# Annual Report 2016

Warrnambool Cheese and Butter Factory
Company Holdings Limited

WARRNAMBOOL
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CHEESE & BUTTER

# Annual Report 2016

# President & COO Report

FY2016 has seen returns fall from the previous year due to significant decreases in global international commodity prices, and a high raw milk cost relative to market conditions, with WCB delivering an EBITDA (earnings before interest, tax, depreciation and amortisation) of $24.8 million, a $32.3 million or 56.6% decrease on the FY2015 nine months.

The impact of declining commodity prices was partially offset by the company taking advantage of its operational and product mix flexibility, the depreciating Australian dollar, the benefit of recent investments in strategic projects and the benefits from its business-wide Continuous Improvement Program.

On May 25, 2015 the company completed the acquisition of the everyday cheese business of Lion-Dairy & Drinks Pty Ltd. The acquired business is now fully integrated and has allowed WCB to increase its presence in the consumer branded everyday cheese products segment in Australia and reduce its exposure to international market fluctuations.

The new management structure that was put in place at the beginning of FY2016 is fully integrated and well positioned to take the business to the next level.

During the year WCB continued its integration into the Saputo group, with the realisation of business synergies along with the support of Saputo management to accelerate growth in the Australian and international markets. Saputo intends to continue making investments and expanding WCB's capacity and capabilities and encouraging growth in milk production among WCB's supply group.

**Kai Bockmann**
President & Chief Operating Officer

# Review and Results of Operations

### Financial Summary

Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB or the "Company") draws milk from some of the most productive dairying regions in the country, including southwest Victoria, southeast South Australia and the Fleurieu Peninsula.

The Company produces, markets and distributes in Australia and on the international market a variety of high quality cheeses, butter and butter blends, milk and cream. These products are sold under various brand names such as COON, Cracker Barrel[1], Mil Lel, Fred Walker, Sungold, Warrnambool and Great Ocean Road. The Company also produces, markets and distributes dairy ingredients, including milk powders, whey protein concentrates and lactoferrin.

FY2016 results are based on the twelve months to 31 March 2016 versus the nine months to 31 March 2015 as the Company aligned its financial year end with Saputo Inc. in FY2015.

- Total revenue $653.1 million, up $198.9 million or 43.8% versus FY2015 $454.2 million.
- A net profit after tax of $4.2 million, a decrease of $30.1 million or 87.8% compared to FY2015 $34.3 million.
- Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) decreased by $32.3 million or 56.6% to $24.8 million compared to $57.1 million in FY2015.

### Business Highlights

On 25 May 2015, WCB announced that it had acquired the everyday cheese business of Lion-Dairy & Drinks Pty Ltd, for a total cash consideration of $137.5 million, subject to closing adjustments, which are yet to be finalised. The everyday cheese business operations include cutting and wrapping, distribution, sales & marketing and intellectual property associated with the COON, Cracker Barrel[1], Mil Lel and Fred Walker brands. The everyday cheese business generates annual sales of approximately $160 million and employs approximately 170 people. The cut and wrap operations of the everyday cheese business are located in a building owned by the Company which is adjacent to the Company's cheese manufacturing facility at Allansford. Acquisition costs of $2.1 million were incurred during FY2016.

Global international dairy commodity pricing has continued to decline over FY2016, decreasing returns across all WCB exported products. Growth in global milk supply, without a commensurate increase in demand, has undermined global international commodity pricing.

The Australian dollar depreciated against the US dollar by an average of approximately 12 cents in FY2016. With the majority of WCB exports being in US dollars the AUD depreciation provided a revenue benefit which has partially offset the decline in commodity pricing.

Australian 2015–16 farmgate milk pricing has been impacted by the declining commodity pricing with current milk price expectations approximately 8.1% down on last year.

The Great Ocean Ingredients (GOI) and Warrnambool Cheese and Butter Japan (WCBJ) joint ventures contribution fell by $0.3 million or 4.2%.

### Returns to Shareholders

WCB's reduced profit outcome in FY2016 is reflected in reduced shareholder returns. Return on equity was 1.8% in FY2016 (FY2015: 15.7%).

Earnings per share also reflected the reduction in overall earnings and decreased to 7.5 cents (FY2015: 61.2).

### Balance Sheet and Cash Flow

WCB has increased its overall debt position due to reduced cash flow from operations, and an increase in borrowings through bank term loan facilities used to acquire the everyday cheese business of Lion-Dairy & Drinks Pty Ltd.

Gearing based on total debt over total debt plus equity has increased to 48.0% from 17.6% in the prior year.

### Manufacturing

WCB's focus on continuous improvement includes the optimisation of plant processes, increasing yields and reduction in operating costs, wastage and downtime. A number of operational initiatives were realised in FY2016 resulting in more efficient processes, as well as reduced operational costs.

### Sales Marketing and Innovation

Demand from traditional markets remained strong however this could not compensate for the increased supply in the market which destabilised overall international pricing. Taking full advantage of its operational flexibility the Company maximised its returns through the optimisation of its product mix and the targeting of its higher margin markets.

### Great Ocean Ingredients joint venture

Great Ocean Ingredients Pty Ltd (GOI) owns and operates a Vivinal GOS (galacto-oligosaccharides) manufacturing plant at the Allansford site. Vivinal GOS is sold worldwide to leading infant nutrition providers. GOI realised the benefits of plant operating efficiencies and a lower exchange rate during FY2016.

### WCB Japan joint venture

The Warrnambool Cheese and Butter Japan Company Limited (WCBJ) joint venture has been successful in expanding business through new and existing customers which has helped to partially offset the impact of reduced commodity prices. Expanding the WCB range of products available for Japan complemented and enhanced 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.

### Outlook For FY2017

For FY2017, international dairy prices are expected to remain weak, with global milk production remaining high and a limited change in demand. Raw milk cost is expected to be more closely aligned with market conditions for the coming 2016-17 milk season. The Australian dollar is currently lower than the FY2016 average but remains volatile.

The company intends to continue to improve its efficiencies, while remaining committed to producing quality products, innovation and growth, and will aim to maximise its operational flexibility to mitigate fluctuations in market conditions.

### Dividend

No final dividend was declared for FY2016 and the Board does not intend to declare any as the Directors have decided to retain cash to deleverage its balance sheet and for investment into the business for growth, investment and development.

1. Trademark used under licence

# Executive Team

**Kai Bockmann**
***President & Chief Operating Officer***
*B Bus Admin, B Arts Comm, MBA*

Mr Bockmann assumed the most senior role in the Company with the title of President & Chief Operating Officer on 1 April 2015. Mr Bockmann has been with Saputo Inc. in his current function since January 2012. He holds over 15 years of international experience within the food industry. He has held several senior management positions in production, sales and marketing and has worked in Canada, the USA, China, India, as well as in Latin America. Mr Bockmann has taken on the role with the Company as part of his responsibilities as President and Chief Operating Officer of Saputo Inc.'s International Sector. He is currently a Director of Great Ocean Ingredients Pty Ltd and Warrnambool Cheese and Butter Japan Company Limited.

**William Hannah**
***Chief Financial Officer***
*B Com, MBA, FCPA, FCSA, FCIS, GAICD*

Mr Hannah was 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 was an employee of WCB since 1998. Mr Hannah had over 40 years of ASX-listed company experience in senior financial, secretarial and commercial management positions. Mr Hannah retired on 1 July 2015.

**Paul Moloney**
***Vice President Finance & Administration, Chief Financial Officer and Company Secretary***
*B Bus, CPA*

Mr Moloney was appointed Vice President Finance & Administration and Chief Financial Officer in addition to his Company Secretary role on 1 July 2015. He 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 and 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 has more than 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.

**Richard Wallace**
***Senior Vice President & General Manager***
*Dip Dairy Technology, MBA*

Mr Wallace was appointed Senior Vice President & General Manager of the company in January 2015. He has spent 27 years in the dairy industry, 19 of which at WCB. Prior to his current position Mr Wallace held the position of General Manager Operations for 8 years. He is currently a Director of Great Ocean Ingredients Pty Ltd.

# 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. The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2016 corporate governance statement is dated 31 March 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. This 2016 corporate governance statement was approved by the Board on 25 May 2016. A description of the Company's current corporate governance practices, including disclosure on compliance or otherwise with Corporate Governance Principles, is set out below.

**Board Constitution**

A new constitution was adopted at the May 2014 general meeting of the Company to enable a restructure of the Company's Board following Saputo Dairy Australia Pty Ltd gaining control of the Company on 21 January 2014. This constitution provides for a minimum of five Directors. The Board as at 31 March 2016 consisted of five Directors: Louis-Philippe Carrière, Neville Fielke, Lino A. Saputo, Jr., Terence Richardson and Bruce Vallance. Dino Dello Sbarba is an Associate Director. Details of the Directors' experience, expertise, qualifications, term of office and relationships affecting their independence are set out in the Directors' Report on page 12.

The Board determined that the Directors who represent controlling shareholder Saputo Dairy Australia Pty Ltd, Louis-Philippe Carrière and Lino A. Saputo, Jr., could not be regarded as "independent" within the meaning of the ASX Governance Council Guidelines (the Guidelines) having regard to their senior executive positions with Saputo Inc., parent company of Saputo Dairy Australia Pty Ltd.

The Board determined that Directors Terence Richardson and Bruce Vallance who supply milk to the Company – even though the milk supply contracts with those 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 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 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. Different individuals exercise the role of Chairman and CEO. The Board Chairman, Mr Saputo, Jr., is one of the Directors defined by the Board not to be "independent". From 1 April 2015 the title of the Company's most senior role is President & Chief Operating Officer (COO).

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 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 President & COO.

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 establish board committees whose function 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**

Under its charter, the Audit & Risk Committee reviews the appropriateness of the Company's accounting systems, procedures and controls, and ensures 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 current committee members are Neville Fielke (Chairman), Louis-Philippe Carrière, Lino A. Saputo, Jr., Terence Richardson and Bruce Vallance, with assistance from Associate Director Dino Dello Sbarba.

The Board through the Audit & Risk Committee appoints external auditors who clearly demonstrate quality and independence. Following the resignation of Coffey Hunt, Deloitte Touche Tohmatsu were appointed the Company's auditor at the 2015 Annual General Meeting. It is Deloitte Touche Tohmatsu's policy to rotate audit engagement partners at least every five years unless the Board approves the extension of an audit partner's involvement in the audit for a further two years.

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 Fielke, an independent member of the Board, chairs the committee with members shown above. Mr Fielke has had commercial, strategic, sales and marketing experience and has previously held senior executive, including CEO, employment positions. Other members of the committee have commercial, finance and accounting experience as set out in their profiles. The Company's auditors, Deloitte Touche Tohmatsu, 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 of senior executives, non-executive and executive directors; board and executive remuneration matters; executive succession planning; development and implementation of programs for director training and education; and evaluation and monitoring of the Board's performance. The current committee members are Neville Fielke (Chairman), Louis-Philippe Carrière, Lino A. Saputo, Jr., Terence Richardson and Bruce Vallance, with assistance from Associate Director Dino Dello Sbarba. Having regard to the adopted definition of "independent", the majority of the committee are not independent.

### Supplier Relations & Pricing Policy Committee

The purpose and charter of this committee is to recommend the payment systems, productivity amounts and incentives for milk payments; to 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 industry 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 stakeholders as appropriate. The Board determines the milk price upon recommendations from management. The current committee members are Bruce Vallance (Chairman), Neville Fielke and Terence Richardson. 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 an annual 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 Board reviewed its and its committees' performance in March 2016.

Senior management's performance is formally reviewed by the President & COO as part of an annual performance and remuneration review process. The review process takes place in March each year. The performance of the President & COO is reviewed annually by the Chairman and by the Board in a non-executive session. The President & COO's performance was last reviewed in March 2016.

### Director and Executive Remuneration

Details of director and executive remuneration are stated in the Remuneration Report following this section. Remuneration via consultancy fees for former Associate Director John McLean is $120,550 per year.

### 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's business. This has been recognised by the establishment of the Supplier Advisory Forum and by donations to community projects and clubs. Formal recognition of these interests is contained in the Corporate Social Responsibility Policy.

### Rights of Shareholders

The President & COO is responsible for implementing the communications strategy. The process is assisted by a website to improve shareholder communication and to make public various Company publications in an electronic format. Shareholder communications are also enhanced by the presence of the auditors at the Annual General Meeting (AGM) 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's financial reporting system. The President & COO 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 *Corporations Act 2001* (Cwlth) 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 President & COO, in consultation with the Board where appropriate or necessary, is responsible for deciding if information should be disclosed to the ASX.

The announcements made to the ASX to date are available on the ASX website.

### Risk Management

The Company, through the executive team and the Audit & Risk Committee, continually reviews its risk profile. The Company has implemented an Internal Risk Review program to identify and manage risks. 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. The Audit & Risk Committee reviewed the Company's risk management framework and risk profile in May 2016.

### Ethical Decision Making

The Board has taken steps to promote ethical and responsible decision making within the Company. The Board has adopted a Code of Conduct applicable to both Directors and senior executives. The Board has also implemented a general Code of Ethics for employees. The Codes cover 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 and corruption control policies.

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 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 Paul Moloney who has held that position since December 2011. Mr Moloney holds a Bachelor of Business and is a qualified member of the Certified Practicing 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.

# Corporate Governance Report

**Diversity Issues**

WCB's Diversity Policy, adopted in 2011, continues to support a culture of attracting, retaining and developing a diverse range of talent. The principles of the Policy also support the Company's Equal Employment Opportunity (EEO) Policy. In August 2013, a Diversity Council was established with the charter to promote diversity within WCB through enhancing awareness of diversity and inclusion concerns, raising critical diversity issues and providing guidance on policies and programs to address diversity issues. WCB's 2015 annual mandatory EEO training, with a "Workplace Behaviours" theme, was successfully rolled out, in conjunction with company's Workplace Respect Policy, across the business in interactive workshops.

The proportion of women in WCB's workforce has increased to 29% with 47% of new hires for the year being female. The WCB Parental Leave Policy continues to support females returning from maternity leave with flexible work options.

Diversity objectives include ongoing recruitment training to reinforce merit based recruitment processes, leadership and talent development with a focus on developing women into leadership roles, and continuing review of WCB workforce metrics to identify diversity factors that impact on the business.

**Compliance with Corporate Governance Principles and Recommendations**

| No. | Principle/Recommendation | WCB Response |
|---|---|---|
| **PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT** | | |
| 1.1 | A listed entity should disclose:<br>(a) the respective roles and responsibilities of its board and management; and<br>(b) those matters expressly 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 | A listed entity should:<br>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and<br>(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. | (a) When seeking candidates for Board positions the Company may engage the services of external recruitment firms with significant experience in the recruitment of company directors<br>(b) Security holders are provided with a summary on each candidates experience as part of the Notice of Meeting |
| 1.3 | A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | Each director on joining the Board receives a letter of appointment detailing the terms and conditions of their appointment. Each executive has an employment agreement setting out the terms of their appointment, except President & COO Kai Bockmann who is employed by Saputo Inc. (see the Remuneration Report in this Annual Report). |
| 1.4 | The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | Complies |
| 1.5 | A listed entity should:<br>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;<br>(b) disclose that policy or a summary of it; and<br>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:<br>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or<br>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. | (a) The Company has measurable objectives in place, however it monitors rather than measures progress against those objectives<br>(b) Generally complies, see this report<br>(c) See (a) above<br>(2) A copy of the 2014–15 public report submitted to the Workplace Gender Equality Agency can be found on the Company's website at www.wcbf.com.au |
| 1.6 | A listed entity should:<br>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and<br>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | (a) Complies, see this report<br>(b) Complies, see this report |
| 1.7 | A listed entity should:<br>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and<br>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | (a) Complies, see this report<br>(b) Complies, see this report |

| No. | Principle/Recommendation | WCB Response |
|---|---|---|
| **PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE** | | |
| 2.1 | The board of a listed entity should:<br>(a) have a nomination committee which:<br>(1) has at least three members, a majority of whom are independent directors; and<br>(2) is chaired by an independent director,<br>and disclose:<br>(3) the charter of the committee;<br>(4) the members of the committee; and<br>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR<br>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. | (a) Generally complies, see this report<br>(5) Complies, see page 20 of this Annual Report |
| 2.2 | A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership. | On achieving majority ownership of WCB, Saputo Inc. reviewed the mix, skills and diversity requirements of the Board and put forward to security holders candidates to meet those requirements. All nominated candidates were elected. |
| 2.3 | A listed entity should disclose:<br>(a) the names of the directors considered by the board to be independent directors;<br>(b) if a director has an interest, position, association or relationship of the type described in of the Corporate Governance Principles and Recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and<br>(c) the length of service of each director. | (a) Complies, see this report<br>(b) Complies, see this report<br>(c) Complies, see page 12 of this Annual Report |
| 2.4 | A majority of the board of a listed entity should be independent directors. | Does not comply.<br>Independent directors are not in the majority as four of the five directors are not considered independent. With two directors representing controlling shareholder Saputo Dairy Australia Pty Ltd and two directors supplying milk to the Company |
| 2.5 | The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | Does not comply.<br>Representative Director for Saputo Dairy Australia Pty Ltd, the controlling shareholder, Lino A. Saputo, Jr., is the chairperson |
| 2.6 | A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively. | The Company has an induction process for new directors, including providing a comprehensive Director's Manual. Professional development opportunities are provided. |

# Corporate Governance Report

| No. | Principle/Recommendation | WCB Response |
|---|---|---|
| **PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY** | | |
| 3.1 | A listed entity should:<br>(a) have a code of conduct for its directors, senior executives and employees; and<br>(b) disclose that code or a summary of it. | (a) Complies, see this report<br>(b) Complies, see this report |
| **PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING** | | |
| 4.1 | The board of a listed entity should:<br>(a) have an audit committee which:<br>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and<br>(2) is chaired by an independent director, who is not the chair of the board,<br>and disclose:<br>(3) the charter of the committee;<br>(4) the relevant qualifications and experience of the members of the committee; and<br>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR<br>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. | (a) Generally complies, see this report<br>(4) Complies, see page 12 of this Annual Report<br>(5) Complies, see page 20 of this Annual Report |
| 4.2 | The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. | Complies, see this report |
| 4.3 | A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | Complies, see this report |
| **PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE** | | |
| 5.1 | A listed entity should:<br>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and<br>(b) disclose that policy or a summary of it. | (a) Complies, see this report<br>(b) Complies, see this report |
| **PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS** | | |
| 6.1 | A listed entity should provide information about itself and its governance to investors via its website. | Complies, see www.wcbf.com.au |
| 6.2 | A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors. | Complies, see this report |
| 6.3 | A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. | Complies |
| 6.4 | A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically. | Complies |

| No. | Principle/Recommendation | WCB Response |
|---|---|---|
| **PRINCIPLE 7 – RECOGNISE AND MANAGE RISK** | | |
| 7.1 | The board of a listed entity should:<br>(a) have a committee or committees to oversee risk, each of which:<br>(1) has at least three members, a majority of whom are independent directors; and<br>(2) is chaired by an independent director,<br>and disclose:<br>(3) the charter of the committee;<br>(4) the members of the committee; and<br>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR<br>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework. | (a) Generally complies, see this report<br>(5) Complies, see page 20 of this Annual Report |
| 7.2 | The board or a committee of the board should:<br>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and<br>(b) disclose, in relation to each reporting period, whether such a review has taken place. | (a) Complies, see this report<br>(b) Complies, see this report |
| 7.3 | A listed entity should disclose:<br>(a) if it has an internal audit function, how the function is structured and what role it performs; OR<br>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | (a) Complies. The internal audit function is managed by the internal audit group of Saputo Inc. |
| 7.4 | A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. | Complies, see the Directors Statutory Report in this Annual Report |
| **PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY** | | |
| 8.1 | The board of a listed entity should:<br>(a) have a remuneration committee which:<br>(1) has at least three members, a majority of whom are independent directors; and<br>(2) is chaired by an independent director,<br>and disclose:<br>(3) the charter of the committee;<br>(4) the members of the committee; and<br>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR<br>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. | (a) Generally complies, see this report<br>(5) Complies, see page 20 of this Annual Report |
| 8.2 | A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives. | Complies, see the Remuneration Report in this Annual Report |
| 8.3 | A listed entity which has an equity-based remuneration scheme should:<br>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and<br>(b) disclose that policy or a summary of it. | The company does not have an equity based remuneration scheme. |

# Directors

*The names and details of the Directors of the Company in office at the end of the financial year and during the whole of the financial year, and until the date of this report are as follows:*

### Lino A. Saputo, Jr.

**Formal Qualifications:** B Arts (political science)

**Position:** Non-Executive Director and Chairman

**Experience & Expertise:** Non-Executive Director and Chairman from 9 May 2014. Joined Saputo Inc. in 1988 as Administrative Assistant. Saputo is one of the top ten dairy processors in the world. In 1993, he was named Vice President, Operations and Engineering, and in 1998, Executive Vice President, Operations. In 2001, he became President and Chief Operating Officer of the Cheese Division (USA). In 2004, he was appointed to the position of President and Chief Executive Officer and in 2011, he was elected to the position of Vice Chairman of the Board of Saputo Inc.

**Other Current Directorships:** Saputo Inc., Transcontinental Inc. and National Bank of Canada

**Former Directorships in the last 3 years:** none

**Special Responsibilities:** Member of Audit & Risk and Nominations & Remuneration Committees

**Interests in Shares:** Mr Saputo, Jr. is the Chief Executive Officer and Vice Chairman of the board of directors of Saputo Inc., which has a relevant interest in 49,321,980 shares (87.92%) of the Company. In addition, he has a personal interest in Jolina Capital Inc., the principal shareholder of Saputo Inc.

### Louis-Philippe Carrière

**Formal Qualifications:** B Man, CPA certification from the Order of Professional Chartered Accountants of Québec, FCPA, FCA, Fellow of the Order of Professional Chartered Accountants of Quebec

**Position:** Non-Executive Director

**Experience & Expertise:** Non-Executive Director from 9 May 2014. Joined Saputo Inc. as Supervisor of Accounting in 1986. Saputo is one of the top ten dairy processors in the world. In 1988, he was named Director of Accounting and, in 1996, assumed the responsibilities of Corporate Controller. Within a year, he was named Vice President, Finance and Administration. He acted as Executive Vice President, Finance and Administration of Saputo Inc. from 1998 to 2015, when his title was changed to Chief Financial Officer.

**Other Current Directorships:** none

**Former Directorships in the last 3 years:** none

**Special Responsibilities:** Member of Audit & Risk and Nominations & Remuneration Committees

**Interests in Shares:** Mr Carrière is the Chief Financial Officer of Saputo Inc. which has a relevant interest in 49,321,980 shares (87.92%) of the Company.

### Neville Fielke

**Formal Qualifications:** B Econ, FAICD, FAMI

**Position:** Independent Non-Executive Director

**Experience & Expertise:** Independent Non-Executive Director from 28 August 2013. He has held a number of senior executive positions in sales, marketing and strategy over 20 years to 2007 at H J Heinz group companies, Fosters Group Limited and Mars group companies, including seven years as CEO and Managing Director of H J Heinz Australia Ltd which extended to Watties in New Zealand and Heinz Japan during this period. He was also CEO and Managing Director of Racing Victoria Ltd 2001–2003. Since 2007, he has been involved in corporate advisory as a director of Falcon Corporate Advisory Pty Ltd which specialises in merger and acquisition transactions and growth consulting through Growth Solutions Group Pty Ltd

**Other Current Directorships:** Falcon Corporate Advisory Pty Ltd

**Former Directorships in the last 3 years:** none

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

**Interests in Shares:** none

### Terence Richardson

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

**Position:** Non-Executive Director

**Experience & Expertise:** Director from 2007, Chairman from August 2013 to May 2014 and dairy farmer for 36 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:** Australian Dairy Farmers Ltd and Australian Dairy Industry Council

**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:** none

### Bruce Vallance

**Formal Qualifications:** Dip App Sci (Ag), GAICD

**Position:** Non-Executive Director

**Experience & Expertise:** Associate Director from 2006 to 2009, Director from May 2009 and dairy farmer for 26 years

**Other Current Directorships:** none

**Former Directorships in the last 3 years:** none

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

**Interests in Shares:** none

# 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 ("WCB" or the "Group") at the end of and during the year ended 31 March 2016.

**Principal Activities**

The principal activities of WCB during the course of the financial year were the manufacture, processing and sale of cheese, milk powder, butter and butter blends, cream, whey protein concentrate, lactoferrin, and bulk and processed milk. The acquisition of the everyday cheese business of Lion-Dairy & Drinks Pty Ltd on 25 May, 2015 was the only change in those activities in the 2016 financial year. The everyday cheese business operations include cutting and wrapping, distribution, sales & marketing and intellectual property associated with the COON, Cracker Barrel[1], Mil Lel and Fred Walker brands. The everyday cheese business generates annual sales of approximately $160 million and employs approximately 170 people. The cut and wrap operations of the everyday cheese business are located in a building owned by the Company which is adjacent to the Company's cheese manufacturing facility at Allansford.

**Results**

The net profit after tax attributable to members of Warrnambool Cheese and Butter Factory Company Holdings Limited is $4.2 million.

**Directors' Benefits**

No Director of the Company, since the end of the 2015 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 farm investment partnership advance of $24,374 which is due to be repaid in full by 12 September 2016. The advance was provided on an identical basis to other non-director suppliers.

(v) in respect of Mr Vallance, has interest-free feed/fertiliser advances, across two farms, of $118,002 which are due to be repaid in full by 12 December 2016. The advances were 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 2016 financial year not otherwise disclosed in this report.

**Events Subsequent to Balance Date and up to the Date of This Report**

Other than that disclosed above and 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 Operations Review.

**Future Developments and Results**

The Company and its subsidiaries will continue to pursue their 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 intends to take advantage of opportunities arising from this process.

The Company will continue to develop its business strategies of accelerating growth in the Australian and international markets and investing to expand the Company's capacity and capabilities.

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

1. Trademark used under licence

# Directors' Statutory and Remuneration Report

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, Allansford and Mil Lel 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.

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 audited annually 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 2016 financial year.

**Dividends Paid**

No interim or final dividend for the year ending 31 March 2016 was declared.

**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 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**

Deloitte Touche Tohmatsu was in office for financial year 2016 in accordance with Section 327 of the Corporations Act. In the course of the 2016 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.

**Independent Auditor's Declaration**

The Company received from its auditors a declaration, a copy of which is reproduced on page 21.

**Non-audit Services Provided by Auditors**

The Group employs Deloitte Touche Tohmatsu 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 (Deloitte Touche Tohmatsu) for non-audit services provided during the year are set out below. Amounts disclosed for the 2015 financial year relate to previous auditors Coffey Hunt.

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 | |
|---|---|---|
| | **12 months to 31 March 2016 $** | 9 months to 31 March 2015 $ |
| **(a) Taxation Services** | | |
| Deloitte Touche Tohmatsu<br>Acquisition related tax services | 19,490 | – |
| Coffey Hunt<br>Tax compliance services, including review of company tax returns | – | 5,200 |
| Total remuneration for taxation services | 19,490 | 5,200 |
| **Total remuneration for non-audit services** | 19,490 | 5,200 |

# *Remuneration Report*

The Directors of Warrnambool Cheese and Butter Factory Company Holdings Limited present the Remuneration Report prepared in accordance with Section 300A of the Corporations Act for the Company for the year ended 31 March 2016. This Remuneration Report is audited.

Remuneration amounts disclosed for the 2016 financial year reflect the twelve month period from 1 April 2015 to 31 March 2016. Remuneration amounts disclosed for the 2015 financial year reflect the nine month period from 1 July 2014 to 31 March 2015, as the Company changed its financial year end to 31 March, commencing 31 March 2015.

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 |
|---|---|
| Kai Bockmann (1) | President & Chief Operating Officer |
| William Hannah (2) | Chief Financial Officer |
| Paul Moloney (3) | Vice President Finance & Administration, Chief Financial Officer and Company Secretary |
| Richard Wallace | Senior Vice President & General Manager |

(1) Kai Bockmann was appointed President & COO, the most senior role in the Company, on 1 April 2015.
(2) William Hannah retired on 1 July 2015.
(3) Paul Moloney was appointed Vice President Finance & Administration and Chief Financial Officer in addition to his Company Secretary role on 1 July 2015.

Mr Bockmann is employed by Saputo Inc. and all other executives are employed by The Warrnambool Cheese and Butter Factory Company Limited.

### Change in Key Management Personnel

David Lord resigned as CEO, and was replaced by Kai Bockmann on 1 April 2015. Mr Bockmann assumed the most senior role in the Company with the title of President & Chief Operating Officer. Mr Bockmann assumed the most senior role in the Company as part of his function as the President & Chief Operating Officer of Saputo Inc.'s Dairy Division (International). As such, Mr Bockmann will continue to be employed by Saputo Inc. The Company has not entered into an employment, services or consulting agreement with Mr Bockmann, with the Company paying a portion of Mr Bockmann's remuneration through a Board approved management fee paid to Saputo Inc. The portion of Mr Bockmann's remuneration paid by WCB is a percentage of Mr Bockmann's total remuneration paid by Saputo Inc. corresponding to the percentage of Mr Bockmann's time allocated to WCB. The portion of Mr Bockmann's remuneration included in the management fee is subject to the same review and adjustments as the management fee (see Note 30 of the financial statements).

Following the appointment of Mr Bockmann the executive group was restructured with Richard Wallace, William Hannah and Paul Moloney reporting to Mr Bockmann,

2015 executives Anthony Cook (General Manager Milk Supply), Stephen Cook (General Manager Operations), Ross Martin (General Manager Supply Chain, ICT & Program Management Office), Bill Slater (General Manager Retail Dairy) and John Williams (General Manager Sales, Marketing & Innovation) reported to Mr Wallace from 1 April 2015 and are no longer considered Key Management Personnel of the Company requiring disclosure in the Remuneration Report. Bernard Kavanagh (General Manager Corporate Development), from 1 April 2015, reported to Mr Bockmann as President & Chief Operating Officer of Saputo Inc.'s Dairy Division (International) and as such was no longer considered a Key Management Person of the Company requiring disclosure in the Remuneration Report.

### 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 executive interests.

Alignment to stakeholder interests:

- optimises 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 incentives (STI) and long term incentives (LTI) as detailed below in Executive remuneration.

The Board and Nominations & Remuneration Committee are satisfied that the reward framework of Saputo Inc. is consistent with the reward framework in place at the Company and that the amount paid to Saputo Inc. as reimbursement for a portion of Mr Bockmann's remuneration reflects the expertise, experience and time commitment Mr Bockmann brings to the Company's most senior role of President & COO.

### Role of the Nominations & Remuneration Committee

- To determine and review remuneration arrangements for the Directors 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 stakeholder benefit from the retention of a high-performing board and executive team.

# Directors' Statutory and Remuneration Report

- To make recommendations to the Board on a periodic basis by reference to relevant market conditions on:
  - assessment of the appropriateness of the nature and amount of remuneration of executives
  - director fees.

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 2015 Annual General Meeting**

At the Company's 2015 AGM, the remuneration report was passed on a show of hands. The Company did not receive any questions on the remuneration report.

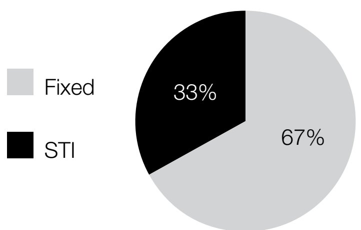
**Executive Remuneration Structure**

The President & COO's total pay is reviewed annually by the Saputo Inc. Board with reference to market-comparative data and individual performance. Disclosed in this report is the amount the Company, following Board approval, reimburses Saputo Inc. for a share of Mr Bockmann's total pay.

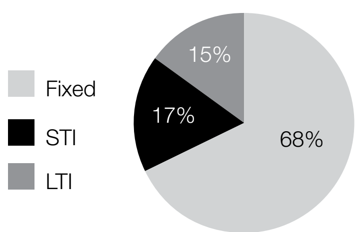
Other executives are offered a competitive total pay based upon external remuneration consultants' benchmarking reports to ensure that total pay is reflective of the respective performance requirements of the position and the market for a comparable role. Total pay is reviewed annually by the Board, on the recommendation of the Nominations & Remuneration Committee, with reference to market-comparative data, experience and performance.

Executive remuneration (total pay) is made up of fixed pay and variable pay (STIs and LTIs). For FY2016 the set mix of pay was as per below.

**President & COO Remuneration Mix**




**Other Executives Average Remuneration Mix**




**1. Fixed Pay**

Included in fixed pay are the following elements:

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

**Base salary**

Executives have 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 or Pension**

For the President & COO, the pension component is a combination of a defined benefit plan and statutory pension contributions.

For other 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. Executives, 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.

**Other**

For the President & COO amounts paid by the employer on behalf of the employee for medical and other insurances are disclosed as non-monetary benefits.

The portion of Mr Bockmann's fixed pay paid by WCB is a percentage of Mr Bockmann's fixed pay paid by Saputo Inc. corresponding to the percentage of Mr Bockmann's time allocated to WCB.

**2. Variable Pay (Incentive Scheme)**

Executives participate with a number of other senior staff in an incentive scheme. The scheme is designed to reward participants for their contribution to Company performance and shareholder returns.

STIs for FY2016 not yet paid have been accrued at 100% of eligible incentive, with the final amount payable to each executive to be paid in the first quarter of FY2017.

**(a) Short term incentives**

Pursuant to Saputo Inc.'s annual incentive (bonus) plan, the President & COO's STI is a percentage of base salary and is based on the financial performance of Saputo Inc. and the International Division of Saputo Inc. For FY2016 financial performance was based on the level of achievement of the earnings before interest, tax, depreciation, amortisation, gain on disposal of business, restructuring and other costs ("Adjusted EBITDA") as set forth in Saputo Inc.'s financial statements, realised after adjustments described below ("Market-Adjusted EBITDA") when compared to the FY2016 budgeted EBITDA approved by the Saputo Inc. Board. Market Adjusted EBITDA excludes the impact of market factors that have an effect on EBITDA, but on which the President & COO has no control.

An STI can be paid to Mr Bockmann if at least 85% of financial performance is met (STI set at 55% of base salary). At target performance, being 100% of financial performance, STI is set at 75% of base salary, with the maximum STI paid (125% of base salary) if 105% of financial performance is met or exceeded. The portion of Mr Bockmann's STI paid by WCB is a percentage of Mr Bockmann's STI paid by Saputo Inc. corresponding to the percentage of Mr Bockmann's time allocated to WCB.

For FY2016 Mr Wallace and Mr Moloney were guaranteed payment of their STI as they were transitioning into their new respective roles. Mr Wallace's STI was set at 30% of his base salary and Mr Moloney's STI was set at 25% of his base salary. Mr Hannah was not eligible to receive a STI in FY2016.

From FY2017 STI of executives other than the President & COO will be based solely on the financial performance of the Company.

**(b) Long term incentives**

From the start of FY2016 executives were eligible to participate in Saputo Inc.'s Performance Share Unit Plan (The Plan). PSU grants made from time to time by the Corporate Governance and HR Committee of Saputo Inc. pursuant to The Plan are expressed as a percentage of a participant's base salary, which percentage is determined based on the participant's position, without taking into account the number of PSUs already held by such participant.

The PSUs are granted for a cycle of 3 years ending March 31 and will vest at the end of the 3-year cycle if the following vesting criteria are met. The vesting criteria for the grant of April 1, 2015 are as follows:

(i) 33.3% of the number of PSUs granted for each fiscal year of the cycle for which the return on average shareholders' equity of Saputo Inc. ≥ 16% (the Annual Objective);

(ii) it being understood that l00% of the PSUs granted will vest if the cumulative return on average shareholders' equity of Saputo Inc. for the cycle ≥ 48% (the Cycle Objective).

The value of the PSUs that will be paid out in cash (no shares) at the end of the 3-year cycle will reflect the price of the common shares at such time and executives will receive full value for the PSUs, not only the excess over the grant date value. Executives will be entitled to receive a payment in cash only (no shares). The payment will be made after the release of the annual financial results of the Saputo Inc. in June of the year three years from the grant year.

Although Mr Bockmann receives long-term incentives from Saputo Inc., under The Plan, the Company's share of the President & COO's remuneration paid through the management fee in FY2016 does not include a LTI component.

Mr Wallace's LTI was set at 30% of his base salary and he was granted 3,246 PSUs, valued at CAD35.08 (AUD35.08) per unit on 1 April 2015 which represents the volume weighted average trading price for the Saputo Inc. shares listed on the Toronto Securities Exchange during the five trading days immediately preceding the grant date. At 31 March 2016 the PSU liability recorded by the Company for Mr Wallace's PSUs was $61,522. Mr Moloney's LTI was set at 20% of his base salary and he was granted 1,443 PSUs, valued at CAD35.08 (AUD35.08) per unit on 1 April 2015 which represents the volume weighted average trading price for the Saputo Inc. shares listed on the Toronto Securities Exchange during the five trading days immediately preceding the grant date. At 31 March 2016 the PSU liability recorded by the Company for Mr Moloney's PSUs was $27,349.

Mr Hannah was not eligible to participate in The Plan due to his impending retirement.

**3. Other**

In relation to the Company, there are no shares, share options, unissued shares or interests or rights in shares given to any executive. Each other executive is entitled to participate in the Saputo Inc. Employee Share Ownership Plan (ESOP). For FY2016, Company employees who met the eligibility criteria, were entitled to purchase up to AUD3,500 of Saputo Inc. shares via the ESOP and the Company would make a contribution up to a maximum of AUD1,388 to purchase further shares in Saputo Inc. via the ESOP.

The Company contribution, disclosed as non-monetary benefits, to purchase shares under the ESOP for each executive were Mr Bockmann $506, Mr Wallace $1,368 and Mr Moloney $1,388.

**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.

The Company has not entered into an employment, services or consulting agreement with Mr Bockmann as he is employed by Saputo Inc.

For other executives 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.

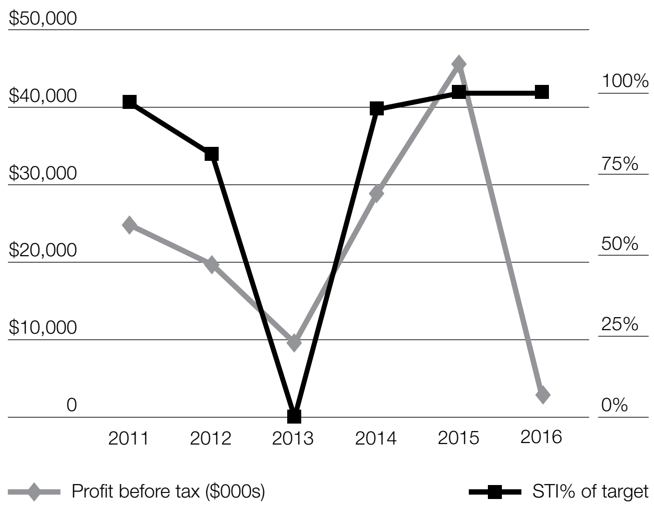
Benefits paid on redundancy are the same as for all employees, except executives who receive 12 weeks pay in lieu of notice compared with the standard four weeks for those under 45 years of age and five weeks for those over 45 years of age.

### Summary of Key Agreement Terms

| Agreement Details | William Hannah | Paul Moloney | Richard Wallace |
|---|---|---|---|
| Base salary (base) | 319,839 | 253,074 | 379,610 |
| STI % of base | 0% | 25% | 30% |
| LTI% of base | 0% | 20% | 30% |
| Notice by the Company | 68 weeks | 60 weeks | 76 weeks |
| Notice by employee | 3 months | 3 months | 3 months |

**Performance of the Company**

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



### Details of Executive Remuneration

| | Short-Term Employee Benefits | | | | Post-Employment Benefits | Long-Term Benefits | | Share-Based Payments | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Short-Term Incentives | | | | | | | | |
| 12 months ended 31 March 2016<br>Name | Cash Salary and Fees<br>$ | 2014/15 Paid 2015/16 (4)<br>$ | 2015/16 Paid 2015/16 or Payable 2016/17<br>$ | Non-Monetary Benefits<br>$ | Super-annuation<br>$ | Long-Term Incentives<br>$ | Long Service Leave<br>$ | Shares<br>$ | Termination Benefits<br>$ | TOTAL<br>$ |
| **Kai Bockmann** | **273,411** | **–** | **205,058** | **5,293** | **147,314** | **–** | **–** | **–** | **–** | **631,076** |
| **William Hannah** (1) | **79,907** | **(237)** | **–** | **1,106** | **5,513** | **–** | **–** | **–** | **–** | **86,289** |
| **Paul Moloney** | **270,258** | **(155)** | **63,269** | **1,388** | **26,815** | **27,349** | **21,809** | **–** | **–** | **410,733** |
| **Richard Wallace** | **398,717** | **2,826** | **113,883** | **1,368** | **32,749** | **61,522** | **9,479** | **–** | **–** | **620,544** |
| **TOTAL** | **1,022,293** | **2,434** | **382,210** | **9,155** | **212,391** | **88,871** | **31,288** | **–** | **–** | **1,748,642** |

| | Short-Term Employee Benefits | | | | Post-Employment Benefits | Long-Term Benefits | | Share-Based Payments | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Short-Term Incentives | | | | | | | | |
| 9 months ended 31 March 2015<br>Name | Cash Salary and Fees<br>$ | 2013/14 Paid 2014/15 (4)<br>$ | 2014/15 Payable 2015/16<br>$ | Non-Monetary Benefits<br>$ | Super-annuation<br>$ | Long-Term Incentives<br>$ | Long Service Leave<br>$ | Shares<br>$ | Termination Benefits<br>$ | TOTAL<br>$ |
| David Lord (2) | 477,995 | (12,000) | 150,000 | 2,967 | 32,000 | – | – | – | – | 650,962 |
| Anthony Cook | 198,291 | (2,994) | 38,650 | – | 19,241 | – | 7,597 | – | – | 260,785 |
| Stephen Cook (3) | 58,188 | – | 28,607 | – | 6,799 | – | 14,764 | – | – | 108,358 |
| William Hannah | 253,419 | (2,080) | 47,339 | 1,242 | 18,008 | – | 9,810 | – | – | 327,738 |
| Bernard Kavanagh | 231,731 | (1,378) | 44,116 | 4,611 | 15,367 | – | 13,362 | – | – | 307,809 |
| Ross Martin | 228,015 | (3,369) | 43,488 | – | 21,702 | – | 2,491 | – | – | 292,327 |
| Paul Moloney | 158,574 | (2,410) | 31,094 | – | 15,396 | – | 6,009 | – | – | 208,663 |
| William Slater | 191,686 | (2,872) | 35,823 | 17,525 | 18,481 | – | 4,343 | – | – | 264,986 |
| Richard Wallace | 263,498 | (3,654) | 56,942 | – | 27,961 | – | 37,228 | – | – | 381,975 |
| John Williams | 232,006 | (3,549) | 45,799 | – | 22,533 | – | 8,997 | – | – | 305,786 |
| **TOTAL** | **2,293,403** | **(34,306)** | **521,858** | **26,345** | **197,488** | **–** | **104,601** | **–** | **–** | **3,109,389** |

(1) William Hannah retired on 1 July 2015.

(2) David Lord's remuneration for FY2015 has been increased by the amount of $26,883, which was paid in FY2015 but not included in the FY2015 report.

(3) Stephen Cook was promoted to General Manager Operations on 5 January 2015.

(4) STI amounts in this column reflect the difference between the amount accrued for the previous years STI and the amount paid for that STI in the current year.

### Additional Information

For FY2015, 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 FY2016, the percentage of STI or cash bonus paid or accrued, but not yet paid, is set out below. The final FY2016 incentive payable to each executive will be determined in the first quarter of FY2017.

| | Short Term Incentive or Cash Bonus | | |
|---|---|---|---|
| | 2014/15 | | 2015/16 |
| Name | Paid<br>% | Forfeited<br>% | Paid or Accrued Not Yet Paid<br>% |
| Kai Bockmann | N/A | N/A | 100 |
| William Hannah | 100 | – | N/A |
| Paul Moloney | 100 | – | 100 |
| Richard Wallace | 100 | – | 100 |

### Non Executive Director Remuneration Policy

The total amount of director fees and committee allowances are determined by shareholders at the 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 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 two elements:

- director fees
- superannuation.

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.

Representative Directors of Saputo Dairy Australia Pty Ltd, Lino A. Saputo, Jr. and Louis-Philippe Carrière have waived their right to remuneration.

**Details of Non Executive Director Remuneration**

| | Short-Term Employee Benefits | | | Post-Employment Benefits | |
|---|---|---|---|---|---|
| **12 months ended 31 March 2016** | **Cash Salary and Fees** | **Short-Term Incentives** | **Non-Monetary Benefits** | **Superannuation** | **TOTAL** |
| **Name** | **$** | **$** | **$** | **$** | **$** |
| **Louis-Phillipe Carrière** | **–** | **–** | **–** | **–** | **–** |
| **Neville Fielke** | **73,000** | **–** | **–** | **6,935** | **79,935** |
| **Terence Richardson** | **73,000** | **–** | **–** | **6,935** | **79,935** |
| **Lino A. Saputo, Jr.** | **–** | **–** | **–** | **–** | **–** |
| **Bruce Vallance** | **73,000** | **–** | **–** | **6,935** | **79,935** |
| **TOTAL** | **219,000** | **–** | **–** | **20,805** | **239,805** |

| | Short-Term Employee Benefits | | | Post-Employment Benefits | |
|---|---|---|---|---|---|
| **9 months ended 31 March 2015** | **Cash Salary and Fees** | **Short-Term Incentives** | **Non-Monetary Benefits** | **Superannuation** | **TOTAL** |
| **Name** | **$** | **$** | **$** | **$** | **$** |
| Louis-Phillipe Carrière | – | – | – | – | – |
| Neville Fielke | 52,018 | – | – | 4,942 | 56,960 |
| Terence Richardson (1) | 52,018 | – | 2,355 | 4,942 | 59,315 |
| Lino A. Saputo, Jr. | – | – | – | – | – |
| Bruce Vallance | 52,018 | – | – | 4,942 | 56,960 |
| **TOTAL** | **156,054** | **–** | **2,355** | **14,826** | **173,235** |

(1) Non-monetary benefits received by Terence Richardson were the use of a company motor vehicle during and after the takeover period respectively. Amounts include applicable fringe benefits tax.

### Use of Remuneration Consultants

In FY2016 the Board engaged Aon Hewitt to benchmark executive remuneration. Aon Hewitt 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 Aon Hewitt to ensure that the advice was free from undue influence by KMP, including the advice from Aon Hewitt being provided directly to the Nominations & Remuneration Committee.

As a result of this approach, the Board is satisfied that the work conducted by Aon Hewitt was made free from undue influence by KMP. Aon Hewitt's fee for this work was $4,000.

### Insurance of Officers

Amounts disclosed for remuneration of Directors and other KMP exclude insurance premiums of $14,352 paid by WCB 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 also a supplier of milk to the Company as they are entitled to receive an interest-free advance to purchase feed or fertiliser or as part of the company's farm investment partnership on the same terms and conditions as available to all suppliers of milk to WCB.

As at 31 March 2016 Terence Richardson, through a related party, has an interest-free farm investment partnership advance of $24,374 (2015 $35,003) which is due to be repaid in full by 12 September 2016 and Director Bruce Vallance, has interest-free feed/fertiliser advances, across two farms, of $118,002 (2015: $77,198) which are due to be repaid in full by 12 December 2016.

# Directors’ Statutory and Remuneration Report

### Key Management Personnel Shareholdings

| **2016** | **Balance at start of year** | **Net change** | **Balance at year end** |
|---|---|---|---|
| **Directors** | | | |
| Louis-Phillipe Carrière | – | – | – |
| Neville Fielke | – | – | – |
| Terence Richardson | – | – | – |
| Lino A. Saputo, Jr. | – | – | – |
| Bruce Vallance | – | – | – |
| **Executives** | | | |
| Kai Bockmann | – | – | – |
| William Hannah [(1)] | 10 | – | 10 |
| Paul Moloney | 10 | – | 10 |
| Richard Wallace | – | – | – |

| **2015** | Balance at start of year | Net change | Balance at year end |
|---|---|---|---|
| **Directors** | | | |
| Louis-Phillipe Carrière | – | – | – |
| Neville Fielke | – | – | – |
| Terence Richardson | – | – | – |
| Lino A. Saputo, Jr. | – | – | – |
| Bruce Vallance | – | – | – |
| **Executives** | | | |
| Anthony Cook | – | – | – |
| William Hannah | 10 | – | 10 |
| Bernard Kavanagh | – | – | – |
| David Lord | – | – | – |
| Ross Martin | – | – | – |
| Paul Moloney | 10 | – | 10 |
| William Slater | – | – | – |
| John Williams | – | – | – |
| Richard Wallace | – | – | – |

1. Shares held at time of retirement on 1 July 2015.

### 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 31 March 2016, and the number attended by each Director were as follows:

| | | **Committee Meetings** | | |
|---|---|---|---|---|
| **Name** | **Board Meetings (4)** | **Audit & Risk (4)** | **Nominations & Remuneration (4)** | **Supplier Relations & Pricing Policy (1)** |
| Louis-Philippe Carrière | 3 (4) | 3 (4) | 3 (4) | |
| Dino Dello Sbarba | 4 (4) | 4 (4) | 4 (4) | |
| Neville Fielke | 4 (4) | 4 (4) | 4 (4) | 1 (1) |
| Terence Richardson | 4 (4) | 4 (4) | 4 (4) | 1 (1) |
| Lino A. Saputo, Jr. | 4 (4) | 4 (4) | 4 (4) | |
| Bruce Vallance | 4 (4) | 4 (4) | 4 (4) | 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 Montreal, 24 May 2016

**Lino A. Saputo, Jr.**
Chairman

Dated at Allansford, 25 May 2016

**Neville Fielke**
Independent Director

# Independent Auditor's Declaration

Deloitte.

Deloitte Touche Tohmatsu
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Melbourne VIC 3000
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The Board of Directors
Warrnambool Cheese and Butter Factory Company Holdings Limited
5331 Great Ocean Road
Allansford Victoria 3277

25 May 2016

Dear Board Members

**Warrnambool Cheese and Butter Factory Company Holdings Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Warrnambool Cheese and Butter Factory Company Holdings Limited.

As lead audit partner for the audit of the financial statements of Warrnambool Cheese and Butter Factory Company Holdings Limited for the financial year ended 31 March 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants

# 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 2 May 2016 are shown below. The Company has received two notices of a substantial holding, one from Saputo Dairy Australia Pty Ltd and the other from Lion-Dairy & Drinks Pty 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 Saputo Dairy Australia Pty Ltd and Lion-Dairy & Drinks Pty Ltd are shown on this page.

### The Number of Holders of Each Class of Share

The Company shares consist of 56,098,797 ordinary shares. There are no issued employee shares. Over the last financial year there were no movements in share capital.

As at 2 May 2016, there were 467 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 102 holders of less than a marketable parcel of ordinary shares at 2 May 2016.

### 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 2 May 2016 follows.

| Shares | Number |
|---|---|
| 1 – 1,000 | 351 |
| 1,001 – 5,000 | 83 |
| 5,001 – 10,000 | 15 |
| 10,001 – 100,000 | 15 |
| 100,001 + | 3 |

### Top 20 Shareholders as at 2 May 2016

| Name | Number of shares | % |
|---|---|---|
| Saputo Dairy Australia Pty Ltd | 49,321,980 | 87.92% |
| Lion-Dairy & Drinks Pty Ltd | 5,733,400 | 10.22% |
| One Managed Invt Funds Ltd | 235,258 | 0.42% |
| National Nominees Limited | 85,275 | 0.15% |
| Avanteos Investments Limited | 45,750 | 0.08% |
| Ms Marie-Claire Louise Renee Joye | 44,836 | 0.08% |
| Mr Graeme Ian Douglas & Mrs Beverley Joyce Douglas | 41,000 | 0.07% |
| Sporran Lean Pty Ltd | 36,400 | 0.06% |
| Mr Warren Gilman | 33,000 | 0.06% |
| J P Morgan Nominees Australia Limited | 25,010 | 0.04% |
| Mrs Coline Mcleod | 22,090 | 0.04% |
| Hsbc Custody Nominees (Australia) Limited | 19,846 | 0.04% |
| Mr Lawrence Bruce Sherlock | 19,600 | 0.03% |
| Est Heather Drake | 16,963 | 0.03% |
| Mutual Trust Pty Ltd | 16,142 | 0.03% |
| Invia Custodian Pty Limited | 12,441 | 0.02% |
| Bt Portfolio Services Limited | 11,760 | 0.02% |
| Bnp Paribas Noms Pty Ltd | 11,739 | 0.02% |
| Ian R Young | 10,000 | 0.02% |
| Mr James Francis Lindsay & Ms Pamela Hutchison Collett | 9,760 | 0.02% |
| **Total** | **55,752,250** | **99.38%** |

### 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 25 May 2016. The Company has the power to amend and reissue the financial report.

# Consolidated Statement of Comprehensive Income

**for the period ended 31 March 2016**

| | Notes | **CONSOLIDATED 2016 12 mths $'000** | 2015 9 mths $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 2 | **642,419** | 439,541 |
| Other income | 3 | **10,631** | 14,632 |
| Changes in inventories of finished goods and work in progress | | **(11,515)** | 34,794 |
| Raw materials and consumables used | | **(485,858)** | (361,572) |
| Depreciation and amortisation expense | 4 | **(16,080)** | (10,013) |
| Finance costs | 4 | **(5,930)** | (1,551) |
| Asset impairment | | **–** | (3,401) |
| Distribution expense | | **(32,155)** | (16,171) |
| Employee benefits expense | | **(73,095)** | (40,165) |
| Other expenses | | **(32,795)** | (18,107) |
| Share of net profits/(losses) of joint ventures accounted for using the equity method | 8 | **7,258** | 7,580 |
| **Profit/(Loss) before income tax (expense)/benefit** | | **2,880** | 45,567 |
| Income tax (expense)/benefit | 5 | **1,338** | (11,262) |
| **Profit/(Loss) for the year** | | **4,218** | 34,305 |
| **Other comprehensive income, net of income tax** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translating foreign operations | | **(326)** | – |
| Net fair value gain on other financial assets | | **9,082** | – |
| **Other comprehensive income for the year, net of tax** | | **8,756** | – |
| **Total comprehensive income for the year** | | **12,974** | 34,305 |
| **Profit/(Loss) attributable to owners of Warrnambool Cheese and Butter Factory Company Holdings Limited** | | **4,218** | 34,305 |
| **Total comprehensive income attributable to owners of Warrnambool Cheese and Butter Factory Company Holdings Limited** | | **12,974** | 34,305 |
| **Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company** | | **Cents** | Cents |
| Basic earnings per share | 34 | **7.5** | 61.2 |
| Diluted earnings per share | 34 | **7.5** | 61.2 |

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

# Consolidated Balance Sheet

as at 31 March 2016

| | Notes | CONSOLIDATED 31/03/16 $'000 | 31/03/15 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 15 | **25,742** | 9,125 |
| Trade and other receivables | 6 | **133,049** | 95,202 |
| Inventories | 7 | **195,025** | 110,585 |
| Current tax assets | 16 | **1,466** | – |
| Assets classified as held for sale | 36 | **14,349** | – |
| **Total Current Assets** | | **369,631** | 214,912 |
| **NON-CURRENT ASSETS** | | | |
| Investments accounted for using the equity method | 8 | **37,973** | 33,452 |
| Other financial assets | 9 | **1** | 5 |
| Property, plant & equipment | 10 | **108,890** | 94,084 |
| Investment properties | 11 | **2,976** | 9,168 |
| Deferred tax assets | 12 | **3,593** | 4,409 |
| Intangible assets | 13 | **29,265** | 1,628 |
| **Total Non-Current Assets** | | **182,698** | 142,746 |
| **Total Assets** | | **552,329** | 357,658 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | **64,602** | 66,356 |
| Borrowings | 15 | **141,860** | 53,038 |
| Current tax liabilities | 16 | **–** | 4,444 |
| Provisions | 17 | **16,314** | 12,190 |
| **Total Current Liabilities** | | **222,776** | 136,028 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 18 | **96,981** | 2,615 |
| Provisions | 20 | **1,313** | 730 |
| **Total Non-Current Liabilities** | | **98,294** | 3,345 |
| **Total Liabilities** | | **321,070** | 139,373 |
| **Net Assets** | | **231,259** | 218,285 |
| **EQUITY** | | | |
| Contributed equity | 21 | **73,856** | 73,856 |
| Reserves | 22 | **20,992** | 12,236 |
| Retained profits | 22 | **136,411** | 132,193 |
| **Total Equity** | | **231,259** | 218,285 |

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

# Consolidated Statement of Changes in Equity

**for the period ended 31 March 2016**

| | ATTRIBUTABLE TO OWNERS OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED | | | | | |
|---|---|---|---|---|---|---|
| | **Contributed equity $'000** | **Asset revaluation** reserve **$'000** | **Capital reserve $'000** | **Foreign currency translation reserve $'000** | **Retained earnings $'000** | **Total equity $'000** |
| **Balance at 1 April 2015** | **73,856** | **5,222** | **7,014** | **–** | **132,193** | **218,285** |
| Profit for the period | **–** | **–** | **–** | **–** | **4,218** | **4,218** |
| Other comprehensive income for the year, net of income tax | **–** | **9,082** | **–** | **(326)** | **–** | **8,756** |
| **Balance at 31 March 2016** | **73,856** | **14,304** | **7,014** | **(326)** | **136,411** | **231,259** |
| **Balance at 1 July 2014** | 73,856 | 5,222 | 7,014 | – | 97,888 | 183,980 |
| Profit for the period | – | – | – | – | 34,305 | 34,305 |
| **Balance at 31 March 2015** | 73,856 | 5,222 | 7,014 | – | 132,193 | 218,285 |

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

# Consolidated Cash Flow Statement

**for the period ended 31 March 2016**

| | Notes | CONSOLIDATED<br>**2016 12 mths $'000** | 2015 9 mths $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **638,248** | 465,781 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(639,547)** | (430,419) |
| Dividends received | | **240** | 160 |
| Interest received | | **55** | 38 |
| Finance costs | | **(5,930)** | (1,551) |
| Income tax paid | | **(5,355)** | (13,198) |
| **Net Cash Inflow (Outflow) from Operating Activities** | 31 | **(12,289)** | 20,811 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant & equipment | | **6** | 42 |
| Payments for acquisition | 39 | **(137,500)** | – |
| Dividends received from joint ventures | | **2,410** | 1,058 |
| Payments for property, plant & equipment | | **(19,099)** | (10,626) |
| **Net Cash Inflow (Outflow) from Investing Activities** | | **(154,183)** | (9,526) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | **140,000** | 518 |
| Repayment of borrowings | | **(21,180)** | (24,999) |
| **Net Cash Inflow (Outflow) from Financing Activities** | | **118,820** | (24,481) |
| **Net Increase (Decrease) in Cash, Cash Equivalents and Overdrafts** | | **(47,652)** | (13,196) |
| Cash, cash equivalents and overdrafts at the beginning of the financial year | | **(41,482)** | (24,836) |
| Effects of exchange rate changes on cash, cash equivalents and overdrafts | | **(99)** | (3,450) |
| **Cash, cash equivalents and overdrafts at the end of the financial year** | 15 | **(89,233)** | (41,482) |

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

# Notes to the Financial Statements

31 March 2016

## 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.

In the prior financial period Warrnambool Cheese and Butter has changed it's financial year end close date to 31st March in line with it's parent entity Saputo Inc. As a result the prior period comparative is for nine months from 1st July 2014 to 31st March 2015. Additional disclosure for the change is included in Note 37.

### (a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritive 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.

***(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.

Key critical accounting estimates are outlined below:

- Inventory is valued at the lower of cost or net realisable value. In determining net realisable value, the expected sales prices are estimated based on future contract prices and expected market outlook.
- Management make a number of estimates as part of assessing assets for impairment. Further details of the impairment assessment process can be found in Note 1 (i).

### (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 31 March 2016 and the results of all subsidiaries for the twelve month period 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(x)).

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.

***(ii) 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 and any foreign exchange movements are recognised in reserves on the balance sheet. Details relating to joint ventures are set out in note 8.

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, have 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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The directors of the Company reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to AASB 112 is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

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 profit or loss, 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 due 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.

Impairment losses are recognised 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

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. 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, retail cheese, lactoferrin 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, retail cheese, lactoferrin 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

At the end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see Note 1 (j) below).

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see Note 1 (j) below).

**(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.

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 | 3–7% |
| Plant and equipment | 5–10% |
| Motor vehicles | 10–20% |
| Computer equipment | 33% |

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 are 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 27).

**(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) 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.

***(ii) 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.

***(iii) 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.

### 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 32).

***(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.

***(iii) Brand Names***
Brand names recognised by the company have an indefinite useful life and are not amortised. Each period, the useful life of this asset is reviewed to determine whether events or circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in Note 1(i).

***(iv) Intangible Assets Acquired in a Business Combination***
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

### (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) 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) Rendering of Services***
Revenue for the rendering of services is recognised in the period when the service is performed.

***(iii) Other***
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Rental income is recognised on a straight-line basis over the term of the relevant lease.

### (s) Employee Benefits

***(i) Short Term Obligations***
Liabilities for wages and salaries, 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 annual leave and 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 high quality corporate 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

***(iii) 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.

***(iv) Retirement Benefit Obligations***
Contributions to the defined contribution section are recognised 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 actuarially review and amounts are expensed as recommended by the actuary.

### (t) 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.

### (u) 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.

### (v) 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.

***(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.

### (w) 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.

### (x) 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, except that deferred tax assets or liabilities related to employee benefit arrangements are recognised in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively.

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.

### (y) 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.

### (z) 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.

### (aa) 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.

### (ab) 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.

### (ac) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 31 March 2016 reporting periods.

(i) AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards [Part E – Financial Instruments], AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) *(effective on or after 1 January 2018)*

(ii) AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 *(effective on or after 1 January 2018)*

(iii) AASB 16 Leases, AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax *(effective on or after 1 January 2019)*

### (ad) Parent Entity Financial Information

The financial information for the parent entity, Warrnambool Cheese and Butter Factory Company Holdings Limited, disclosed in Note 35 has been prepared on the same basis as the consolidated financial statements.

# Notes to the Financial Statements

31 March 2016

| | Notes | CONSOLIDATED 2016 12 mths $'000 | 2015 9 mths $'000 |
|---|---|---|---|
| **Note 2. Revenue** | | | |
| **Sales Revenue** | | | |
| Sale of goods | | **626,100** | 428,079 |
| Sale of services | | **15,882** | 10,627 |
| | | **641,982** | 438,706 |
| **Other Revenue** | | | |
| Rent | | **142** | 637 |
| Interest | | **55** | 38 |
| Dividends | | **240** | 160 |
| | | **437** | 835 |
| **Revenue from continuing operations** | | **642,419** | 439,541 |
| **Note 3. Other Income** | | | |
| Net gain/(loss) on disposal of property, plant and equipment | | **5** | 27 |
| Fair value gains on investment properties | | **1,058** | 85 |
| Government grants (a) | | **396** | 336 |
| Net foreign exchange gains/(losses) | | **9,128** | 13,987 |
| Other | | **44** | 197 |
| | | **10,631** | 14,632 |

**(a) Government grants**

Grants for the Indigenous Employment Program (IEP) $0 (2015: $4,000) and the energy grants credits scheme of $396,094 (2015: $332,139) were recognised as 'other income' by the Group during the financial year. There are no unfulfilled conditions or other contingencies attached to these grants.

## Note 4. Expenses

Profit/(loss) before income tax includes the following specific expenses:

| | Notes | 2016 12 mths $'000 | 2015 9 mths $'000 |
|---|---|---|---|
| *Depreciation* | | | |
| Buildings | | **1,234** | 815 |
| Plant & equipment | | **14,846** | 9,198 |
| Total depreciation | | **16,080** | 10,013 |
| *Finance Costs* | | | |
| Interest and finance charges paid/payable | | **5,930** | 1,551 |
| Write down of inventories to net realisable value | | **5,053** | 2,972 |
| Impairment losses – trade receivables | | **379** | 219 |
| Research and development | | **1,151** | 1,769 |
| Employee benefits provided for | | **6,586** | 3,520 |
| Acquisition-related costs | 39 | **2,114** | – |

| | CONSOLIDATED | |
|---|---|---|
| | **2016 12 mths $'000** | 2015 9 mths $'000 |
| **Note 5. Income Tax** | | |
| **(a) Income tax expense** | | |
| Current tax | **600** | 13,580 |
| Deferred tax | **(1,949)** | (2,330) |
| Under (over) provided in prior years | **11** | 12 |
| Aggregate income tax expense/(benefit) | **(1,338)** | 11,262 |
| *Deferred income tax (benefit) expense included in income tax expense/(benefit) comprises:* | | |
| Decrease (increase) in deferred tax assets (note 12) | **(2,923)** | (2,679) |
| (Decrease) increase in deferred tax liabilities (note 19) | **974** | 349 |
| | **(1,949)** | (2,330) |
| **(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable** | | |
| Profit/(loss) from operations before income tax expense/(benefit) | **2,880** | 45,567 |
| Income tax calculated @ 30% (2015 – 30%) | **864** | 13,670 |
| *Tax effect of amounts which are not deductible (assessable) in calculating taxable income:* | | |
| Depreciation and amortisation | **68** | 51 |
| Entertainment | **55** | 19 |
| Research and development | **(115)** | (177) |
| Sundry items | **28** | (39) |
| Gross dividends received | **1,064** | – |
| Share of net profits/(losses) of joint ventures | **(2,177)** | (2,274) |
| | **(213)** | 11,250 |
| Under (over) provision in prior years | **11** | 12 |
| Imputation credits | **(1,136)** | – |
| Income tax expense/(benefit) | **(1,338)** | 11,262 |
| **(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 12 and 19) | **(2,764)** | (144) |
| | **(2,764)** | (144) |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |

## Note 6. Current Assets – Trade and Other Receivables

| | | |
|---|---|---|
| Trade receivables | **109,921** | 83,375 |
| Provision for doubtful debts (a) | **(462)** | (459) |
| | **109,459** | 82,916 |
| Other receivables (c) | **21,850** | 11,010 |
| Prepayments | **1,740** | 1,276 |
| | **133,049** | 95,202 |

**(a) Provision for doubtful debts**

As at 31 March 2016 current trade receivables of the Group with a nominal value of $462,000 (2015: $459,000) were impaired. The amount of the provision was $462,000 (2015: $459,000).

The ageing of these receivables is as follows:

| | | |
|---|---|---|
| Over 6 months | **462** | 459 |
| | **462** | 459 |

Movements in the provision for impairment of receivables are as follows:

| | | |
|---|---|---|
| At 1 April (2015: 1 July) | **459** | 538 |
| Provision for impairment recognised during the year | **382** | 140 |
| Receivables written off during the year as uncollectible | **(379)** | (219) |
| Unused amount reversed | **–** | – |
| | **462** | 459 |

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.

**(b) Past due but not impaired**

As of 31 March 2016, Group trade receivables of $28,586,000 (2015: $16,199,000) 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:

| | | |
|---|---|---|
| Up to 3 months | **25,648** | 15,203 |
| 3 to 6 months | **2,175** | 971 |
| Over 6 months | **763** | 25 |
| | **28,586** | 16,199 |

**(c) Other receivables**

Includes Goods and Services Tax receivables, advances to milk suppliers and other sundry debtors. For 2016, other receivables includes $9.6 million in relation to the acquisition of the everyday cheese business of Lion-Dairy & Drinks Pty Ltd. 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 24.

**(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 24 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 7. Current Assets – Inventories** | | |
| Raw materials and stores – at cost | **94,961** | 25,015 |
| Work in progress – at cost | **507** | – |
| Finished goods – at net realisable value | **39,177** | 2,074 |
| Finished goods – at cost | **60,380** | 83,496 |
| | **195,025** | 110,585 |

**(a) Inventory expense**

Inventory recognised as an expense during the period ended 31 March 2016 amounted to $478,749,000 (2015: $314,773,000).

Write-downs of inventories to net realisable value recognised as an expense during the period ended 31 March 2016 amounted to $5,053,000 (2015: $2,972,000). This expense has been recognised in 'raw materials and consumables used' in the statement of comprehensive income.

## Note 8. Non-Current Assets – Investments Accounted for Using the Equity Method

| | 31/03/16 $'000 | 31/03/15 $'000 |
|---|---|---|
| Great Ocean Ingredients Pty Ltd | **35,030** | 30,635 |
| Warrnambool Cheese and Butter Japan Company Limited | **2,943** | 2,817 |
| | **37,973** | 33,452 |

**Interest in Joint Ventures**

The Group has a 50% ownership interest and voting rights 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.

The Group has a 49% ownership interest and 50% voting rights 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.

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.

Information relating to all the joint ventures is set out below.

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 8. Non-Current Assets – Investments Accounted for Using the Equity Method (cont.)** | | |
| **Share of material joint venture's assets and liabilities** | | |
| Current assets | **22,220** | 20,352 |
| Non-current assets | **24,694** | 27,227 |
| Total assets | **46,914** | 47,579 |
| Current liabilities | **3,546** | 2,022 |
| Non-current liabilities | **10,034** | 16,617 |
| Total liabilities | **13,580** | 18,639 |
| Net assets | **33,334** | 28,940 |
| **Share of material joint venture's revenue, expenses and results** | | |
| Revenues | **24,978** | 19,168 |
| Expenses | **(15,296)** | (10,168) |
| Profit/(loss) before income tax | **9,682** | 9,000 |
| Income tax (expense)/benefit | **(2,876)** | (2,691) |
| Total Comprehensive Income | **6,806** | 6,310 |
| **Share of joint venture's assets and liabilities not individually material** | | |
| Current assets | **30,613** | 23,862 |
| Non-current assets | **79** | 81 |
| Total assets | **30,692** | 23,943 |
| Current liabilities | **27,516** | 21,413 |
| Non-current liabilities | **308** | 341 |
| Total liabilities | **27,824** | 21,753 |
| Net assets | **2,868** | 2,190 |
| **Share of joint venture's revenue, expenses and results not individually material** | | |
| Revenues | **82,990** | 55,734 |
| Expenses | **(82,300)** | (53,686) |
| Profit/(loss) before income tax | **690** | 2,048 |
| Income tax (expense)/benefit | **(238)** | (778) |
| Total Comprehensive Income | **452** | 1,270 |
| **Share of joint venture's commitments** | | |
| Capital commitments | **37** | 346 |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 9. Non-Current Assets – Other Financial Assets** | | |
| Equity securities | **1** | 5 |
| | **1** | 5 |

Equity securities held as at 31 March 2015 have, in part, been reclassified as assets held-for-sale in the current financial year. Refer to note 36 for further details.

## Note 10. Non-Current Assets – Property, Plant & Equipment

| **Consolidated 2016** | **Constr'n in progress $'000** | **Freehold land $'000** | **Buildings $'000** | **Plant & equipment $'000** | **Motor vehicles $'000** | **Furniture, fixtures & fittings $'000** |
|---|---|---|---|---|---|---|
| **Period ended 31 March 2016** | | | | | | |
| Opening net book amount | 4,999 | 2,814 | 17,010 | 52,670 | 6,090 | 486 |
| Additions | 2,146 | – | 3,145 | 6,686 | 1,680 | 209 |
| Additions through business combinations | – | – | – | 8,582 | – | – |
| Disposals | – | – | – | (1) | – | – |
| Transfers | – | – | (12) | – | – | 12 |
| Transfers from Investment Properties | – | 600 | 4,150 | – | – | – |
| Depreciation charge | – | – | (1,235) | (9,576) | (1,605) | (147) |
| Closing net book amount | 7,145 | 3,414 | 23,058 | 58,361 | 6,165 | 560 |
| **At 31 March 2016** | | | | | | |
| Cost | 7,145 | 3,414 | 34,194 | 161,813 | 13,537 | 2,460 |
| Accumulated depreciation | – | – | (11,136) | (103,452) | (7,372) | (1,900) |
| Net book amount | 7,145 | 3,414 | 23,058 | 58,361 | 6,165 | 560 |

| **Consolidated 2016** | **Computer equipment $'000** | **Crown land improv's $'000** | **Effluent plant $'000** | **Leased plant & equipment $'000** | **Total $'000** |
|---|---|---|---|---|---|
| **Period ended 31 March 2016** | | | | | |
| Opening net book amount | 4,147 | 133 | 5,068 | 667 | 94,084 |
| Additions | 3,689 | – | – | – | 17,555 |
| Additions through business combinations | – | – | – | – | 8,582 |
| Disposals | – | – | – | – | (1) |
| Transfers | – | – | – | – | – |
| Transfers from Investment Properties | – | – | – | – | 4,750 |
| Depreciation charge | (2,906) | (15) | (368) | (228) | (16,080) |
| Closing net book amount | 4,930 | 118 | 4,700 | 439 | 108,890 |
| **At 31 March 2016** | | | | | |
| Cost | 20,128 | 481 | 8,845 | 21,413 | 273,430 |
| Accumulated depreciation | (15,198) | (363) | (4,145) | (20,974) | (164,540) |
| Net book amount | 4,930 | 118 | 4,700 | 439 | 108,890 |

## Note 10. Non-Current Assets – Property, Plant & Equipment (cont.)

| Consolidated 2015 (9 months) | Constr'n in progress $'000 | Freehold land $'000 | Buildings $'000 | Plant & equipment $'000 | Motor vehicles $'000 | Furniture, fixtures & fittings $'000 |
|---|---|---|---|---|---|---|
| **Period ended 31 March 2015** | | | | | | |
| Opening net book amount | 5,867 | 2,814 | 16,748 | 54,037 | 6,209 | 513 |
| Additions | 1,083 | – | 1,077 | 4,548 | 1,205 | 87 |
| Disposals | – | – | – | (11) | (3) | – |
| Writeoffs | (1,951) | – | – | – | – | – |
| Depreciation charge | – | – | (815) | (5,904) | (1,321) | (114) |
| Closing net book amount | 4,999 | 2,814 | 17,010 | 52,670 | 6,090 | 486 |
| **At 31 March 2015** | | | | | | |
| Cost | 4,999 | 2,814 | 26,921 | 146,578 | 11,896 | 2,244 |
| Accumulated depreciation | – | – | (9,911) | (93,908) | (5,806) | (1,758) |
| Net book amount | 4,999 | 2,814 | 17,010 | 52,670 | 6,090 | 486 |

| Consolidated 2015 (9 months) | Computer equipment $'000 | Crown land improv's $'000 | Effluent plant $'000 | Leased plant & equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Period ended 31 March 2015** | | | | | |
| Opening net book amount | 2,878 | 145 | 5,343 | 884 | 95,438 |
| Additions | 2,626 | – | – | – | 10,626 |
| Disposals | (2) | – | – | – | (16) |
| Writeoffs | – | – | – | – | (1,951) |
| Depreciation charge | (1,355) | (12) | (275) | (217) | (10,013) |
| Closing net book amount | 4,147 | 133 | 5,068 | 667 | 94,084 |
| **At 31 March 2015** | | | | | |
| Cost | 16,442 | 481 | 8,845 | 21,413 | 242,633 |
| Accumulated depreciation | (12,295) | (348) | (3,777) | (20,746) | (148,549) |
| Net book amount | 4,147 | 133 | 5,068 | 667 | 94,084 |

**Non-current assets pledged as security**

Refer note 18 for information on non-current assets pledged as security.

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |

## Note 11. Non-Current Assets – Investment Properties

| | | |
|---|---|---|
| **At fair value** | | |
| Opening balance 1 April (2015: 1 July) | **9,168** | 10,533 |
| Transfers to land & buildings | **(4,750)** | – |
| Transfer to assets held for sale | **(2,500)** | – |
| Net gain (loss) from fair value adjustment | **1,058** | (1,365) |
| Closing balance | **2,976** | 9,168 |
| **(a) Amounts recognised in profit/(loss) for investment property** | | |
| Rental income | **69** | 730 |
| Direct operating expenses from property that generated rental income | **(8)** | (11) |
| | **61** | 719 |

**Valuation basis**

The basis of valuation of investment properties is fair value as defined in the accounting standards. The Group's investment properties are all classified as Level 3 in the valuation hierarchy. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect differences in nature; and
- capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

The key inputs used for investment property valuation under the capitalisation and summation approaches have been land prices and building rental rates per square metre for comparably sized and located property, and capitalisation rates.

The significant unobservable inputs to the valuation of investment property classified as Level 3 are expected lease terms, vacancy rates and rental growth rates. These are estimated by the external valuers or management based on comparable transactions and market data.

The 31 March 2016 revaluations were based on independent assessments by Certified Practising Valuer, C.J. Ham & Murray Pty Limited, in accordance with the requirements of the Australian Accounting Standards Board, in March 2016 and arms length sale prices.

Details of the Groups investment properties and information about the fair value hierarchy as at 31 March 2016 are as follows:

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|
| Investment Properties in South Western Victoria and South Eastern South Australia | | | 2,976 |

There were no transfers between levels during the year.

**Non-current assets pledged as security**

Refer note 18 for information on non-current assets pledged as security by the Group.

**Leasing arrangements**

The consolidated entity had properties that were 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 | **–** | 187 |
| Later than one year but not later than five years | **–** | 440 |
| | **–** | 627 |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |

## Note 12. Non-Current Assets – Deferred Tax Assets

| | **31/03/16 $'000** | 31/03/15 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in profit or loss* | | |
| Doubtful debts | **139** | 138 |
| Employee benefits | **4,215** | 2,878 |
| Inventories | **1,982** | – |
| Provisions | **105** | – |
| Finance leases | **–** | 6 |
| Audit fees | **39** | 44 |
| Accrued expenses | **4,748** | 4,854 |
| Quality claims | **39** | 278 |
| Business related capital expenses | **2,218** | 2,370 |
| Borrowing costs | **12** | 6 |
| | **13,497** | 10,574 |
| *Amounts recognised directly in equity* | | |
| Share issue expenses | **2** | 4 |
| Deferred tax assets | **13,499** | 10,578 |
| Set-off deferred tax liabilities pursuant to set-off provisions (note 19) | **9,906** | 6,169 |
| Net deferred tax assets | **3,593** | 4,409 |
| **Movements:** | | |
| Opening balance at 1 April (2015: 1 July) | **10,578** | 8,043 |
| (Credited) charged to the statement of comprehensive income (note 5) | **2,923** | 2,679 |
| (Credited) charged to equity | **(2)** | (144) |
| Closing Balance 31 March | **13,499** | 10,578 |
| Deferred tax assets to be recovered within 12 months | **8,540** | 6,550 |
| Deferred tax assets to be recovered after more than 12 months | **4,959** | 4,028 |
| | **13,499** | 10,578 |

## Note 13. Non-Current Assets – Intangible Assets

| **Consolidated 2016** | **Trademarks $'000** | **Goodwill $'000** | **Software under development $'000** | **Total $'000** |
|---|---|---|---|---|
| **Year ended 31 March 2016** | | | | |
| Opening net book amount | **–** | **1,628** | **–** | **1,628** |
| Additions of internal developments | **–** | **–** | **1,543** | **1,543** |
| Acquisitions through business combinations | **26,094** | **–** | **–** | **26,094** |
| Closing net book amount | **26,094** | **1,628** | **1,543** | **29,265** |
| **At 31 March 2016** | | | | |
| Cost | **26,094** | **1,628** | **1,543** | **29,265** |
| Net book amount | **26,094** | **1,628** | **1,543** | **29,265** |

## Note 13. Non-Current Assets – Intangible Assets (cont.)

| Consolidated 2015 | Trademarks $'000 | Goodwill $'000 | Software under development $'000 | Total $'000 |
|---|---|---|---|---|
| **Year ended 31 March 2015** | | | | |
| Opening net book amount | – | 1,628 | – | 1,628 |
| Closing net book amount | – | 1,628 | – | 1,628 |
| **At 31 March 2015** | | | | |
| Cost | – | 1,628 | – | 1,628 |
| Net book amount | – | 1,628 | – | 1,628 |

Software under development will be transferred to Software and amortised over its useful life once installed and ready for use.

Trademarks have been assessed as having a indefinite useful life due to having no limits imposed on the period of control. The trademarks acquired relate to the retail cheese segment and there is not expected to be any technical, technological, commercial or any other type of obsolescence.

**(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 | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Goodwill allocation to cash-generating units** | | |
| Cheese/Whey (commodities segment) | **1,523** | 1,523 |
| Retail Cheese (consumer goods segment) | **105** | 105 |
| | **1,628** | 1,628 |
| **Trademark allocation to cash-generating units** | | |
| Retail Cheese (consumer goods segment) | **26,094** | – |
| | **26,094** | – |

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.

In performing value-in-use calculations for applicable CGU's, the company has applied a growth rate of 0% (2015: 0%) and a post-tax discount rate of 9.5% (2015: 11.0%) 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. The directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

## Note 14. Current Liabilities – Trade and Other Payables

| | 31/03/16 $'000 | 31/03/15 $'000 |
|---|---|---|
| Trade payables | **60,348** | 61,510 |
| Other payables | **4,254** | 4,846 |
| | **64,602** | 66,356 |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |

## Note 15. Current Liabilities – Borrowings

| | | |
|---|---|---|
| **SECURED** | | |
| Lease liabilities | **1,885** | 2,431 |
| **UNSECURED** | | |
| Bank overdrafts | **114,975** | 50,607 |
| Bank loans | **25,000** | – |
| Total borrowings | **141,860** | 53,038 |
| **Cash, cash equivalents and overdrafts at the end of the financial year** | | |
| Bank overdrafts | **114,975** | 50,607 |
| Cash and cash equivalents | **(25,742)** | (9,125) |
| | **89,233** | 41,482 |

**(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 18.

**(b) Risk exposures**

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 24.

## Note 16. Current Tax

| | | |
|---|---|---|
| Current assets | | |
| Income tax | **1,466** | – |
| | **1,466** | – |
| Current liabilities | | |
| Income tax | **–** | 4,444 |
| | **–** | 4,444 |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 17. Current Liabilities – Provisions** | | |
| Employee benefits (a) | **15,832** | 11,264 |
| Quality claims | **132** | 926 |
| Other provisions | **350** | – |
| | **16,314** | 12,190 |

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

**Annual Leave**

Employee benefits include a provision 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 | **1,578** | 972 |

**Long Service Leave**

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.

| | | |
|---|---|---|
| Leave obligation expected to be settled after 12 months | **3,160** | 3,244 |

**(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 – 2016** | | |
| Carrying amount at start of year | **926** | 197 |
| Charged/(credited) to the statement of comprehensive income – additional provisions recognised | **132** | 1,033 |
| Amounts used during the period | **(926)** | (304) |
| Carrying amount at end of year | **132** | 926 |
| **Other Provisions** | | |
| **Consolidated – 2016** | | |
| Carrying amount at start of year | **–** | – |
| Charged/(credited) to the statement of comprehensive income – additional provisions recognised | **350** | – |
| Carrying amount at end of year | **350** | – |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |

## Note 18. Non-Current Liabilities – Borrowings

| | **31/03/16 $'000** | 31/03/15 $'000 |
|---|---|---|
| **SECURED** | | |
| Lease liabilities | **731** | 2,615 |
| **UNSECURED** | | |
| Bank loans | **96,250** | – |
| Total borrowings | **96,981** | 2,615 |

Further information relating to loans from related parties is set out in note 30.

Total unsecured and secured liabilities (current and non-current) are as follows:

| | **31/03/16 $'000** | 31/03/15 $'000 |
|---|---|---|
| **(a) Secured liabilities and assets pledged as security** | | |
| Lease liability | **2,616** | 5,046 |
| **(b) Unsecured liabilities and assets** | | |
| Bank overdrafts | **114,975** | 50,607 |
| Bank loans | **121,250** | – |
| Total secured and unsecured liabilities | **238,841** | 55,653 |

From 31 October 2014 the bank overdraft and loans of the Group are secured by a guarantee from the majority shareholder, Saputo Inc. Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

| **(c) Fair value** | **2016 (12 months)** | | 2015 (9 months) | |
|---|---|---|---|---|
| | **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 | **114,975** | **114,975** | 50,607 | 50,607 |
| Bills payable | **121,250** | **121,250** | – | – |
| Lease liabilities | **2,616** | **2,616** | 5,046 | 5,046 |
| Non-traded financial liabilities | **238,841** | **238,841** | 55,653 | 55,653 |

None of the classes of borrowings are readily traded on organised markets in standardised form.

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.

**(d) Risk exposures**

Information about the Group's exposure to interest rate changes is provided in note 24.

# Notes to the Financial Statements

31 March 2016

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 19. Non-Current Liabilities – Deferred Tax Liabilities** | | |
| **The balance comprises temporary differences attributable to:** | | |
| *Amounts recognised in profit or loss* | | |
| Prepayments | **24** | 22 |
| Inventories | **2,306** | 1,618 |
| Depreciation | **–** | 794 |
| Accrued revenue | **764** | – |
| Investment property | **1,652** | 1,338 |
| Business related capital expenses | **367** | 367 |
| | **5,113** | 4,139 |
| *Amounts recognised directly in equity* | | |
| Revaluation of land, buildings and investment property | **2,030** | 2,030 |
| Revaluation of other financial assets | **2,763** | – |
| | **4,793** | 2,030 |
| Deferred tax liabilities | **9,906** | 6,169 |
| Set-off deferred tax assets pursuant to set-off provisions (note 12) | **9,906** | 6,169 |
| Net deferred tax liabilities | **–** | – |
| **Movements:** | | |
| Opening balance at 1 April (2015: 1 July) | **6,169** | 5,820 |
| Credited (charged) to the statement of comprehensive income (note 5) | **974** | 349 |
| Credited (charged) to equity | **2,763** | – |
| Closing Balance 31 March | **9,906** | 6,169 |
| Deferred tax liabilities to be settled within 12 months | **5,347** | 1,905 |
| Deferred tax liabilities to be settled after more than 12 months | **4,559** | 4,264 |
| | **9,906** | 6,169 |
| **Note 20. Non-Current Liabilities – Provisions** | | |
| Employee benefits – long service leave | **940** | 730 |
| Employee benefits – performance share units | **373** | – |
| | **1,313** | 730 |

| | PARENT ENTITY | | | |
|---|---|---|---|---|
| | **2016 Number of Shares** | 2015 Number of Shares | **2016 Value $'000** | 2015 Value $'000 |
| **Note 21. Contributed Equity** | | | | |
| **(a) Share capital** | | | | |
| Ordinary shares – fully paid | **56,098,797** | 56,098,797 | **73,856** | 73,856 |
| | **56,098,797** | 56,098,797 | **73,856** | 73,856 |

| | Date | Notes | Number of Shares | Issue Price $ | $'000 |
|---|---|---|---|---|---|
| **(b) Movement in ordinary share capital** | | | | | |
| Opening balance | | | | | |
| Ordinary share capital | 01-Apr-15 | | 56,098,797 | | 73,856 |
| Balance | 31-Mar-16 | | 56,098,797 | | 73,856 |

**(c) 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 2016, the Group's strategy, which was unchanged from 2015, 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 31 March 2016 and 31 March 2015 were as follows:

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| Total borrowings | **238,841** | 55,653 |
| Less cash and cash equivalents | **(25,742)** | (9,125) |
| Net debt | **213,099** | 46,528 |
| Total equity | **231,259** | 218,285 |
| Total capital | **444,358** | 264,813 |
| Gearing ratio | **48%** | 18% |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 22. Reserves and Retained Profits** | | |
| **(a) Asset revaluation reserve** | | |
| **Movements** | | |
| Balance 1 April (2015: 1 July) | **5,222** | 5,222 |
| Revaluation – gross | **11,845** | – |
| Revaluation – tax | **(2,763)** | – |
| Balance end of financial period | **14,304** | 5,222 |
| **(b) Capital reserve** | | |
| **Movements** | | |
| Balance 1 April (2015: 1 July) | **7,014** | 7,014 |
| Balance end of financial period | **7,014** | 7,014 |
| **(c) Foreign currency translation reserve** | | |
| **Movements** | | |
| Balance 1 April (2015: 1 July) | **–** | – |
| Revaluation – gross | **(326)** | – |
| Revaluation – tax | **–** | – |
| Balance end of financial period | **(326)** | – |
| Balance of reserves at the end of the financial year | **20,992** | 12,236 |
| **(d) Retained profits** | | |
| **Movements** | | |
| Balance 1 April (2015: 1 July) | **132,193** | 97,888 |
| Net profit/(loss) for the period | **4,218** | 34,305 |
| Dividends provided for or paid | **–** | – |
| Balance end of financial period | **136,411** | 132,193 |

**(e) 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) including available for sale investment assets.

*(ii) Capital reserve*

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

*(iii) Foreign currency translation reserve*

Exchange rate differences relating to the translation of the results and net assets of the groups foreign operations from their functional currencies into the groups presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

| | PARENT ENTITY | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 23. Dividends** | | |
| **(a) Dividends provided for or paid out of prior year's profits** | | |
| **Ordinary shares** | | |
| Dividends provided for or paid out of prior year's profits | **–** | – |
| Total dividends provided for or paid out of prior year's profits | **–** | – |
| **(b) Franked dividends** | | |
| The franked portions of the dividends declared after 31 March 2016 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 March 2016. | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2015 – 30%) | **54,594** | 54,710 |

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 24. 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 finance department in conjunction with the treasury department of majority shareholder Saputo Inc. In conjunction with treasury, the finance department identifies, evaluates and hedges financial risks in accordance with approved 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 may be used to manage foreign exchange risk.

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

| | **31/03/16 USD $'000** | 31/03/15 USD $'000 |
|---|---|---|
| Trade receivables and cash | **27,342** | 29,112 |
| Bank loan | **(23,000)** | (20,000) |
| | **4,342** | 9,112 |

## Note 24. Financial Risk Management (cont.)

*Group Sensitivity*

Based on US dollar denominated financial assets and liabilities held at 31 March 2016, had the Australian dollar weakened/strengthened by 10% against US dollar with all other variables held constant, the Group's post-tax profit for the year would have increased $440,000/ decreased $361,000 (2015 – increased $925,000/decreased $757,000), as a result of foreign exchange gains/losses on translation of US dollar denominated financial assets and liabilities.

*(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. All borrowings were denominated in Australian dollars in 2016 and 2015, except for a USD overdraft of $23,000,000 (2015: 20,000,000).

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

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Weighted Average Interest Rate %** | **Balance $'000** | Weighted Average Interest Rate % | Balance $'000 |
| Bank overdrafts and bank loans | **2.9%** | **238,841** | 1.5% | 50,607 |

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

*Group Sensitivity*

If interest rates had been on average 50 basis points higher/lower during 2016 and all other variables were held constant, the Group's post-tax profit for the year would have decreased $1,045,252/increased $1,045,252 (2015 – decreased $255,842/increased $255,842) as a result of the Group's exposure to interest rates on its variable rate borrowings.

**(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 and 9). 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 it's 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. Trade credit insurance has been taken out on selected export and domestic 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.

## Note 24. 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 finance department in conjunction with the treasury department of majority shareholder Saputo Inc. maintains flexibility in funding by keeping committed credit lines available with its major banking partners.

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

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| Bank overdrafts | **50,688** | 115,161 |
| Bank loans and lease facilities | **10,117** | 7,686 |
| | **60,805** | 122,847 |

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 1.4 years (2015 – 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 31 March 2016** | **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** |
|---|---|---|---|---|---|---|
| *Non-derivatives* | | | | | | |
| Non-interest bearing | **64,602** | **–** | **–** | **–** | **64,602** | **64,602** |
| Variable rate | **129,470** | **14,033** | **27,269** | **72,952** | **243,724** | **236,225** |
| Fixed rate | **692** | **1,291** | **516** | **235** | **2,734** | **2,616** |
| | **194,764** | **15,324** | **27,785** | **73,187** | **311,060** | **303,443** |

| **Group – At 31 March 2015** | 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 |
|---|---|---|---|---|---|---|
| *Non-derivatives* | | | | | | |
| Non-interest bearing | 66,356 | – | – | – | 66,356 | 66,356 |
| Variable rate | 50,607 | – | – | – | 50,607 | 50,607 |
| Fixed rate | 1,325 | 1,325 | 1,983 | 750 | 5,383 | 5,046 |
| | 118,288 | 1,325 | 1,983 | 750 | 122,346 | 122,009 |

**(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.

## Note 25. 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**

Lino A. Saputo, Jr.

**Non-executive directors**

Louis-Philippe Carrière
Neville Fielke
Terence Richardson
Bruce 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 |
|---|---|---|
| Kai Bockmann | President & Chief Operating Officer | Saputo Inc. |
| William Hannah | Chief Financial Officer | The Warrnambool Cheese and Butter Factory Company Limited |
| Paul Moloney | Vice President Finance & Administration, Chief Financial Officer and Company Secretary | The Warrnambool Cheese and Butter Factory Company Limited |
| Richard Wallace | Senior Vice President & General Manager | The Warrnambool Cheese and Butter Factory Company Limited |

All of the above were other key management personnel in the year ended 31 March 2015, except for Kai Bockmann who commenced as President & COO, the most senior executive position in the company, on 1 April 2015. William Hannah retired on 1 July 2015.

| | CONSOLIDATED | |
|---|---|---|
| | **2016 12 mths $** | 2015 9 mths $ |
| **(c) Key management personnel compensation** | | |
| Short-term employee benefits | **1,635,092** | 2,965,709 |
| Post-employment benefits | **233,196** | 212,314 |
| Long-term benefits | **120,159** | 104,601 |
| | **1,988,447** | 3,282,624 |

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.

## Note 25. 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.

| **2016** | **Balance at start of year** | **Net change** | **Balance at year end** |
|---|---|---|---|
| **Directors** | | | |
| Louis-Phillipe Carrière | – | – | – |
| Neville Fielke | – | – | – |
| Terence Richardson | – | – | – |
| Lino A. Saputo, Jr. | – | – | – |
| Bruce Vallance | – | – | – |
| **Executives** | | | |
| Kai Bockmann | – | – | – |
| William Hannah [1] | 10 | – | 10 |
| Paul Moloney | 10 | – | 10 |
| Richard Wallace | – | – | – |

| **2015** | Balance at start of year | Net change | Balance at year end |
|---|---|---|---|
| **Directors** | | | |
| Louis-Phillipe Carrière | – | – | – |
| Neville Fielke | – | – | – |
| Terence Richardson | – | – | – |
| Lino A. Saputo, Jr. | – | – | – |
| Bruce Vallance | – | – | – |
| **Executives** | | | |
| Anthony Cook | – | – | – |
| Stephen Cook | – | – | – |
| William Hannah | 10 | – | 10 |
| Bernard Kavanagh | – | – | – |
| David Lord | – | – | – |
| Ross Martin | – | – | – |
| Paul Moloney | 10 | – | 10 |
| William Slater | – | – | – |
| John Williams | – | – | – |
| Richard Wallace | – | – | – |

1. Shares held at time of retirement on 1 July 2015.

**(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 also a supplier of milk to the Company, they are entitled to receive an interest free advance to purchase feed or fertiliser or as part of the company's farm investment partnership on the same terms and conditions as available to all suppliers of milk to the company.

As at 31 March 2016 Terence Richardson, through a related party, has an interest-free farm investment partnership advance of $24,374 which is due to be repaid in full by 12 September 2016 and Director Bruce Vallance, has interest-free feed/fertiliser advances, across two farms, of $118,002 which are due to be repaid in full by 12 December 2016.

**(f) Other transactions with key management personnel**

No other amounts were paid to key management personnel.

| | CONSOLIDATED | |
|---|---|---|
| | **2016 12 mths $** | 2015 9 mths $ |
| **Note 26. Remuneration of Auditors** | | |
| **(a) Audit and other assurance services** | | |
| Deloitte Touche Tohmatsu | | |
| Audit and review of financial statements | **265,536** | – |
| Coffey Hunt | | |
| Audit and review of financial statements | **34,425** | 175,044 |
| Total remuneration for audit and other assurance services | **299,961** | 175,044 |
| **(b) Taxation services** | | |
| Deloitte Touche Tohmatsu | | |
| Tax services in relation to acquisition | **19,490** | – |
| Coffey Hunt | | |
| Tax compliance services, including review of company tax returns | **4,800** | 5,200 |
| Total remuneration for taxation services | **24,290** | 5,200 |
| **(c) Advisory services** | | |
| Deloitte Touche Tohmatsu | | |
| Other minor accounting services | **–** | – |
| Coffey Hunt | | |
| Tax compliance services, including review of company tax returns | **–** | – |
| Total remuneration for advisory services | **–** | – |
| Total remuneration for auditors | **324,251** | 180,244 |

At the company's annual general meeting on 13 July 2015, following receipt and acceptance of Coffey Hunt's resignation as auditors, Deloitte Touche Tohmatsu were appointed as company auditor as of that date.

The Group employs Deloitte Touche Tohmatsu 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 | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 27. Commitments** | | |
| **(a) Capital commitments** | | |
| Commitments for the acquisition of plant & equipment contracted for at the reporting date but not recognised as liabilities payable | **594** | 2,736 |
| Not later than one year | **594** | 2,736 |
| **(b) Lease Commitments: Group as lessee** | | |
| *(i) Non-cancellable operating leases* | | |
| 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 | **295** | 265 |
| Later than one year but not later than five years | **725** | 230 |
| Later than five years | **134** | – |
| | **1,154** | 495 |
| *(ii) Cancellable operating leases* | | |
| 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 | **37** | 37 |
| | **37** | 37 |
| *(iii) Finance Leases* | | |
| The Group leases part of its tanker fleet with a carrying amount of $2,165,000 (2015: $5,046,000) 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 | **1,983** | 2,649 |
| Later than one year but not later than five years | **750** | 2,734 |
| Minimum lease payments | **2,733** | 5,383 |
| Less: Future finance charges | **(117)** | (337) |
| Total finance lease liability | **2,616** | 5,046 |
| Representing lease liabilities: | | |
| Current (note 15) | **1,885** | 2,431 |
| Non-current (note 18) | **731** | 2,615 |
| | **2,616** | 5,046 |

The weighted average interest rate implicit in the finance leases is 5.26% (2015 – 5.49%)

## Note 28. 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).

| | Country of incorporation | Class of Shares | Equity Holding | Equity Holding | Cost of parent entity investment | |
|---|---|---|---|---|---|---|
| **Name of entity** | | | **31/03/16 %** | **31/03/15 %** | **31/03/16 $'000** | **31/03/15 $'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 29.

## Note 29. Deed of Cross Guarantee

Warrnambool Cheese and Butter Factory Company Holdings Limited, The Warrnambool Cheese & 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 30. Related Party Transactions

**(a) Ultimate Controlling Party – Saputo Inc.**

During the year, group entities entered into transactions with related party Saputo Inc. and/or certain of its subsidiaries ('Saputo'). Saputo Inc. is the ultimate controlling party of 87.92% of shares in the Group's parent entity, Warrnambool Cheese and Butter Factory Company Holdings Limited ('WCB'). Saputo Inc. is registered in Canada. Saputo Inc.'s subsidiary, Saputo Dairy Australia Pty Ltd, registered in Australia, is the owner of the shares in WCB.

*(i) Transactions with related parties – Saputo*

| | **2016 12 mths $** | 2015 9 mths $ |
|---|---|---|
| Sales of goods and services | **75,456** | – |
| Purchases of goods and services | **2,425,123** | 350,025 |
| Management fee | **2,872,174** | – |
| | **5,372,753** | 350,025 |

Sales of goods and services relate to costs incurred by the Group, with third parties, on behalf of Saputo.

Purchases of goods and services relate to:
- Dairy products purchased at arms length prices for on-sale by the Group;
- Costs incurred by Saputo, with third parties, on behalf of the Group.

The management fee relates to Saputo's cost of salary, fringe benefits and expenses of Saputo corporate-level employees for services provided to the Group, plus a mark-up in line with market practice.

*(ii) 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:

| | **31/03/16 $** | 31/03/15 $ |
|---|---|---|
| Amounts owed by related parties | **75,456** | – |
| Amounts owed to related parties | **126,308** | – |

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by Saputo Inc.

*(iii) Loans to/from related parties*

There are no loans to/from Saputo Inc.

## Note 30. Related Party Transactions (cont.)

**(b) Joint Ventures**

*(i) Transactions with related parties – joint ventures*

| | **2016 12 mths $** | 2015 9 mths $ |
|---|---|---|
| Sales of goods and services | **116,437,767** | 69,292,220 |
| Purchases of goods and services | **1,147,010** | 240,633 |
| Dividends received | **2,410,615** | 1,058,444 |
| | **119,995,392** | 70,591,297 |

Sales of goods and services include dairy products, raw materials, services such as administration, quality, environment and maintenance, lease fees and reimbursable costs incurred by the company on the joint ventures behalf and recharged at cost.

Purchases of goods and services include dairy products and reimbursable costs incurred by the joint ventures and recharged to the company at cost.

*(ii) 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:

| | **31/03/16 $** | 31/03/15 $ |
|---|---|---|
| Amounts owed by related parties | **5,804,616** | 7,977,067 |
| Amounts owed to related parties | **9,249** | – |

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by joint ventures.

*(iii) Loans to/from related parties*

There are no loans to/from joint ventures.

**(c) Subsidiaries**

Interest in subsidiaries are set out in note 28.

**(d) Key management personnel**

Disclosures relating to key management personnel are set out in note 25.

| | CONSOLIDATED | |
|---|---|---|
| | **2016 12 mths $'000** | 2015 9 mths $'000 |
| **Note 31. Reconciliation of Profit/(Loss) after Income Tax to Net Cash Inflow (Outflow) from Operating Activities** | | |
| Operating Profit/(loss) after income tax | **4,218** | 34,305 |
| Depreciation and amortisation | **16,080** | 10,013 |
| Fair value adjustment to investment property | **(1,058)** | (85) |
| Net (gain)/loss on sale of non-current assets | **(5)** | (27) |
| Share of (profits)/losses of joint ventures | **(7,258)** | (7,580) |
| Revaluation of foreign investment | **–** | (13) |
| Impairment of assets | **–** | 3,401 |
| *Change in operating assets and liabilities:* | | |
| Decrease (increase) in trade debtors | **(28,175)** | 4,556 |
| Decrease (increase) in inventories | **11,526** | (34,794) |
| Decrease (increase) in deferred tax assets | **513** | (2,535) |
| Increase (decrease) in trade creditors | **(6,105)** | 12,028 |
| Increase (decrease) in provision for income taxes payable | **(4,444)** | 251 |
| Increase (decrease) in deferred tax liabilities | **(2,762)** | 350 |
| Increase (decrease) in other provisions | **5,181** | 941 |
| Net Cash Inflow (Outflow) from Operating Activities | **(12,289)** | 20,811 |

## Note 32. 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, lactoferrin 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, COON, Cracker Barrel (used under licence), Mil Lel 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 period ended 31 March 2016 is as follows:

| | Commodities $'000 | Consumer Goods $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| **31 March 2016 (12 months)** | | | | |
| Total segment revenue | **901,383** | **186,776** | **23,329** | **1,111,488** |
| Inter-segment revenue | **(452,307)** | **(104)** | **(6,082)** | **(458,493)** |
| Revenue from external customers | **449,076** | **186,672** | **17,247** | **652,995** |
| Adjusted EBITDA | **585** | **15,875** | **3,230** | **19,690** |
| Share of joint ventures profits/(losses) | | | | **7,258** |
| Acquisition costs | | | | **(2,114)** |
| EBITDA | | | | **24,834** |
| **31 March 2015 (9 months)** | | | | |
| Total segment revenue | 737,152 | 49,751 | 16,508 | 803,411 |
| Inter-segment revenue | (344,791) | (144) | (4,341) | (349,276) |
| Revenue from external customers | 392,361 | 49,607 | 12,167 | 454,135 |
| Adjusted EBITDA | 50,720 | (43) | (1,164) | 49,513 |
| Share of joint ventures profits/(losses) | | | | 7,580 |
| EBITDA | | | | 57,093 |

## Note 32. Segment Information (cont.)

### (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 | |
|---|---|---|
| | **2016 12 mths $'000** | 2015 9 mths $'000 |
| Total segment revenue | **1,111,488** | 803,411 |
| Intersegment eliminations | **(458,493)** | (349,276) |
| Interest revenue | **55** | 38 |
| Total revenue and other income (notes 2 and 3) | **653,050** | 454,173 |

*(ii) Adjusted EBITDA*

The board and executive assess the performance of the operating segments based on a measure of EBITDA. 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 EBITDA to operating profit before income tax is provided as follows:

| | 2016 12 mths $'000 | 2015 9 mths $'000 |
|---|---|---|
| Adjusted EBITDA | **19,690** | 49,513 |
| Interest revenue | **55** | 38 |
| Finance costs | **(5,930)** | (1,551) |
| Acquisition costs | **(2,114)** | – |
| Share of joint ventures' profits/(losses) | **7,258** | 7,580 |
| Depreciation and amortisation | **(16,080)** | (10,013) |
| Profit/(loss) before income tax (expense)/benefit | **2,880** | 45,567 |

## Note 33. 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 31 March 2016 the maximum amount of the contingent liability was $38,000 (2015: $74,000).

| | CONSOLIDATED | |
|---|---|---|
| | **2016 12 mths Cents** | 2015 9 mths Cents |

## Note 34. Earnings Per Share

| | **2016 12 mths Cents** | 2015 9 mths Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| Profit/(loss) attributable to the ordinary equity holders of the company | **7.5** | 61.2 |
| **(b) Diluted earnings per share** | | |
| Profit/(loss) attributable to the ordinary equity holders of the company | **7.5** | 61.2 |

| | CONSOLIDATED | |
|---|---|---|
| | **2016 Number of Shares** | 2015 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 | **56,098,797** | 56,098,797 |

| | PARENT ENTITY | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |

## Note 35. Parent Entity Information

| | **31/03/16 $'000** | 31/03/15 $'000 |
|---|---|---|
| **Parent entity assets and liabilities** | | |
| Current assets | **111,445** | 127,171 |
| Non-current assets | **32,051** | 37,991 |
| Total assets | **143,496** | 165,162 |
| Current liabilities | **29,835** | 51,501 |
| Non-current liabilities | **–** | – |
| Total liabilities | **29,835** | 51,501 |
| Net assets | **113,661** | 113,661 |
| Contributed equity | **73,856** | 73,856 |
| Retained profits | **39,805** | 39,805 |
| Total equity | **113,661** | 113,661 |
| **Parent entity profit/(loss)** | | |
| Profit/(loss) before income tax | **–** | 2,836 |
| Income tax (expense)/benefit | **–** | (851) |
| Profit/(loss) after income tax | **–** | 1,985 |
| **Parent entity total comprehensive income** | | |
| Total comprehensive income for the year | **–** | 1,985 |

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **Note 36. Assets Classified as Held for Sale** | | |
| Other financial assets held for sale (i) | **11,849** | – |
| Freehold land and buildings held for sale (ii) | **2,500** | – |
| **Total assets held for sale** | **14,349** | – |

(i) The group intends to dispose of its investment in Dairy Technical Services Limited. A contract of sale was entered into in April 2016. No impairment loss was recognised on reclassification of these shares to held for sale as fair value has been estimated based on the current offer price.

(ii) The group intends to dispose of land and buildings that are no longer utilised. A contract of sale has been entered into and settlement is due in September 2016. No impairment loss was recognised on reclassification of the land and buildings to held for sale as fair value is based on the sales contract price.

# Notes to the Financial Statements

31 March 2016

## Note 37. Additional Disclosure for Change of Reporting Period (12 months comparative)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year period 31 March 2016 (12 months comparative)**

| | CONSOLIDATED | |
|---|---|---|
| | **2016 $'000** | 2015 $'000 |
| **Revenue from continuing operations** | **642,419** | 595,062 |
| Other income | **10,631** | 13,111 |
| Changes in inventories of finished goods and work in progress | **(11,515)** | 12,829 |
| Raw materials and consumables used | **(485,858)** | (456,257) |
| Depreciation and amortisation expense | **(16,080)** | (13,163) |
| Finance costs | **(5,930)** | (2,293) |
| Asset impairment | **–** | (3,401) |
| Distribution expense | **(32,155)** | (21,522) |
| Employee benefits expense | **(73,095)** | (53,673) |
| Other expenses | **(32,795)** | (23,768) |
| Share of net profits/(losses) of joint ventures accounted for using the equity method | **7,258** | 7,689 |
| **Profit/(Loss) before income tax (expense)/benefit** | **2,880** | 54,614 |
| Income tax (expense)/benefit | **1,338** | (14,169) |
| **Profit/(Loss) for the year** | **4,218** | 40,445 |
| **Other comprehensive income, net of income tax** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Changes in fair value of cash flow hedges | **–** | (95) |
| Exchange differences on translating foreign operations | **(326)** | – |
| Net fair value gain on other financial assets | **9,082** | – |
| **Other comprehensive income for the year, net of tax** | **8,756** | (95) |
| **Total comprehensive income for the year** | **12,974** | 40,350 |
| **Profit/(Loss) attributable to owners of Warrnambool Cheese and Butter Factory Company Holdings Limited** | **4,218** | 40,445 |
| **Total comprehensive income attributable to owners of Warrnambool Cheese and Butter Factory Company Holdings Limited** | **12,974** | 40,350 |
| **Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company** | **Cents** | Cents |
| Basic earnings per share | **7.5** | 72.1 |
| Diluted earnings per share | **7.5** | 72.1 |

## Note 37. Additional Disclosure for Change of Reporting Period (12 months comparative) (cont.)

**CONSOLIDATED BALANCE SHEET as at 31 March 2016 (12 months comparative)**

| | CONSOLIDATED | |
|---|---|---|
| | **31/03/16 $'000** | 31/03/15 $'000 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **25,742** | 9,125 |
| Trade and other receivables | **133,049** | 95,202 |
| Inventories | **195,025** | 110,585 |
| Current tax assets | **1,466** | – |
| Assets classified as held for sale | **14,349** | – |
| **Total Current Assets** | **369,631** | 214,912 |
| **NON-CURRENT ASSETS** | | |
| Investments accounted for using the equity method | **37,973** | 33,452 |
| Other financial assets | **1** | 5 |
| Property, plant & equipment | **108,890** | 94,084 |
| Investment properties | **2,976** | 9,168 |
| Deferred tax assets | **3,593** | 4,409 |
| Intangible assets | **29,265** | 1,628 |
| **Total Non-Current Assets** | **182,698** | 142,746 |
| **Total Assets** | **552,329** | 357,658 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | **64,602** | 66,356 |
| Borrowings | **141,860** | 53,038 |
| Current tax liabilities | **–** | 4,444 |
| Provisions | **16,314** | 12,190 |
| **Total Current Liabilities** | **222,776** | 136,028 |
| **NON-CURRENT LIABILITIES** | | |
| Borrowings | **96,981** | 2,615 |
| Provisions | **1,313** | 730 |
| **Total Non-Current Liabilities** | **98,294** | 3,345 |
| **Total Liabilities** | **321,070** | 139,373 |
| **Net Assets** | **231,259** | 218,285 |
| **EQUITY** | | |
| Contributed equity | **73,856** | 73,856 |
| Reserves | **20,992** | 12,236 |
| Retained profits | **136,411** | 132,193 |
| **Total Equity** | **231,259** | 218,285 |

## Note 37. Additional Disclosure for Change of Reporting Period (12 months comparative) (cont.)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the period ended 31 March 2016 (12 months comparative)**

| | ATTRIBUTABLE TO OWNERS OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED | | | | | |
|---|---|---|---|---|---|---|
| | **Contributed equity $'000** | **Asset revaluation reserve $'000** | **Capital reserve $'000** | **Foreign currency translation reserve $'000** | **Retained earnings $'000** | **Total equity $'000** |
| **Balance at 1 April 2015** | **73,856** | **5,222** | **7,014** | **–** | **132,193** | **218,285** |
| Profit for the period | **–** | **–** | **–** | **–** | **4,218** | **4,218** |
| Other comprehensive income for the year, net of income tax | **–** | **9,082** | **–** | **(326)** | **–** | **8,756** |
| **Balance at 31 March 2016** | **73,856** | **14,304** | **7,014** | **(326)** | **136,411** | **231,259** |
| **Balance at 1 April 2014** | 73,856 | 5,317 | 7,014 | – | 91,748 | 177,935 |
| Profit for the period | – | – | – | – | 40,445 | 40,445 |
| Other comprehensive income for the year, net of income tax | – | (95) | – | – | – | (95) |
| **Balance at 31 March 2015** | 73,856 | 5,222 | 7,014 | – | 132,193 | 218,285 |

## Note 37. Additional Disclosure for Change of Reporting Period (12 months comparative) (cont.)

**CONSOLIDATED CASH FLOW STATEMENT for the period ended 31 March 2016 (12 months comparative)**

| | CONSOLIDATED | |
|---|---|---|
| | **2016 12 mths $'000** | 2015 12 mths $'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers (inclusive of goods and services tax) | **638,248** | 612,217 |
| Payments to suppliers and employees (inclusive of goods and services tax) | **(639,547)** | (574,300) |
| Dividends received | **240** | – |
| Interest received | **55** | 52 |
| Finance costs | **(5,930)** | (2,293) |
| Income tax paid | **(5,355)** | (15,297) |
| **Net Cash Inflow (Outflow) from Operating Activities** | **(12,289)** | 20,379 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of property, plant & equipment | **6** | 38 |
| Payments for acquisition | **(137,500)** | – |
| Dividends received from joint ventures | **2,410** | 1,058 |
| Payments for property, plant & equipment | **(19,099)** | (16,502) |
| **Net Cash Inflow (Outflow) from Investing Activities** | **(154,183)** | (15,406) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | **140,000** | 1,481 |
| Repayment of borrowings | **(21,180)** | (50,310) |
| **Net Cash Inflow (Outflow) from Financing Activities** | **118,820** | (48,829) |
| **Net Increase (Decrease) in Cash, Cash Equivalents and Overdrafts** | **(47,652)** | (43,856) |
| Cash, cash equivalents and overdrafts at the beginning of the financial year | **(41,482)** | 2,374 |
| Effects of exchange rate changes on cash, cash equivalents and overdrafts | **(99)** | – |
| **Cash, cash equivalents and overdrafts at the end of the financial year** | **(89,233)** | (41,482) |

## Note 38. Events after the Reporting period

As announced to the ASX on 18 April 2016, a contract of sale was entered into for the sale of the Group's interest in Dairy Technical Services Limited. The interest has been disclosed as an asset held for sale in note 36.

## Note 39. Business Combinations

On 25 May 2015, the company's wholly-owned subsidiary, The Warrnambool Cheese and Butter Factory Company Limited acquired the Australian everyday cheese business and assets ("EDC Business") from Lion-Dairy & Drinks Pty Ltd, Dairy Farmers Pty Ltd and LD&D Australia Pty Ltd (collectively referred to as "Lion"). The everyday cheese business is engaged in the cutting, wrapping, distribution and marketing activities of retail cheese and was acquired with the objective of achieving vertical integration synergies and growth opportunities.

| | **$'000** |
|---|---|
| **Consideration transferred** | |
| Cash (excl. GST) | 137,500 |
| | 137,500 |

Acquisition-related costs amounting to $2,114,000 have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the year, within the 'other expenses' line item.

| | |
|---|---|
| **Assets acquired and liabilities assumed at the date of acquisition** | |
| **Current assets** | |
| Trade and other receivables (i) | 9,572 |
| Inventories | 95,966 |
| **Non-current assets** | |
| Plant & equipment | 8,582 |
| Deferred tax asset | 1,163 |
| Trademarks | 26,094 |
| **Current liabilities** | |
| Employee entitlements | 3,735 |
| **Non-current liabilities** | |
| Employee entitlements | 142 |
| **Fair value of identifiable net assets acquired** | 137,500 |

Purchase price accounting for the acquisition of the EDC Business is final.

(i) Trade and other receivables represent the best estimate of the amount owed by Lion due to the post acquisition inventory valuation being less than the purchase valuation. The final amount to be received is yet to be determined.

**Goodwill arising on acquisition**

There is no goodwill on acquisition.

**Impact of acquisition on the results of the Group**

Included in the profit/(loss) for the year is a $5,256,000 profit attributable to the EDC Business, excluding acquisition costs. Revenue from continuing operations for the year includes $120,101,000 in respect of the EDC Business.

# Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes, as set out on pages 23 to 68, 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 31 March 2016 and of its performance for the 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 29 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 29.

The directors have been given the declarations by the President & Chief Operating Officer, who performs the function of 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.

**Lino A. Saputo, Jr.**
Chairman

Montreal
24 May 2016

**Neville Fielke**
Independent Director

Allansford
25 May 2016

# Independent Auditor's Report

**Deloitte.**

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## 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, which comprises the statement of financial position as at 31 March 2016, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 23 to 69.

*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, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated 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. Those 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 company's preparation of the financial report that gives a true and fair view, 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 company'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 opinion.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Warrnambool Cheese and Butter Factory Company Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*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 consolidated entity's financial position as at 31 March 2016 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 15 to 20 of the directors' report for the year ended 31 March 2016. 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.

*Opinion*

In our opinion the Remuneration Report of Warrnambool Cheese and Butter Factory Company Holdings Limited for the year ended 31 March 2016, complies with section 300A of the *Corporations Act 2001.*

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants
Melbourne, 25 May 2016

# Corporate Directory

## Chairman of Directors
Lino A. Saputo, Jr.

## Directors
Louis-Philippe Carrière
Neville Fielke
Terence Richardson
Bruce Vallance

## Associate Director
Dino Dello Sbarba

## 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

The Bank of Tokyo
Mitsubishi UFJ, Ltd.
600 Bourke Street
Melbourne 3000

## Solicitors
Clayton Utz
333 Collins Street
Melbourne 3000

## Auditors
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne 3000

## 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


WARRNAMBOOL
EST'D 1888
CHEESE & BUTTER