency will be enhanced through the synergies that will be achieved by consolidating Murray Goulburn's and WCB's existing businesses and manufacturing processes.
119. The enhanced scale and efficiency from the acquisition will create a significant Australian export company. This company will be the clear second largest supplier of dairy products on international markets behind Fonterra. This creates benefits for Murray Goulburn, which flow through to the Australian dairy industry.
120. The acquisition will allow Murray Goulburn to grow with its customers. As discussed in section 6.1, global dairy demand has been increasing year on year, while Murray Goulburn has been decreasing its exports due to constraints on milk supply. This means a combination of Murray Goulburn decreasing its export volumes by approximately [REDACTED] over the past decade and Murray Goulburn's customers experiencing rapid expansion has exacerbated the effect on Murray Goulburn's relevance in international markets. Murray Goulburn is now



in a position where it risks being unable to supply its strategic customers –

- [REDACTED]
121. Having the scale to grow with customers will not only restore confidence in Murray Goulburn's brand, but it will have a flow on effect to the Australian dairy industry. Growing with Murray Goulburn's existing premium customer base will create confidence in upstream milk production and encourage investment in milk growth to further feed into the merged entity's clearly defined global strategy. As discussed in paragraphs 73 to 75, the lack of milk growth in Australia is a defining difference in the recent trajectories of the Australian and New Zealand dairy industry.
 122. Increased operational scale enhances Murray Goulburn's ability to manage risk in highly volatile international markets through diversification in both breadth and depth of product offerings. As discussed in paragraph 65, the removal of market interventions in Europe has exposed international ingredients markets to high levels of volatility. Scale enhances Murray Goulburn's ability to optimise its product mix and better manage this volatility. Producing higher value Ingredients also reduces Murray Goulburn's exposure to price volatility as these products are less susceptible to price fluctuations in the commodity market. Improving Murray Goulburn's ability to manage price volatility positively affects Murray Goulburn's Farm-gate Price, increasing farmer profits and benefiting the dairy industry.
 123. Having a significant Australian export company increases the ability of other Australian producers to compete on international markets. As the historically dominant Australian exporter in international markets, Murray Goulburn's brand is tantamount to Australia's brand as a dairy exporter. This is a strong brand, which has been built up from over 60 years of experience in the dairy industry. The factors that helped to create the brand are discussed in paragraph 74 above. The strength of Murray Goulburn's brand is demonstrated by the premium that Murray Goulburn is able to achieve in many Ingredients categories. Table 11 below demonstrates the premiums that Murray Goulburn was able to achieve above GDT prices in the 2013 financial year.





124. Other Australian producers are able to trade off and benefit from this brand in international markets. The equivalent of this has occurred in New Zealand, where Fonterra's strong brand has empowered smaller niche producers such as Synlait, Open Country Dairy, Miraka Dairy and Tatua Co-operative Dairy Company to enter the international market.
125. Without a significant Australian export company to guide the brand and strategic direction of the export industry, the opposite effect is true. The Australian dairy industry will participate in a fragmented manner on the international market, making it more difficult for Australian producers to gain or maintain traction and credibility in international markets.
126. The acquisition will allow the merged entity to drive the consolidation of manufacturing processes that is necessary for Australia to thrive in increasingly competitive international markets.

8.2 Murray Goulburn's acquisition of WCB will increase the value of Australia's exports through leveraging Murray Goulburn's customer relationships

127. Increased scale and efficiency will enhance the merged entity's ability to leverage its existing relationships with premium customers to offer more innovative products. As discussed at paragraph 93, Murray Goulburn has recently consolidated its client base to now only include strategic and high value customers. When making an assessment of the strategic value of a customer,

²¹ Murray Goulburn sales data. * The summary is based on the sales made by MG in the respective Financial year & may not be reflective of invoiced sales in the Financial Year due to forward selling. * The comparative pricing for GDT is based on the weighted average sell price in USD in the expected MG shipment month

Murray Goulburn assesses that customer's ability to pull through innovative and value add products. Increasing operating scale will allow Murray Goulburn to offer more of its customers value add and innovative products. Furthermore, success breeds success, as Murray Goulburn is able to deploy intellectual property developed through collaboration with one customer to other customer applications.

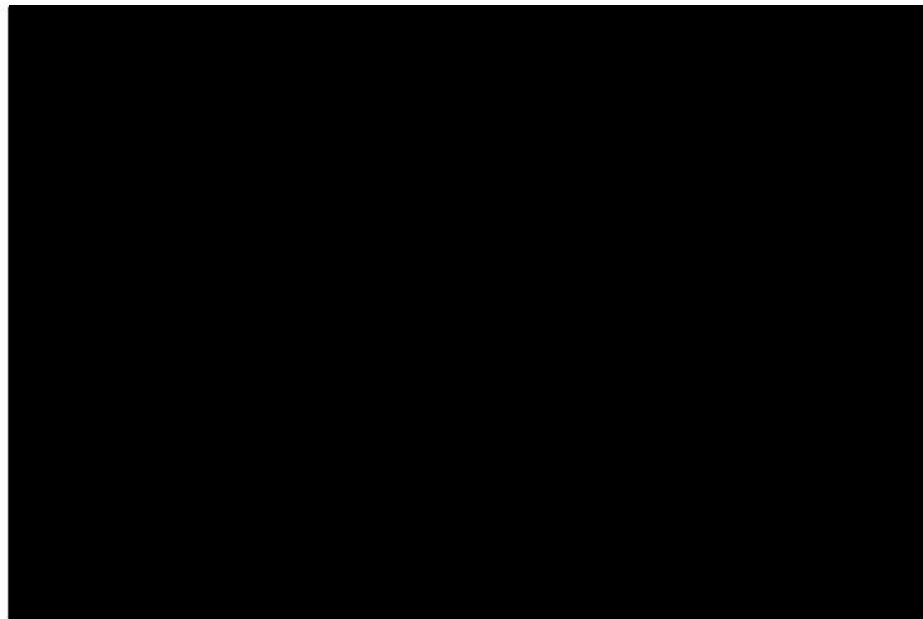
128. An example of Murray Goulburn being able to leverage its customer relationships to develop value is Murray Goulburn's relationship with one of its strategic US customers. Murray Goulburn initially supplied this company with caseinate (a base commodity product). Murray Goulburn was then able to leverage its existing relationship with this customer to offer milk protein concentrate, which is a higher value equivalent product with improved solubility characteristics. The customer has now come back to Murray Goulburn and asked it to develop a new highly customised product with high solubility to replace the milk protein concentrate, for export sale.
129. Quantitatively, the benefit of moving customers up the value chain is significant and can be measured in terms of the premiums achieved above commodity prices. By way of example:

(a)

(b)

(c)

(d)



Achievement of these premiums has a significant effect on the profitability of Murray Goulburn's Ingredients portfolio, and increasing the proportion of the merged entity's business in premium achieving product categories is a significant strategic objective.

130. As can be seen from the tables 1 and 2 at paragraph 20, Murray Goulburn has been [REDACTED]

[REDACTED]

In the 2011 financial year, volumes of value add and specialty Ingredients constituted approximately [REDACTED] of Murray Goulburn's Ingredients portfolio. In the 2013 financial year, this increased to [REDACTED] Increasing the proportion of its ingredients in higher value categories assists Murray Goulburn in achieving premiums above GDT prices, see paragraph 123 above.

131. Furthermore, as a significant global exporter with scale operations, Murray Goulburn is best placed to take volume share from Fonterra. Murray Goulburn is able to leverage customer relationships in a more innovative and flexible manner than Fonterra is currently displaying. Customers have demonstrated a willingness to pay a premium for products sourced from Murray Goulburn, rather than Fonterra.

[REDACTED]

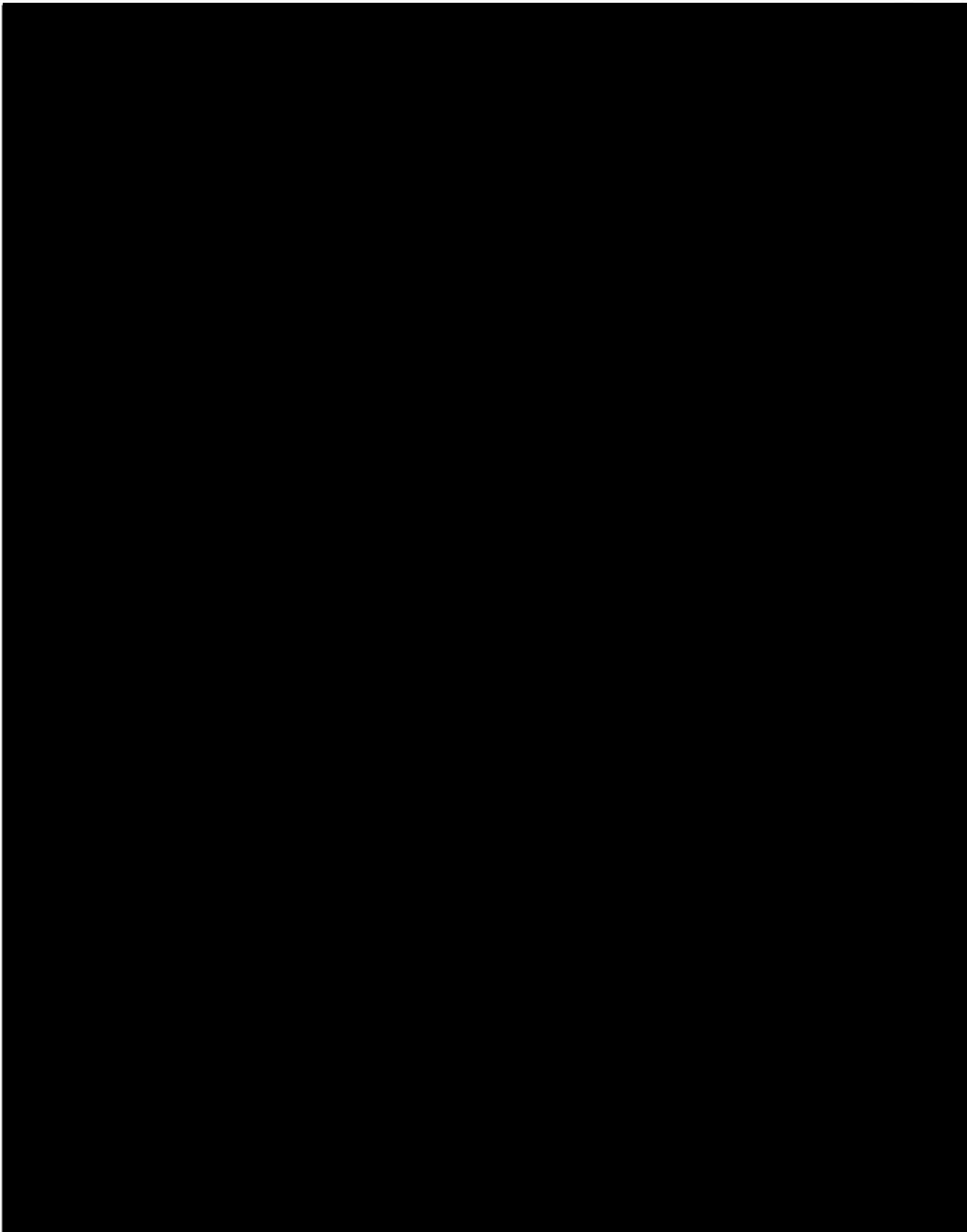
8.3 Murray Goulburn's acquisition of WCB will increase the value of Australia's exports through increasing exports of Nutritional products

132. As stated at paragraph 110 above, Murray Goulburn has seen dramatic growth in the Nutritionals market and it anticipates that this growth will continue into the future. Murray Goulburn projects it will [REDACTED]

[REDACTED]

133.

[REDACTED]



134.

135. If Murray Goulburn acquired WCB,



²² Murray Goulburn internal data from finance group, plus Ingredients forecast from 15 November.

A handwritten signature in blue ink, appearing to read "W. Goulburn", is located in the bottom right corner of the page.

136. Murray Goulburn's previous experience is one factor that will allow the merged entity to take advantage of the growth in the Nutritionals market. Murray Goulburn's current position advantages the merged entity over other entrants because it has existing relationships with 3 large Nutritionals customers in separate segments of the Nutritionals market. Murray Goulburn's also benefits from the know-how, technical expertise and intellectual property that it has developed in relation to Nutritionals production.
137. Additional to this, the merged entity will have the scale to invest in efficient manufacturing infrastructure as well as the volume or raw milk input to keep up with customer demand.
138. The factors listed in the above 2 paragraphs mean that the merged entity is uniquely capable of taking advantage of Nutritionals growth opportunities whilst also maintaining depth and breadth in its Ingredients portfolio, such as to allow it to manage volatility risks.
139. The public benefits associated with Murray Goulburn's lactoferrin business are discussed in Exhibit MB2.

8.4 Australia has a limited window of opportunity to take advantage of growth in international markets

140. As discussed at paragraphs 82 to 84, consolidated dairy manufacturers from Asia and other parts of the world are increasing production to meet global dairy demand. As a result, there is a limited opportunity for the Australian dairy industry to take advantage of the current growth. The benefits of which are substantial, if Australia is able to achieve the same production growth as New Zealand between 2002 and 2012 (3.5% per annum), Australia will be able to approximately double the value of its exports by 2030. Murray Goulburn, as Australia's largest exporter, is uniquely placed to take advantage of this limited window of opportunity.
141. However, if Australia is unable to increase its milk production it risks losing relevancy on the international market. If milk production continues to decline at the same rate as was seen from 2002 to 2012, then Australia will be a net importer of dairy products by 2030. Furthermore, the Australian dairy industry will have a reduced ability to take advantage of growth in dairy markets in the future. This is because the industry will not be subject to the technological and efficiency developments that arise from competition in international markets. An example of a technological development being driven by Murray Goulburn having a strong presence on the international market is discussed at paragraph 128.



8.5 Increases to the value of exports translates into higher Farm-gate Prices

142. For the reasons discussed above, the acquisition of WCB will assist Murray Goulburn in leveraging its customer relationships to offer higher value products as well as allowing Murray Goulburn to fully take advantage of growth in the Nutritionals sector. These strategies reduce Murray Goulburn's exposure to the price volatility in base commodity markets and increase the value that is obtained from each litre of milk that Murray Goulburn processes. Given Murray Goulburn's cooperative structure, these factors directly translate into a higher Farm-gate Price. This is a direct benefit to Murray Goulburn's suppliers and has a benefit to the Australian dairy industry as a whole.

9 **Operation of WCB as a stand-alone entity**

143. If WCB continue to trade as a stand-alone entity, its Ingredients business is likely to continue in the manner described in section 6.6 and paragraph 115 above.
144. Although WCB's Allansford plant could be relatively easily equipped to produce Nutritionals, WCB does not have the current technical capacity, intellectual property, know-how or the customer relationships to expand into the Nutritionals market.
145. WCB has recently invested, through partnerships, in the development of specific specialty ingredients, such as lactoferrin and Veninal GOS. This strategy relies on the customers of other companies to sell the products to create the required pull through. This demonstrates that, compared with Murray Goulburn, WCB currently lacks the strong customer pull through and plant capabilities to operate as a successful Nutritional producer and supplier. As a stand-alone entity I do not anticipate that WCB will be fully able to capitalise on the Nutritionals opportunities emerging in the Asian markets.
146. In terms of contrasting the public benefits achieved from Murray Goulburn's acquisition of WCB, compared to WCB as a stand-alone entity, the public benefits achieved through the consolidation of the dairy industry and discussed at sections 8.1 to 8.3 will not be realised. The Australian dairy industry will continue to be fragmented, which may hinder the development of milk growth as well as prevent the investment necessary to take advantage of the dairy opportunities in Asia.



10 Operation of Saputo/WCB entity

147. In terms of public benefits, the operation of WCB as a subsidiary of Saputo is likely to display many of the characteristics of WCB as a stand-alone entity, as discussed in section 9 above.
148. The fragmentation of the dairy industry will be exacerbated by the high percentage of foreign ownership in the industry. Ownership of WCB by Saputo will mean that the share of the Australian dairy industry owned by foreign entities will be approximately 48%. One of the detriments of having a large proportion of the Australian manufacturing market being owned by several globally integrated companies is that it could prevent the consolidation that is required to generate milk growth and efficiency in the industry. If WCB is acquired by Saputo, there will be few options for further industry consolidation. Furthermore, if WCB was to be acquired by Saputo, it would likely repeat the experience of other foreign owned dairy operations in Australia (Lion, Fonterra Australia and Lactalis), who have failed to develop any meaningful export market for Australian produced dairy products.
149. There will be very few synergies achieved in the Ingredients market by Saputo acquiring WCB. One possible synergy is that Saputo may be able to supplement its current whey product offering into Asia with whey products produced at WCB's plant. Saputo is not currently producing Nutritional products, which could create synergies with WCB's operations. Furthermore, it does not have the large client relationships or Nutritionals reputation in Asia that could be leveraged to underwrite the development of Nutritional products.

11 Operation of Bega/WCB entity

150. Bega has Nutritionals capabilities and it may be capable of converting the WCB plant facilities to increase its supply of Nutritional products onto the export market.
151. However, Bega does not have the relevant experience or client base in export markets when compared to Murray Goulburn. As a result of this it will not be able to achieve the same international competitiveness advantages from the acquisition of WCB. In particular, the acquisition of WCB will not create the scale efficiencies that will allow it to compete with Fonterra, or other potential entrants from Europe.



152. Bega also lacks the product range to fully service large customers on international markets, so will be unable to compete with Fonterra and Murray Goulburn in terms of product range and innovative product offerings.
153. Furthermore, many of the public benefits that will result from having a significant Australian exporter will not be realised.

SIGNED by



Maldwyn Beniston

on 28 November 2013

1 Glossary of terms used in this statement

Term	Meaning
Farm-gate Price	The milk price that is paid to farmers by Murray Goulburn on a per litre basis.
FCMP	Full cream milk powder
GDT	Global Dairy Trade
GOS	Oligosaccharides
GUMP	Growing up milk powder
Ingredients	Processed milk products that are sold in bulk (minimum 25kg units) in business to business transactions. These milk products will usually be sold to food manufacturing businesses where the product is used as an input in the food manufacturing process.
Murray Goulburn	Murray Goulburn Co-operative Co Limited
Nutritionals	A subset of the ingredients portfolio. Nutritionals are blended powder products that are made to customer specification and includes infant formulas or growing up milk powders.
SKM	Skim milk powder
WCB	Warrnambool Cheese and Butter Factory Company Holdings Limited

