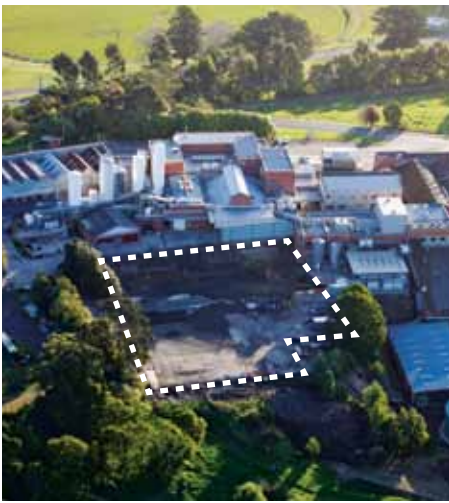


COMMUNITY REPORT

**BURRA
FOODS**
AUSTRALIA



So what do you get for \$50m?



August 2009

It was not without risk that this year we spent \$50m on the build and commissioning of our new MVR Milk Evaporator and Multi Stage Spray Drying Plant, but it has very quickly allowed us to implement a better business model that has seen us grow and significantly improve how we operate.

A few years ago we identified a unique opportunity to provide specialised dairy product to a wider, higher value market, but this required making a bold investment in our capital works, installing new equipment and significantly upgrading existing works.

As well as the evaporator and dryer we had to rebuild and expand our receiving bay, so tankers can now deliver 24 hours a day; install two new silos and wet processing equipment including cold bowl separators; upgrade our effluent and waste water treatment plant; and, undertake a range of general site improvements such as building a new road to improve tanker traffic flow from the receiving bay.



August 2010

Today, the dryer is delivering value-added dairy ingredients and commodity products to more stringent standards and tighter customer specifications.

Producing a new range of high quality dry products has allowed us to extend our global reach throughout Asia and the Middle East, while right here in South Gippsland we've provided over 40 new jobs and significantly widened our supplier network.

Since August our milk supply has doubled, with our annual target up from 123 to 250 million litres, and production is currently peaking at one million litres a day up from 250,000 litres.

This has been achieved while improving our environmental impact. The upgrade to our effluent plant and the instigation of state of the art water conservation and recycling measures has allowed us to recover more than 90% of the water extracted from the milk during the drying process. We either reuse this or feed into Coalition Creek, which is vastly helping to improve its health.

From Grant's Desk.



We have had our most challenging and exciting year since re-opening the factory in early 1991, converting from a factory with a heavy cream basis to one that has a healthy balance of butterfat and protein processing capacity and markets. Not only did our site redevelopment and dryer installation come in on time and on budget, but we've also extended our supplier base across Victoria while strengthening our existing supplier relationships, created over 40 new local jobs and improved our environmental footprint.

And we don't intend to stop there. We take great pride in these achievements, and will continue to build on them. We are committed to ongoing improvement and 'building a better business model', so we can keep delivering superior returns for all stakeholders – our suppliers, our shareholders and our community.

From all of us at Burra Foods we hope you have a merry Christmas and safe new year and we look forward to growing with you in 2011.

Sincerely,

Grant Crothers, CEO
grantc@burrafoods.com.au

Spending \$50m was worth every penny, and it is a tribute to all those involved in this major project, that went from drawing board to reality in just 18 months, that it came in on time and on budget.

Local suppliers continue to keep Burra in milk.

The expansion of the Burra factory resulted in the doubling of our annual milk intake and it was to the Victorian farming community we turned to meet this increase. In just a few short months our supplier base has grown to now include over 140 farming families right across the State.

Our supplier heartland is still in South and West Gippsland where we have many long standing and well established relationships, but we are now also working with many farmers for the first time across East Gippsland and Western Victoria.

Currently we process 12.5% of all milk produced in Gippsland, an achievement of which we are very proud. Not only will we continue to build strong relationships with suppliers right across Victoria but it means more cash will continue to be delivered back to farm gate and our community in the long term.



Getting the milk to Burra.

Keeping it local where possible is of vital importance to Burra and that includes the contractors we have selected to collect our milk.

Welshpool based Peter Stoitse Transport, specialists in farm milk collection, have been working successfully with us since 2005.

The company was founded by Peter Stoitse over 40 years ago and now operates approximately 70 trucks across 9 depots and employs over 200 people throughout Victoria.

Like us, Peter Stoitse Transport have invested further capital into the milk sector. This has included the purchase of new 19 metre b-double tankers and new prime movers. In addition the company continues to invest in obtaining key

people and training its existing staff in the latest technologies and methodologies.

This significant investment highlights the confidence Peter Stoitse Transport has in the dairy industry. By maintaining its commitment to the industry, Peter Stoitse Transport will ensure it remains a viable and competitive force whatever the economic situation.

With a much wider collection zone and more picks ups on a 24 hours basis, Peter Stoitse Transport has recruited extra drivers and purchased additional trucks and trailers to meet this demand.

In 2010, Peter Stoitse Transport will collect over 240M lts from 38,500 separate farm milk pick ups. To collect this volume the company has dedicated 12 vehicles, 23 full time drivers

and assisted by a further 13 seasonal drivers, to Burra Foods.

We continue to work with Peter Stoitse Transport to improve their systems and ensure that the service delivery to our suppliers we expect is maintained.

myfarm@burra

In November, Burra Foods launched the new Burra Foods Supplier Web Portal – myfarm@burra, an internet based information service allowing all suppliers greater access to production and quality information.

This service is simple and easy to access and navigate. It gives direct, immediate and secure access to all of our suppliers' own production and financial information.

Upon logging in, suppliers can access historical production and quality information and chart this information year on year. Furthermore, suppliers now have the ability to prepare their own cash flow and budget forecasts and compare the current season with previous seasons.



Forging community links to create local opportunities.

Burra is on course to spend \$100 million on purchasing milk from Gippsland farmers this year, but along with being a significant player in the local economy we are equally proud of our community contributions.

This includes sponsoring The Coal Creek Farmers Market and the Korumburra Rotary but it is our three year partnership with Korumburra Secondary College (KSC) that we believe is making the biggest difference.

Together with KSC we are providing students with traineeship opportunities and career information, to help increase their understanding of the potential futures available to them, particularly within the dairy industry.

This year our year 10 work experience program involved five students participating in a

'Chemical Spill Response' project, giving them the chance to work on a real life problem designed to encourage science based studies and careers.

Year 11 and 12 students attended two of our sponsored workshops – one focusing on 'Study Skills' conducted at Melbourne University and the other a 'Motivation & Time Management' workshop that was presented at the school.

The partnership is a great investment in the future of our community, and together with KSC we will continue to support and encourage the future careers of young people in Korumburra.



Providing opportunities for school leavers.

Sam Healey completed his VCE at KSC last year and was accepted into Science at Melbourne University. Not sure of exactly what he wanted to do, he commenced working with us during his gap year which has provided him with a clearer future.

Sam worked on a project to develop a new computer program dubbed 'Burrpedia' that tracks internal issues and is now in the lab gaining experience in microbiological testing.

But it was the opportunity to work with computers that has influenced the IT electives Sam is considering undertaking at Uni.

"My time here at Burra has given me a great insight – at first I just wanted a job, but to get one that gave me a potential career path... I'm pretty lucky." - Sam Healey

Now for the numbers.

Major site and technology upgrades over the past year did not affect overall revenues or production targets for 2010. The site improvements have laid the foundation for

Burra's on-going growth into 2011, which promises to be a very exciting year. We will see a significant increase in revenue matched by farm milk purchases growing to >\$100m.

	F'04	F'09	F'10
Employees and Contractors	53	81	93
Farm Milk Collected (M litres)	48.0	117.0	122.0
Manufacturing Output (M Tonnes)	11.6	15.9	16.9
Site Assets (\$M)	11.2	19.2	59.9
Total Revenues (\$M)	44.1	77.6	77.7
Farm Milk Purchased (\$M)	16.0	46.5	41.0
Salaries and Wages (\$M)	3.0	4.2	5.5
Services and Contractors (\$M)	6.7	8.2	7.9

So, what's it take to build a dryer?

Burra Foods has built the first spray milk dryer in Australia in nearly 10 years, and one thing was clear from the start – it would only succeed with detailed project planning and strong teamwork.

A key priority for this multi-million dollar project was timing. The dryer had to be operating by August 2010 in time for our peak season, which only gave us a window of just 18 months.

With the valuable assistance of Regional Development Victoria to co-ordinate and facilitate the approvals process, we worked closely with the State Government, the EPA and local government while Denmark based GEA Process Engineering, one of the world's leading system providers for food and dairy processes, undertook the design and manufacture of the dryer.

Challenges included undertaking an extensive asbestos survey that resulted in the eventual demolition of a disused 1950s boiler house. Of course, from day one occupational health & safety was given priority, and an open door policy with the CFMEU helped with the smooth running of the project and ensured problems were ironed out immediately.

Teams of builders, electricians and 40 specialist stainless steel pipe fitters and welders worked alongside four consulting engineers who practically lived on site, putting in over 15,000 hours between them. The dryer itself was manufactured in sections in workshops throughout Victoria, China and New Zealand with the various component parts then 'stitched' together in situ.

The effluent plant also required an upgrade to meet the demands of the new dryer. Two new 250 litre silos were installed and the trading store, that had been the tanker delivery point, was demolished and a drive-in delivery point that now allows us to operate 24 hours, seven days a week, was built.

To finalise the project, in 2011 a road will be built around our perimeter to enable suppliers to drive-in and drive-out without having to turn back into Station St.



What does the dryer offer?

In recognising the global need for safe, sustainable food, Burra Foods identified an opportunity to provide customers with a high value product from a reliable source.

In line with our core value 'Nobody is smarter than the market' we listened to what customers wanted before developing the appropriate dryer technology that could meet these needs.

With the new technology came a raft of new processes that have not only allowed us to significantly increase production of all our existing products but also create 'low thermophilic bacteria' or low spore skim milk and full cream milk powders. Crucial to this process is the ability to minimise the growth of bacteria while still maintaining quality.

The new products are particularly suited to warmer parts of the world such as Asia and

the Middle East, where low thermophilic spore counts are important for extended shelf life. They are also easy to dissolve, stable when heated and processed, and taste and behave much more like raw milk.

Importantly, we offer the guarantee of having product that comes from a safe source – and nowhere is safer than Victoria.



Core Values.

Over 10 years ago Burra Foods developed six core values – persistence, boldness, enthusiasm, respect, fun and the market. In 2010 we feel that we have over delivered on Persistence and Boldness.

Persistence – the installation of our new multi-million dollar spray dryer plant. This is the result of some five years of planning and waiting to get the time right. To ensure success we have had to establish a sustainable effluent treatment plant, wait for natural gas to be connected, upgrade the electricity supply to an underground high voltage cable with 2.5 times capacity, as well as recruit suppliers and staff.

Boldness – new capacity and new investment in a declining industry. It's well known that Australia's milk production has declined +/-25% on the highs of eight or nine years ago and that is a good reason for investment in increased capacity to halt. The Burra dryer is the first to be built in Australian in 10 years and a bold vote of confidence in the sustainability of the dairy industry in Victoria, especially Gippsland, soon after the fallout from the GFC reduced milk prices by some 30% in 2008.

Keeping up the pace on production.

This time last year we were processing 250,000 litres of milk a day, but the milk dryer has seen our production increase five-fold.

This growth would not have been possible or sustainable if we relied solely on the new technology. We had to rethink our operations from end to end, from how we handle our supplier line through to shipping the final product.

Recruiting the extra suppliers was crucial, but we also had to re-train existing staff and employ and integrate over 40 new staff – the bulk of whom had never worked with this type of equipment or processes before.

Today, our new receiving bay takes deliveries 24 hours a day, seven days a week and is currently accepting around 40-45 deliveries daily, or the equivalent of one million litres of raw milk.

Rotating crews of four groups of four people over 24 hour shifts ensure this complex equipment maintains a constant process of separation, holding, drying and filling, culminating in the automatic bagging of up to 110 tonnes of product a day.

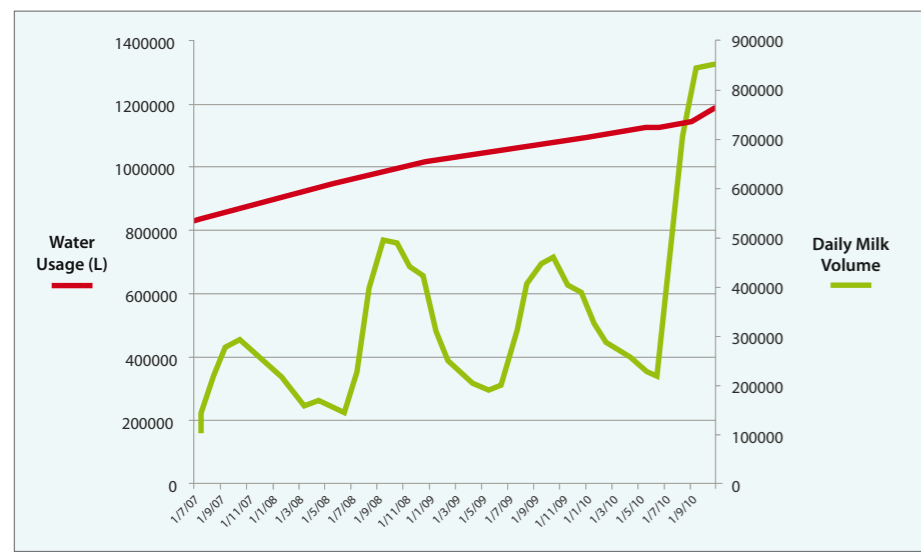
Our competitive advantage lies in the continual improvement of our processes. New quality systems and procedures to cover the support functions for the dryer, such as the

milk delivery processes, have been introduced and continue to be refined.

The dryer's unique low spore count technology that allows us to produce specialised skim milk and full cream milk powders, means the whole plant has to be closely and continually monitored for cleanliness. By rotating the silos and separators so they can be cleaned daily maintains a constant supply of milk to the dryer of approximately 50,000 litres an hour.

The introduction of the dryer has magnified the need for greater and better efficiencies and ushered in a period of cultural change throughout the Burra Foods organisation.

Reducing our impact on the environment.



At Burra Foods we take our environmental footprint seriously and are proud of our record. Our achievements include:

- Limiting the expansion until Natural Gas was available rather than use brown coal,
- Investing heavily in waste treatment after the Venus Bay Ocean Outfall was closed,
- Expanding production five-fold without a similar increase in water consumption (see chart),
- Returning 200 million litres of clean water to improve the health of Coalition Creek,
- Recycling 1,686,000 litres of waste water to the football club for irrigation, and
- Recycling 1,776,000 litres of nutrient rich sludge in a fertiliser substitution trial – results to date are promising!

More power to Burra Foods and Korumburra.

Access to reliable and efficient energy sources has provided Burra Foods with a secure future, while delivering benefits to the local community.

First was our conversion to Natural Gas in 2009, allowing us to initiate our plant redevelopment. The brown coal alternative was not an option given natural gas is cleaner and has a far better social outcome.

Electricity was our next challenge. Blackouts were already costing an estimated \$1 million a year in production lost, but the existing infrastructure could not meet the capacity required by the new spray dryer.

The answer was to lay 15 kilometres of underground high-voltage cabling between Leongatha and Korumburra, delivering an extra eight megawatts of power. This would not only meet our needs, but by releasing the excess capacity back into the grid would also provide the Korumburra community with more reliable power.

Working in partnership with the State Government we split the \$3.2 million cost



of this project 50/50. And, although it would have been cheaper to install overhead power lines, exposure to weather, falling trees and other possible disruptions to supply, along with social and environmental considerations, meant going underground was the right choice.

Laying the cables also involved developing an Australian Cultural Management Plan

to ensure that any potential traditional or historical sites were identified and assessed.

Having access to these improved energy sources has made possible on-going improvements in efficiency in the day to day running of our plant and will underpin future growth.

More jobs, unprecedented skills training.

This year has seen us make an enormous investment in staff. Having built the first spray dryer in Australia in a decade not only did we need extra resources but with no first hand experience of drying technology, we had a lot to learn, and learn fast.

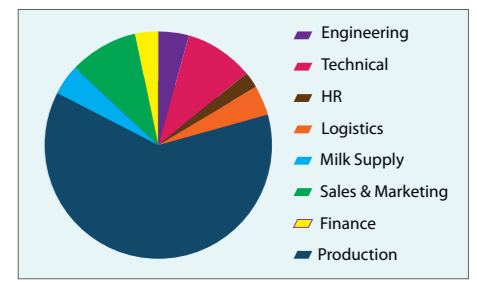
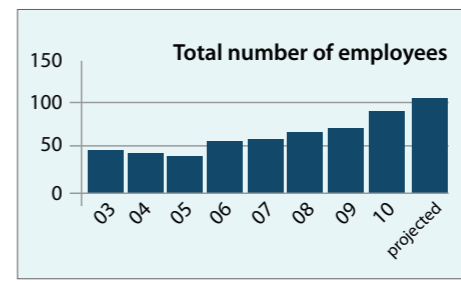
It was a gamble, but we made a conscious decision that 75% of our new workforce would be untrained. Not only would this provide a range of new career opportunities locally, but by training them alongside our existing staff we have been able to create a newly skilled and highly integrated workplace culture, vital to the success of the dryer.

So far we've employed 42 new staff, mainly in production. Over 80% already lived within 60kms of Korumburra while the other 20%

relocated here from as far a field as New Zealand.

For some, like dryer operator, Matt Johnson, they have found a new career. "I moved to Gippsland around six years ago, looking to escape the 'rat race'. Having a fairly diverse background I came armed with a wide range

of skills. When the position at Burra became available, I thought I had a lot to offer and the challenge of a "start up" operation sounded great. So far I have learnt a hell of a lot and each day presents a new challenge as the dryer moves from commissioning to full on production."



Trampoline gets a bounce interstate.

With the development of new extended shelf life (ESL) technology Trampoline has taken its delicious gelato interstate, with stores openings in Queensland and Northern Territory, and local franchisees who are helping ensure our success in these new markets.

The ESL process pasteurises the fresh milk to a higher temperature, extending the shelf life of our pre-churned bases from five to 30 days, which is then shipped interstate as a frozen liquid that can be churned on-site, just as we do in Melbourne.

With new stores at Indooroopilly in Brisbane and two Darwin stores, located in the Darwin Waterfront precinct and in Knuckey Street, opening earlier this year, we couldn't just rely

on the fact that gelato would do well in warmer climates, it was important the franchisees got our brand out there.

The franchisee's passion for the brand and desire to succeed along with our great new flavours and our promise of no artificial preservatives or colours are proving to be a winning mix. Melbourne's quieter winter months were off-set by interstate orders.

Shipping the frozen base product, which then needs two days to de-frost, takes about a week. ESL means franchisees now have another three weeks to churn the base into product with 8.5kg of base making up 10kg of gelato product. They then add inclusions such as pistachios, nougat, fresh fruit and even

Chocolate or chocolate coated rice bubbles to make Trampoline's unique, signature flavours.

Plans are afoot to open more stores interstate while we are very excited by our pending store opening in Melbourne at the Royal Children's Hospital in late 2011.



Reaching out globally.

Burra is now reaching new customers on a global scale with our low spore skim milk and full cream milk powders.

Our new 'dry' higher quality products have opened a very big door to Asia and the Middle East. Our business partner, and major buyer, Itochu is now purchasing 45%, around 20,000 MT, of our new product for the predominantly Japanese market.

The other 55% is now finding distribution in countries as diverse as Thailand, Singapore, Malaysia, Indonesia, the Philippines, China, Mauritius, Hong Kong as well as the United Arab Emirates, Yemen, Kuwait and Saudi Arabia.

Our existing 'wet' products, including Natural Australian Cream Cheese, frozen cream, whole milk and skim milk concentrates and skim milk products, are still being sold locally and overseas; our 'core' business continues to deliver strong value-add to our world class milk. Japan, Korea, Saudi Arabia, Hong Kong, Malaysia and Singapore purchase the majority of these products.



Innovation drives Burra suppliers.

Congratulations to all of our suppliers for their innovative work to improve their businesses and raise industry standards in a number of key areas, many of which have been recognised with industry awards and some great local headlines.

Kylie and Lucas Licciardello's passion for breeding quality cows earned the couple the 'Sharefarmer of the Year' by Genetics Australia. After winning the 'most improved entrant award' the year before, to get the major gong this time round is a credit to their on-going hard work and dedication.

For Foster dairy farmers Kevin and Helen Jones their successful farming practises and business nous saw them win the Westpac Agribusiness and Dairy Australia "Dairy Business Of The Year – Gippsland Region" and the "2010 Cow Efficiency Award".

Dairy farmers Grant and Leesa Williams are embracing technology to help them maximise production and have installed the robotic Lely Astronaut system. With the introduction of this latest technology, the Williams family aim to save labour and eventually milk up to 500 cows.

Congratulations also go to Weekly Times Milk Quality Award winners Chris and Peta Loughridge and Robert and Denise Clench for supplying milk with the lowest 5% bulk milk cell count in Australia. Robert and Denise also got an award for producing outstanding quality milk



and being named in the top 100 dairy farms in Australia based on bulk milk cell counts.

We are proud to be a major supporter of the local dairy industry and to have the opportunity to be associated with suppliers who show such dedication to their businesses and the future growth of dairy in Victoria.

Customer Profile – National Foods Industries Co.

National Food Industries Co, based in Saudi Arabia and part of the Hayel Saeed Group of Companies, is combining the traditional business of Burra Foods with the new opportunities for milk powders from the spray dryer.

NFIC have traditionally purchased our frozen cream for sterilised canned cream, but are now offering substantial growth opportunities with demand for our new products, particularly our low spore milk powders for UHT beverages and high heat stable milk powder for evaporated milk production. NFIC's range of products is marketed domestically in Saudi Arabia and re-exported to the Middle East and African regions. In addition, the Hayel Saeed Group has dairy factories in Yemen and Nigeria.

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