IN THE AUSTRALIAN COMPETITION TRIBUNAL

of 2013

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

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

Certificate identifying annexure

This is the annexure marked "DMN26" now produced and shown to David Michael Noonan at the time of signing his statement on 28 November 2013.

Annexure DMN26

WCB target's statement

Filed on behalf of Murray Goulburn Co-Operative Co Limited
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16 October 2013

The Manager
Company Announcements Office
ASX Limited

Release of Target's Statement in respect of Bega's offer

In compliance with Item 14 of section 633(1) of the Corporations Act 2001 (Cth), Warrnambool Cheese and Butter Factory Company Holdings Limited (ASX: **WCB**) is pleased to release its target's statement (**Target's Statement**) in response to the off market takeover bid by Bega Cheese Limited (**Bega**) for all the shares in WCB that Bega does not already hold (**Offer**).

The Target's Statement sets out the WCB Board's reasons for unanimously recommending that WCB shareholders **REJECT** Bega's Offer and other information that is material to shareholders in their assessment of the Offer.

The Target's Statement includes KPMG Corporate Finance's Independent Expert's Report and PricewaterhouseCoopers Securities Limited's Investigating Accountant's Report.

The Target's Statement has been served on Bega and lodged with the Australian Securities and Investments Commission today.

The Target's Statement will be dispatched later this week to WCB shareholders who received Bega's bidder's statement in respect of the Offer.

Yours faithfully

Paul Moloney
Company Secretary

Warrnambool Cheese and Butter Factory Company Holdings Limited
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ACN 071 945 232 ABN 15 071 945 232

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in any doubt as to how to deal with this document, please contact your legal, financial, taxation or other professional adviser. If you have any questions about the offer or this document please call the WCB Information Line on 1300 880 732 (toll free for callers within Australia) or +61 1300 880 732 (for callers outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT).

Warrnambool Cheese and Butter Factory Company Holdings Limited

WARRNAMBOOL EST'D 1888 CHEESE & BUTTER
FOR OVER 125 YEARS

TARGET'S STATEMENT

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU

REJECT

BEGA'S OFFER

To REJECT Bega's Offer DO NOTHING

FINANCIAL ADVISER
CIMB

LEGAL ADVISER
MinterEllison LAWYERS

Important notices

Target's Statement

This document is a Target's Statement dated 16 October 2013 and is issued by Warrnambool Cheese and Butter Factory Company Holdings Limited ACN 071 945 232 (**WCB**) under Part 6.5 Division 3 of the Corporations Act. This Target's Statement sets out the WCB Board's formal response to the offer made by Bega Cheese Limited ACN 008 358 503 (**Bega**) in its Bidder's Statement.

ASIC and ASX disclaimer

A copy of this Target's Statement was lodged with ASIC and given to ASX on 16 October 2013. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the content of this Target's Statement.

Bega information in this Target's Statement

The information in this Target's Statement in relation to Bega, Bega Shares and Bega's business has been prepared by WCB using publicly available information including the Bidder's Statement. WCB and its Directors are unable to verify the accuracy or completeness of that information. Accordingly, to the maximum extent permitted by law, WCB does not make any representation or warranty, express or implied, as to the accuracy or completeness of that information.

No account of personal circumstances

This Target's Statement does not take into account your individual investment objectives, financial situation or particular needs. It does not contain personal advice. WCB is not licensed to provide financial product advice in relation to WCB Shares, Bega Shares or any other financial products. This Target's Statement should not be relied on as the sole basis for any investment decision in relation to WCB Shares, Bega Shares or Bega's Offer generally. The Directors encourage you to obtain independent legal, financial, taxation or other professional advice before deciding whether or not to accept Bega's Offer.

Forward looking statements

Some statements in this Target's Statement are in the nature of forward looking statements. You should be aware that these statements are predictions only and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to WCB as well as general economic conditions and conditions in the financial markets, exchange rates, interest rates and the regulatory environment, many of which are outside the control of WCB and its Directors. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of WCB, any of its officers or any person named in this Target's Statement with their consent or anyone involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement or any events or results expressed or implied in any forward looking statement, except the extent required by law. You are cautioned not to place undue reliance on those statements.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement. WCB has no obligation to disseminate any updates or revisions to any statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless it is required to do so under Division 4 of Part 6.5 of the Corporations Act to update or correct this Target's Statement (i.e. for certain matters that are material from the point of view of a Shareholder) or under its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules.

Privacy statements

WCB has collected your information from the WCB share registry for the purpose of providing you with this Target's Statement. The type of information WCB has collected about you includes your name, contact details and information on your shareholding in WCB. The Corporations Act requires the name and address of Shareholders to be held in a public register.

Shareholder enquiries

WCB has established a Shareholder Information Line which Shareholders may call if they have any queries in relation to Bega's Offer.

The telephone number for the Shareholder Information Line is:

- 1300 880 732 (toll free for calls made from within Australia); or
- +61 1300 880 732 (for calls made from outside Australia).

The Shareholder Information Line is available Monday to Friday between 9.00am and 5.30pm (AEDT).

Defined terms

Certain terms used in this Target's Statement have defined meanings, as set out in Section 9 of this Target's Statement.

No internet site is part of this Target's Statement

No internet site is part of this Target's Statement. WCB (http://www.wcbf.com.au/) and Bega (http://www.begacheese.com.au/) maintain internet sites. Any references in this Target's Statement to these or other internet sites are textual references only and the information contained on the sites does not form part of this Target's Statement.

KEY DATES

Offer announced	12 September 2013
Date of Bidder's Statement	27 September 2013
Offer Period commences	2 October 2013
Date of Target's Statement	16 October 2013
Offer Period closes (unless Offer is extended or withdrawn)	28 November 2013

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Chairman's letter

16 October 2013

Dear fellow WCB Shareholder

REJECT Bega's Offer for your Shares – ignore any documents sent to you by Bega

You will have recently received documentation from Bega Cheese Limited (**Bega**) for an unsolicited and highly conditional offer to acquire your WCB Shares. Bega is offering 1.2 Bega Shares and $2.00 cash for every WCB Share you hold (**Offer**). Accordingly approximately two thirds of Bega's Offer consideration comprises Bega Shares.[1]

This document is our Target's Statement, which sets out the unanimous recommendations of your Directors to **REJECT** Bega's materially inadequate Offer and the reasons for that recommendation.

Your Directors believe that there are seven key reasons why you should REJECT Bega's Offer.

1. The Saputo Offer announced to ASX on 8 October 2013 is superior to Bega's Offer.
2. The Independent Expert has concluded that Bega's Offer is neither fair nor reasonable.
3. Bega's Offer is inadequate and does not reflect fair value for your WCB Shares.
4. The timing of Bega's Offer is highly opportunistic and fails to reflect the value of a number of recent business improvement initiatives undertaken by WCB.
5. Bega's Offer does not fully reflect the strategic value of WCB to Bega.
6. Bega's Offer is timed to exploit recent gains in Bega's Share price.
7. Bega's Offer is highly conditional and uncertain and may result in a potential further tax liability for WCB Shareholders.

Section 1.2 of this Target's Statement sets out in more detail each of these reasons for your Directors' unanimous recommendation to **REJECT** Bega's Offer. You should read these reasons carefully.

Each of your Directors who holds or controls WCB Shares intends to **REJECT** Bega's Offer in relation to those Shares.

TO REJECT BEGA'S OFFER, SIMPLY IGNORE ALL DOCUMENTATION SENT TO YOU BY BEGA.

WCB has a highly credentialed management team that is well placed to generate strong future returns from WCB's unique portfolio of dairy brands and assets. WCB has a number of business improvement initiatives that are well underway and which are expected to underpin WCB's outlook for improved performance. Details of those initiatives are set out in this Target's Statement.

I urge you to read this Target's Statement in its entirety and carefully consider Bega's Offer having regard to your own personal risk profile, investment strategy and tax position, and to seek independent legal, financial, taxation or other professional advice on the action (if any) that you should take in relation to Bega's Offer.

Your Directors will continue to keep you updated on all material developments with respect to Bega's Offer, the superior Saputo Offer and any other competing offer. In the meantime, if you have any questions in relation to this Target's Statement or your shareholding in WCB, please call our Shareholder Information Line on 1300 880 732 (toll free for callers within Australia) or +61 1300 880 732 (callers outside Australia) Monday to Friday between 9.00am and 5.30pm AEDT. All company announcements are available on our website, http://www.wcbf.com.au.

Yours sincerely,

T J Richardson

Terry Richardson
Chairman

1. Based on Bega Share price as at close of trading on 11 September 2013, being the last trading day prior to the announcement of Bega's Offer.

What do your Directors recommend?

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU

***REJECT* BEGA'S OFFER**

The reasons for this recommendation are set out in this Target's Statement

To REJECT BEGA'S Offer DO NOTHING

Ignore all documents sent to you by Bega

If you have any questions, please call the WCB Shareholder Information Line on 1300 880 732 (toll free for callers within Australia) or +61 1300 880 732 (for callers outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT).

Why you should REJECT Bega's Offer

1. **The Saputo Offer announced to ASX on 8 October 2013 is superior to Bega's Offer**
2. **The Independent Expert has concluded that Bega's Offer is neither fair nor reasonable**
3. **Bega's Offer is inadequate and does not reflect fair value for your WCB Shares**
4. **The timing of Bega's Offer is highly opportunistic and fails to reflect the value of a number of recent business improvement initiatives undertaken by WCB**
5. **Bega's Offer does not fully reflect the strategic value of WCB to Bega**
6. **Bega's Offer is timed to exploit recent gains in Bega's Share price**
7. **Bega's Offer is highly conditional and uncertain and may result in a potential further tax liability for WCB Shareholders**

Further details on each of these seven reasons for **REJECTING** Bega's Offer are set out in Section 1.2 of this Target's Statement.

Section 1

Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

1.1 Directors' recommendation and intentions

As at the date of this Target's Statement, the Directors of WCB and their respective interests in WCB Shares are set out in the table below:

Name	Position	Shares held by or on behalf of Director
Terry Richardson	Chairman, Non Executive Director	668
David Lord	Managing Director, CEO	10,000
Andrew Anderson	Non Executive Director	32,515
Kay Antony	Non Executive Director	7,735
John Gall	Non Executive Director	1,267,941
Bruce Vallance	Non Executive Director	76,312
Michael Carroll	Independent Director	None
Neville Fielke	Independent Director	None
Raymond Smith	Independent Director	None
John McLean	Associate Director	233,684
Bruce Morley	Associate Director	None
Total		**1,628,855**

Brief profiles of each of your Directors are provided in Section 5.8 of this Target's Statement.

Your Directors unanimously recommend that you REJECT Bega's Offer.

Each of your Directors intends to **REJECT** Bega's Offer in respect of all WCB Shares held by him or her or in which he or she otherwise has a relevant interest. These WCB Shares represent approximately 2.91% of all WCB Shares on issue as at the date of this Target's Statement.

The reasons for your Directors' unanimous recommendation to **REJECT** Bega's Offer are set out in Section 1.2 of this Target's Statement.

In evaluating Bega's Offer, your Directors encourage you to:

- read the whole of this Target's Statement, together with the Bidder's Statement;
- ensure you understand the consequences of accepting Bega's Offer, as noted in this Target's Statement and the Bidder's Statement;
- consider your alternatives as outlined in Section 3 of this Target's Statement;
- have regard to your individual risk profile, portfolio strategy, taxation position and financial circumstances; and
- if you are in any doubt as to what you should do in response to Bega's Offer, please seek independent legal, financial, taxation or other professional advice.

Your Directors will keep you informed of any material developments with respect to Bega's Offer, the superior Saputo Offer and any other competing offer.

1.2 Reasons why you should REJECT Bega's Offer

1. The Saputo Offer announced to ASX on 8 October 2013 is superior to Bega's Offer

On 8 October 2013 WCB announced to ASX that it had entered into a Bid Implementation Deed with Saputo Inc. (**Saputo**) for a recommended off-market takeover bid to acquire all WCB Shares for $7.00 cash per Share (**Saputo Offer**).

Your Directors unanimously recommend that WCB Shareholders accept the Saputo Offer, in the absence of a superior proposal. Subject to that same qualification, each of your Directors intends to accept the Saputo Offer for all WCB Shares they hold or otherwise control.

If you accept Bega's Offer you will NOT be able to participate in the Saputo Offer[1].

Your Directors' reasons for recommending the Saputo Offer, in the absence of a superior proposal, will be set out in full in a separate target's statement to be issued in early November 2013 in response to the Saputo Offer. We recommend that you wait to receive the documents for the Saputo Offer which will comprise Saputo's bidder's statement and WCB's target's statement in response.

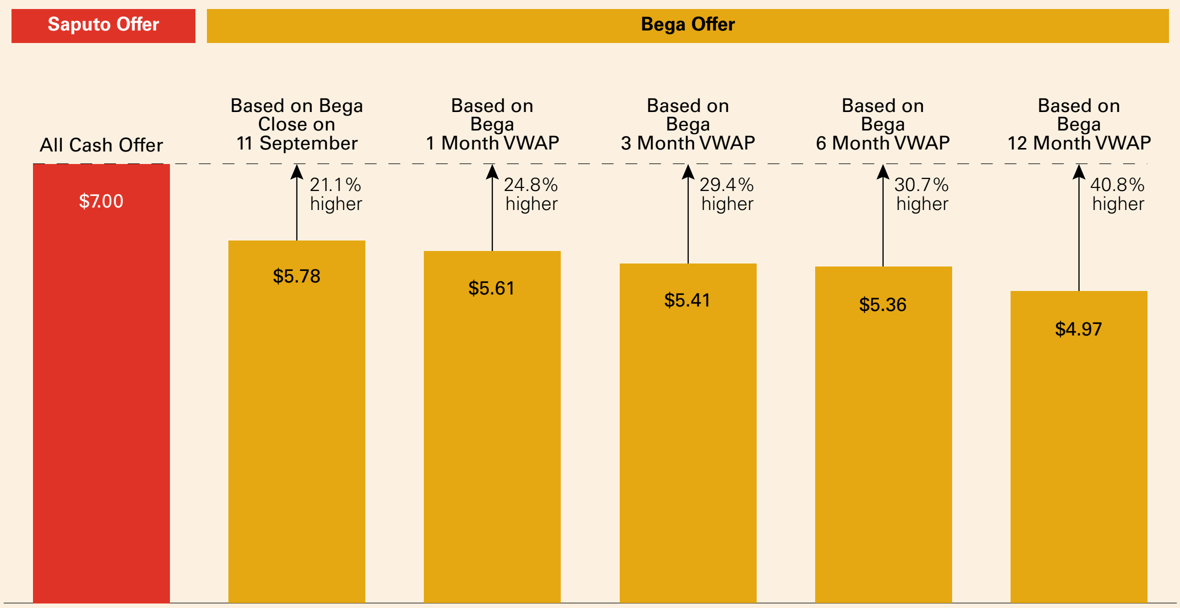
In the meantime and by way of summary, your Directors consider that the Saputo Offer is superior to Bega's Offer for the following reasons.

(a) Higher consideration

Saputo's Offer of $7.00 cash per WCB Share is 21.1% greater than the implied value of Bega's Offer of $5.78 per WCB Share, based on the Bega Share price as at the close of trading on 11 September 2013, being the last trading day prior to announcement of Bega's Offer.

Saputo's Offer represents a substantial premium to the implied value of Bega's Offer when calculated using a range of Bega trading metrics. As noted in reason 6 below, your Directors believe the value of the Offer Consideration implied by the recent trading price of Bega Shares should be treated with caution.

Saputo Offer consideration compared to implied value of Bega's Offer at various Bega trading metrics[2]



Source: IRESS, ASX announcements.

1. Subject to the potential availability of limited statutory withdrawal rights – see Section 4.10 of this Target's Statement.
2. VWAP of Bega Shares calculated to close of trading on 11 September 2013, being the last trading day prior to announcement of Bega's Offer.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

1. The Saputo Offer announced to ASX on 8 October 2013 is superior to Bega's Offer (continued)

(b) Special dividends and franking credits

Bega's Offer does not fully reflect the substantial value to Bega of WCB's franking credit balance. As at 30 September 2013 WCB had an available franking credit balance of $31.6 million, equivalent to $0.56 per WCB Share.

In contrast the Saputo Offer gives WCB the discretion to pay two fully franked special dividends of up to $1.31 per Share in aggregate. Any special dividends would be deducted from Saputo's offer price of $7.00 cash per Share payable by Saputo.

- If Saputo obtains an interest in at least 50.1% of WCB Shares, WCB may pay an initial special dividend of up to $0.46 per Share.
- If Saputo obtains an interest in at least 90% of WCB Shares, WCB may pay a subsequent special dividend of up to $0.85 per Share.

If both special dividends are paid under the Saputo Offer, those WCB Shareholders who can capture the full benefit of the franking credits associated with the special dividends would receive an additional benefit under the Saputo Offer valued at $0.56 per Share.

It is important to note that the value of franking credits varies depending on the tax position and tax residency of individual WCB Shareholders.

(c) 100% cash consideration

The Saputo Offer is an all cash offer and so provides certainty of value.

In contrast the value of the consideration under the Bega Offer comprises approximately 65% Bega Shares (based on the Bega Share price close on 11 September 2013). The value of Bega Shares and therefore a significant portion of the value of Bega's Offer consideration for your WCB Shares is uncertain and subject to market volatility. There is no guarantee that the price of Bega Shares will continue to trade at current levels.

(d) Less conditionality

The Saputo Offer is subject to fewer conditions than Bega's Offer. The financial thresholds applicable to certain conditions in the Saputo Offer provide WCB with materially more latitude and operational flexibility than the equivalent conditions under Bega's Offer. Accordingly your Directors consider that the Saputo Offer is not only superior in terms of value but also in terms of execution certainty.

(e) More certainty for the future of WCB's operations and employees

Bega's intentions regarding the future of WCB's operations and the continuing employment of its employees are uncertain. Bega has stated that these matters are all subject to review at the conclusion of the Offer Period. Furthermore Bega has identified a reduction in employee numbers as an area of potential synergies if it is able to acquire a relevant interest in more than 50% of WCB Shares.[1]

In contrast the Saputo Offer provides more certainty regarding the future of WCB's operations and the continuing employment of current employees. Saputo has informed WCB that if Saputo succeeds in acquiring 100% control of WCB, Saputo intends to:

- retain the Warrnambool Cheese and Butter name and corporate identity;
- continue to operate WCB's facilities at Allansford and Mil Lel and look to increase manufacturing capacity;
- retain and grow the *Warrnambool, Sungold, Great Ocean Road* and other brands;
- explore opportunities in the export market to further develop these valuable brands; and
- support WCB's strategy of building a portfolio of higher margin products and deliver more customer specific applications.

Given that Saputo does not currently have any activities in Australia, Saputo has informed WCB that it does not intend to rationalise or redeploy any of WCB's fixed assets. In fact Saputo has informed WCB that it would be looking to:

- invest further to expand WCB's operations by increasing existing capacity or building additional capacity;
- introduce new product lines, including from its own extensive portfolio of dairy products, as well as support WCB's own innovation and new product development to service the combined customer base;
- establish WCB as an important part of Saputo's global operations, the centre of Saputo's operations in Australia and its main platform from which to service the demand for dairy products in the Asia Pacific region; and

1. See e.g. sections 3.3(f) and 4.5 of the Bidder's Statement.

- seek to develop mutually beneficial relationships with the farmer suppliers of WCB through the payment of a leading competitive milk price to ensure that WCB remains the preferred customer for their milk and continues to grow its milk intake.

Saputo has informed WCB that as Saputo does not currently have a presence in Australia, it is Saputo's intention that:

- the business of WCB will continue to be managed by the current senior management as a new division within Saputo;
- the current employees will continue to be employed by WCB; and
- WCB, as a division within Saputo, will be able to provide expanded career and development opportunities for its employees, a result of being part of a global organisation while maintaining strong Australian roots.

Saputo's intentions as outlined above are based on Saputo acquiring 100% control of WCB and on the operating and financial position of WCB and its commercial circumstances at that time remaining the same in all material respects as they are currently.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

2. The Independent Expert has concluded that Bega's Offer is neither fair nor reasonable

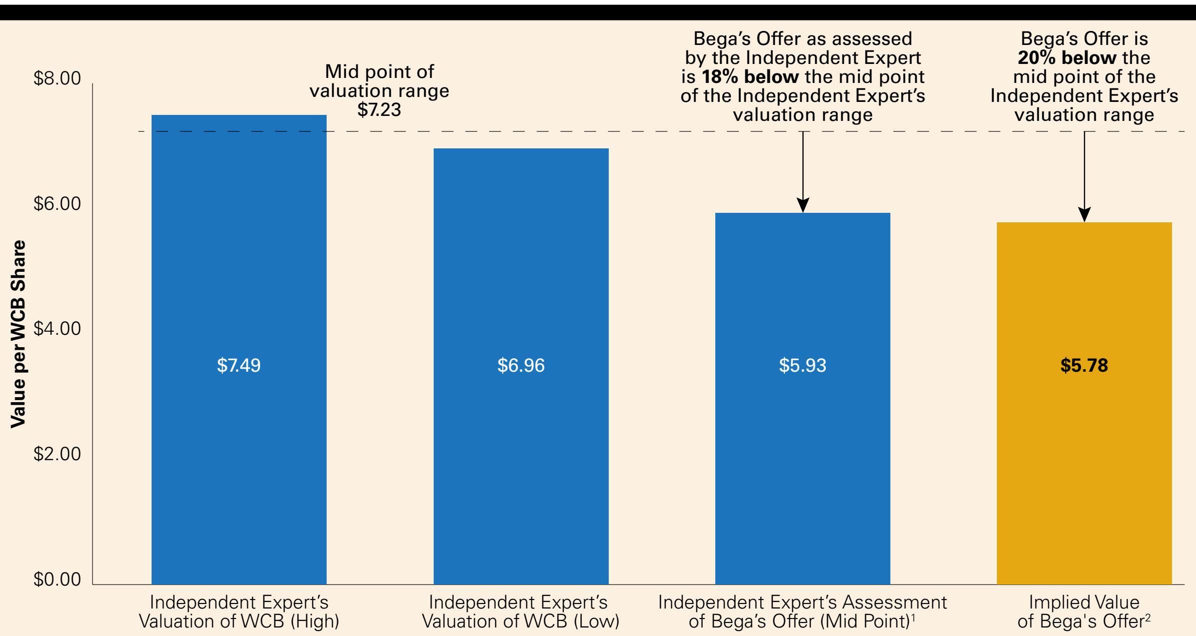
WCB engaged KPMG Corporate Finance[1] (**KPMG CF**) to prepare an Independent Expert's Report in response to Bega's Offer for the benefit of WCB Shareholders.

The Independent Expert has concluded that Bega's Offer is NEITHER FAIR NOR REASONABLE and that the value of Bega's Offer Consideration is lower than its assessed valuation range for WCB Shares.

The Independent Expert has assessed the value of WCB on a 100% controlling interest basis to be in the range of $6.96 to $7.49 per WCB Share.

Since Bega's Offer comprises a large share component, the Independent Expert has also assessed the implied value of Bega's Offer to be in the range of **$5.77 to $6.08** per WCB Share.

The implied value of Bega's Offer is $5.78 per WCB Share as stated in Bega's Bidder's Statement, calculated based on the Bega Share price as at the close of trading on 11 September 2013. This is **20% below** the mid point of the Independent Expert's assessed value range of WCB, being $7.23 per WCB Share.



Sources: Independent Expert's Report, Bega's Bidder's Statement.
Notes:
1. Mid point of Independent Expert's assessment of Bega's Offer of $5.77 to $6.08 per WCB Share.
2. Implied value of Bega's Offer based on the closing Bega Share price on 11 September 2013, being the last trading day prior to announcement of Bega's Offer.

The Independent Expert has said regarding Bega's Offer:

> *"KPMG Corporate Finance has assessed the Offer as not fair to WCB Shareholders as we have assessed the underlying value of a share in WCB (on a controlling basis) to fall within the range of $6.96 to $7.49 whilst our range of assessed value for the Offer is in the range $5.77 to $6.08."*

The Independent Expert's conclusion is that Bega's Offer is **NEITHER FAIR NOR REASONABLE**. The Independent Expert's valuation range of **$6.96 to $7.49** per WCB Share supports your Directors' view that Bega's Offer is inadequate and undervalues your WCB Shares.

The Independent Expert's Report is included as Appendix 1 to this Target's Statement. Your Directors encourage you to review that report as part of your assessment of Bega's Offer.

1. A division of KPMG Financial Advisory Services (Australia) Pty Ltd.

3. Bega's Offer is inadequate and does not reflect fair value for your WCB Shares

The WCB Board believes that Bega's Offer is inadequate based on an assessment of the value of WCB including its future earnings growth and profitability.

WCB's pro forma forecast FY14 Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) is $51.1 million. This is significantly higher than EBITDA of $25.5 million reported for FY13. Please refer to Section 6 of this Target's Statement for full details of this forecast including the underlying assumptions, sensitivity analysis and risk factors.

WCB engaged PricewaterhouseCoopers Securities Ltd (**PwC**) to undertake an independent review of WCB's FY14 forecast. PwC's Investigating Accountant's Report is included as Appendix 2 to this Target's Statement. WCB Shareholders should note the scope and limitations of the Investigating Accountant's Report.

As noted in reason 2 above, the Independent Expert has concluded that Bega's Offer is neither fair nor reasonable. In arriving at that conclusion the Independent Expert has selected a maintainable EBITDA for WCB of between $46.2 million to $48.7 million having regard to the historical financial results and operations of WCB, management's estimated forecasts for FY14 and WCB's strategic plans. The Independent Expert's Report is included as Appendix 1 to this Target's Statement.

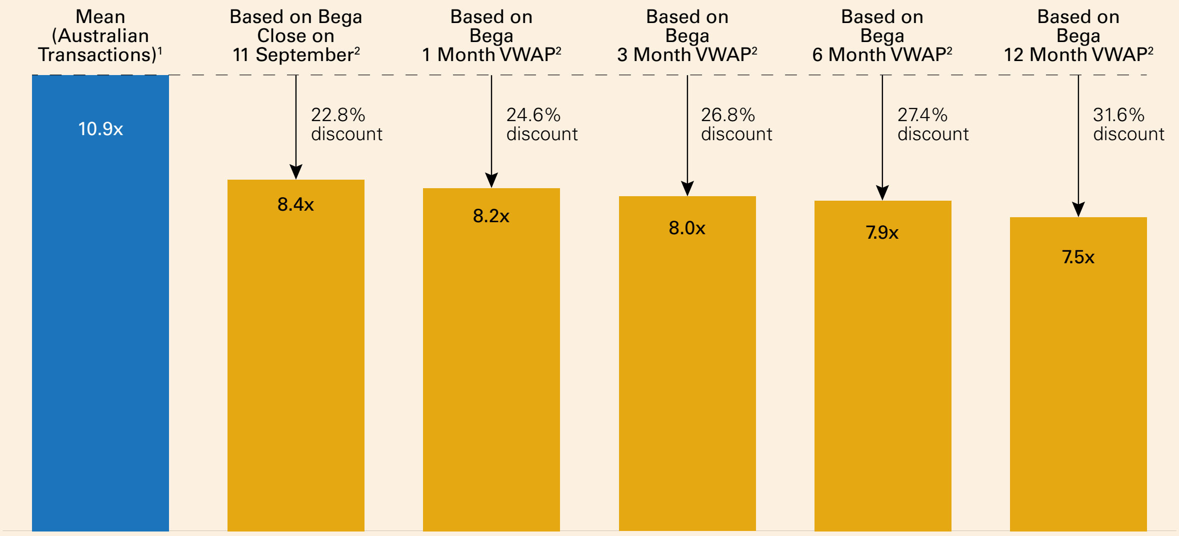
	Year ended 30 June 2013 Actual	KPMG CF Maintainable Range	Year ended 30 June 2014 Management Forecast
EBITDA	$25.5 million	$46.2 million to $48.7 million	$51.1 million

Bega's Offer undervalues your WCB Shares based on earnings multiples in comparable transactions

Bega's Offer (based on the Bega Share price close on 11 September 2013) implies a comparatively low EV/EBITDA multiple of 8.2 to 8.6 times based on the Independent Expert's estimate of a maintainable EBITDA range of $46.2 million to $48.7 million.

As presented below, the implied multiple of Bega's Offer is substantially below the average of multiples paid in comparable transactions in the Australian dairy sector of 10.9x EBITDA. This average is based on analysis summarised in the Independent Expert's Report in Appendix 1 to this Target's Statement.

Comparison of implied EV/EBITDA[3] multiples at various Bega trading metrics[4] with comparable transactions in the Australian dairy sector



Sources:
1. Australian transaction multiples sourced from Independent Expert's Report.
2. VWAP calculations based on share price data from IRESS.

Notes
3. EBITDA of $47.5 million, based on the mid point of the Independent Expert's maintainable EBITDA range of $46.2 million to $48.7 million. Calculation of Enterprise Value (EV) based on 56.0 million shares on issue, 68,627 performance rights held by management and net debt of $75.5 million (as at 30 June 2013).
4. VWAP of Bega Shares calculated to close of trading on 11 September 2013, being the last trading day prior to announcement of Bega's Offer.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

3. Bega's Offer is inadequate and does not reflect fair value for your WCB Shares (continued)

Bega's Offer does not reflect the value of WCB's franking credit balance

Bega's Offer does not reflect the substantial value to Bega of WCB's franking credit balance.

As at 30 September 2013 WCB had an available franking credit balance of $31.6 million, equivalent to $0.56 per WCB Share. In comparison Bega had a much lower available franking credit balance of $3.9 million as at 30 June 2013.

If Bega succeeds in acquiring 100% of WCB, Bega will receive all of the benefit from WCB's franking credit balance.

Bega has made no reference to these franking credits in its Bidder's Statement. If Bega acquires control of WCB, WCB Shareholders will not fully share in the value of their own franking credits.

The Saputo Offer enables WCB Shareholders to realise the value of WCB's franking credit balance

As noted in reason 1 above the Saputo Offer gives WCB the discretion to pay two fully franked special dividends of up to $1.31 per WCB Share in aggregate. Those WCB Shareholders who can capture the full benefit of the franking credits associated with the special dividends would receive an additional benefit valued at $0.56 per WCB Share. It is important to note that the value of franking credits varies depending on the tax position and tax residency of individual WCB Shareholders.

4. The timing of Bega's Offer is highly opportunistic and fails to reflect the value of a number of recent business improvement initiatives undertaken by WCB

Your Directors consider that Bega's Offer has been opportunistically timed to leverage the Board's expected improvement in WCB's future financial performance including the expected contribution from recent business improvement initiatives.

Market conditions are expected to impact positively in FY14 and FY15

WCB expects market conditions to deliver strong financial results for WCB and its Shareholders in FY14 and FY15. Higher global dairy commodity prices combined with a weaker Australian dollar have positively impacted WCB FY14 year to date trading. WCB's management expects these factors to continue to contribute to a much improved forecast pro forma EBITDA of $51.1 million in FY14.

Management forecast exchange rates and commodity prices

	Actual	Forecast	
	Year ended 30 June 2013	Year ending 30 June 2014	Change (%)
Average realised exchange rate (AUD:USD)	1.0307	0.9385[1]	(9%)
Export Skim Milk Powder (USD per tonne)	3,336	4,453	33%
Export Butter (USD per tonne)	3,648	4,234	16%
Export Cheese (USD per tonne)	3,995	4,484	12%
Export WPC (USD per tonne)	10,541	10,478	(1%)

Source: WCB management. See Section 6.6(a) for further detail on key assumptions.

A third party analysis has commented:

> *"While international dairy prices peaked in April, prices remained exceptionally strong through Q3 – with forward pricing on the global dairy trade (GDT) platform suggesting we are amidst an unprecedented period of high pricing in terms of level and duration."* Rabobank Dairy Quarterly Q3 2013[2]

Full details of this forecast including the underlying assumptions, sensitivity analysis and risk factors are provided in Section 6 of this Target's Statement. WCB engaged PwC to undertake an independent review of WCB's forecast for FY14. PwC's Investigating Accountant's Report is included as Appendix 2 to this Target's Statement. WCB Shareholders should note the scope and limitations of the Investigating Accountant's Report.

WCB is well advanced with implementing business improvement initiatives that are contributing to an optimal product mix, higher margins and earnings diversification

Your Directors expect these initiatives to contribute significantly to WCB's financial performance in FY14 and future years. An example is the Tatua lactoferrin initiative described below:

Tatua lactoferrin initiative

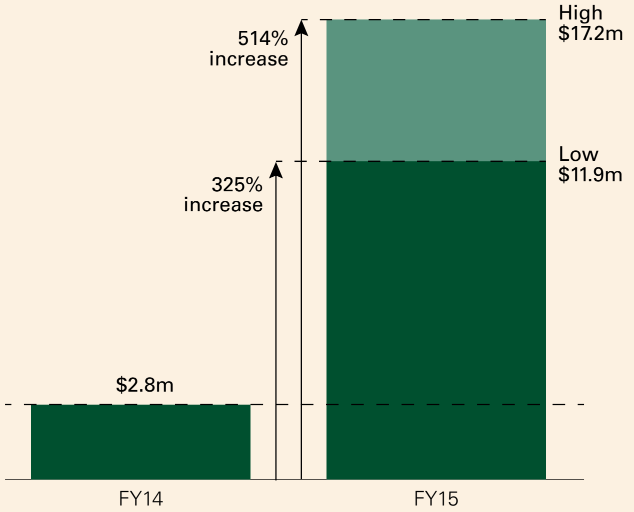
- To take advantage of Asia's strong demand for infant formula, WCB and The Tatua Cooperative of New Zealand (**Tatua**) have entered into a technology and services agreement, under which Tatua will license WCB to use Tatua's intellectual property in relation to the extraction and processing of lactoferrin from milk. Lactoferrin is primarily used as a functional ingredient in premium infant formulations.
- WCB is currently constructing the lactoferrin plant at its Allansford site, with Tatua providing design and construction services to assist WCB in achieving optimal operating performance. Commissioning of the lactoferrin plant is expected around the end of the second quarter of FY14.
- Management expects the EBITDA contribution in FY14 will be $2.8 million.
- Management expects the EBITDA contribution in FY15 will be between $11.9 million and $17.2 million[3].

1. Future foreign exchange commitments are partly hedged. This rate represents the assumed rate for unhedged exposures.
2. Rabobank Dairy Quarterly Q3 2013, *Chinese supply crisis to delay dairy price adjustment.*
3. FY15 EBITDA estimate based on annual production of approximately 30 tonnes and operating costs per tonne consistent with FY14 production. The key variables underlying this range are selling prices and the AUD:USD exchange rate.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

4. The timing of Bega's Offer is highly opportunistic and fails to reflect the value of a number of recent business improvement initiatives undertaken by WCB (continued)

Lactoferrin EBITDA contribution



Source: WCB management estimates.

Further details of the Tatua lactoferrin initiative and other business improvement initiatives are set out in Section 5.4 of this Target's Statement.

WCB has strong prospects as a globally focused manufacturer of value added dairy products

WCB operates one of Australia's largest, most diverse and efficient dairy plants that is strategically located adjacent to one of Australia's best dairy supply regions. WCB's single site milk processing facility and diversity of operations enables it to optimise its product mix and operate one of the highest utilised dairy manufacturing plants in Australia. WCB continues to invest in value creating initiatives for the benefit of its Shareholders and suppliers.

For this reason WCB has historically attracted interest from a number of domestic and global dairy and Fast Moving Consumer Goods industry participants. WCB has joint ventures and material agreements with Lion, Kraft, Royal FrieslandCampina and Mitsubishi Corporation.

Overview of recent WCB JVs and material agreements

TATUA	2013	Licence agreement with Tatua for lactoferrin
Mitsubishi Corporation	2012	Exclusive agreement to supply premium milk powders to Mitsubishi Corporation in Japan
LION	2010	Extension of cheese supply agreement
WCB Japan	2008	Joint venture with Mori International in Japan for the exclusive distribution of WCB product in Japan
FrieslandCampina	2007	Great Ocean Ingredients joint venture with Royal FrieslandCampina

WCB continues to have an active dialogue with other industry participants on strategic initiatives to leverage WCB's position to create value for WCB's Shareholders, as well as its farmer suppliers and other stakeholders.

For example, before Bega's Offer was announced WCB was well advanced on the formation of a new strategic joint venture. Negotiations for entry into binding joint venture documentation had progressed substantially. The announcement of Bega's Offer created uncertainty in terms of the ability to continue those negotiations, as entry into the joint venture could potentially have breached one of Bega's Offer Conditions that prohibits WCB from, among other things, entering into new joint ventures. As a result of that uncertainty, negotiations with the prospective joint venture partner have now ceased. Your Directors consider that this is a relevant consideration in terms of your overall assessment of Bega's Offer. No earnings relating to this new strategic joint venture have been included in the FY14 forecast.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

5. Bega's Offer does not fully reflect the strategic value of WCB to Bega

Your Directors consider that Bega's Offer materially understates the potential synergies from a combination of Bega and WCB. In its Bidder's Statement, Bega identifies approximately $7.5 million in cost savings and other synergy benefits (excluding one off integration costs) if it succeeds in acquiring 100% of WCB. Bega has not provided full details, calculations or assumptions to support its estimate of $7.5 million in synergies.

WCB estimates that the synergies from combining WCB with Bega are likely to be in the range of $16.5 million to $23.3 million, or a mid point of $19.9 million (excluding one off integration costs).

WCB's low point estimate of $16.5 million in synergies assumes that there is no closure of Bega or WCB operating facilities. WCB management has identified additional potential synergies if Bega were to close WCB's Mil Lel facility and Bega's Coburg facility of $6.8 million (items 6 and 7 in the table below), which results in $23.3 million of total potential synergies.

WCB's estimate of potential synergies available to Bega is explained below.

Comparison of Bega and WCB estimates of potential synergies

	Synergy categories[1]	Bega estimate	WCB estimate	Explanation of WCB estimate
1.	Removing duplication of costs across the operations of the combined group including such areas as head office, senior executive and corporate costs	Not disclosed	$14.2 million	Costs adjusted based on the consolidation of corporate offices. Minimal support staff required in Warrnambool for the manufacturing facility to be retained as a stand alone operation within Bega
2.	Removing costs associated with WCB being listed on ASX	Not disclosed	$0.2 million	Listing costs adjusted to reflect a larger single listed entity. Costs retained for an increased consolidated Board and increased auditor fees
3.	Leveraging scale benefits of non-milk supplier services and inputs procurement	Not disclosed	$0.8 million	Procurement benefits on packaging, chemicals, maintenance and pallet hire. Estimated savings are for WCB procurement only and not for a combined group
4.	Enhanced milk flow management	Not disclosed	Not quantifiable	Not quantifiable given limited detail in Bega's Bidder's Statement
5.	Improved milk solids management	Not disclosed	$1.3 million	Product mix change relating to improved whey management
6.	Better alignment of the production of dairy products to enhance the performance of the manufacturing facilities of Bega, Tatura Milk Industries and WCB	Not disclosed	$4.9 million	Closure of the Coburg plant (Bega) and the Mil Lel plant (WCB). Shifting production to the more efficient Allansford plant and shifting cut and wrap to Bega's facilities

1. As stated by Bega in section 4.5 of its Bidder's Statement.

Comparison of Bega and WCB estimates of potential synergies				
	Synergy categories[1]	Bega estimate	WCB estimate	Explanation of WCB estimate
7.	Improved transport management	Not disclosed	$1.9 million	Transport savings from the closure of the Coburg plant and redirection of milk to WCB's Allansford plant from the south west catchment area and liquid whey transportation
8.	Leveraging best practice processes and systems	Not disclosed	Not quantifiable	Not quantifiable given limited detail in Bega's Bidder's Statement
	Total – Low	**$7.5 million**	**$16.5 million**	**Excluding amounts related to the closure of Coburg and Mil Lel plants (items 6 and 7 above)**
	Total – High	**Not disclosed**	**$23.3 million**	**Including all categories above**

Source: WCB management estimates.

WCB's estimate of synergies implies an additional $9.0 million to $15.8 million of synergies over and above Bega's stated synergies estimate of $7.5 million. Under Bega's Offer, if Bega were to obtain a relevant interest in 100% of WCB, WCB Shareholders would only receive approximately 27% of Bega's Shares on completion. **Therefore most of the benefit of these synergies would be retained by Bega's existing shareholders.**

WCB Shareholders should be aware that statements made in this Target's Statement in relation to synergy benefits potentially available to Bega are based on WCB senior management's general business judgement with respect to the combination of the operations of WCB and Bega, and not on any specific information concerning WCB or Bega.

Therefore these statements reflect WCB senior management's best estimates in relation to these synergy benefits. WCB's identification of expected synergies and their estimated value are matters of future expectation. The realisation of some or all of these synergies (and the quantum of their actual impact) is subject to a number of known and unknown risks and uncertainties. It is possible that Bega may not achieve all or some of the synergies referred to in this Section.

In particular these synergies may not be achievable if Bega does not acquire 100% ownership of WCB. Additionally it can be expected that it would take some time before the full value of any synergy benefits would be available to Bega.

The Directors and senior management of WCB are not in a position to form a view as to the length of this period. Further the actual synergies realised and their quantum are likely to depend on, among other things, the success of Bega's management in integrating WCB's business, the strength of that management team and the potential impact of one or more of the risks identified in section 6 of the Bidder's Statement and Section 5.7 of this Target's Statement.

In these circumstances WCB Shareholders and others should be aware that WCB is not in a position to say whether Bega will achieve these synergy benefits and the actual outcomes may differ from those described above.

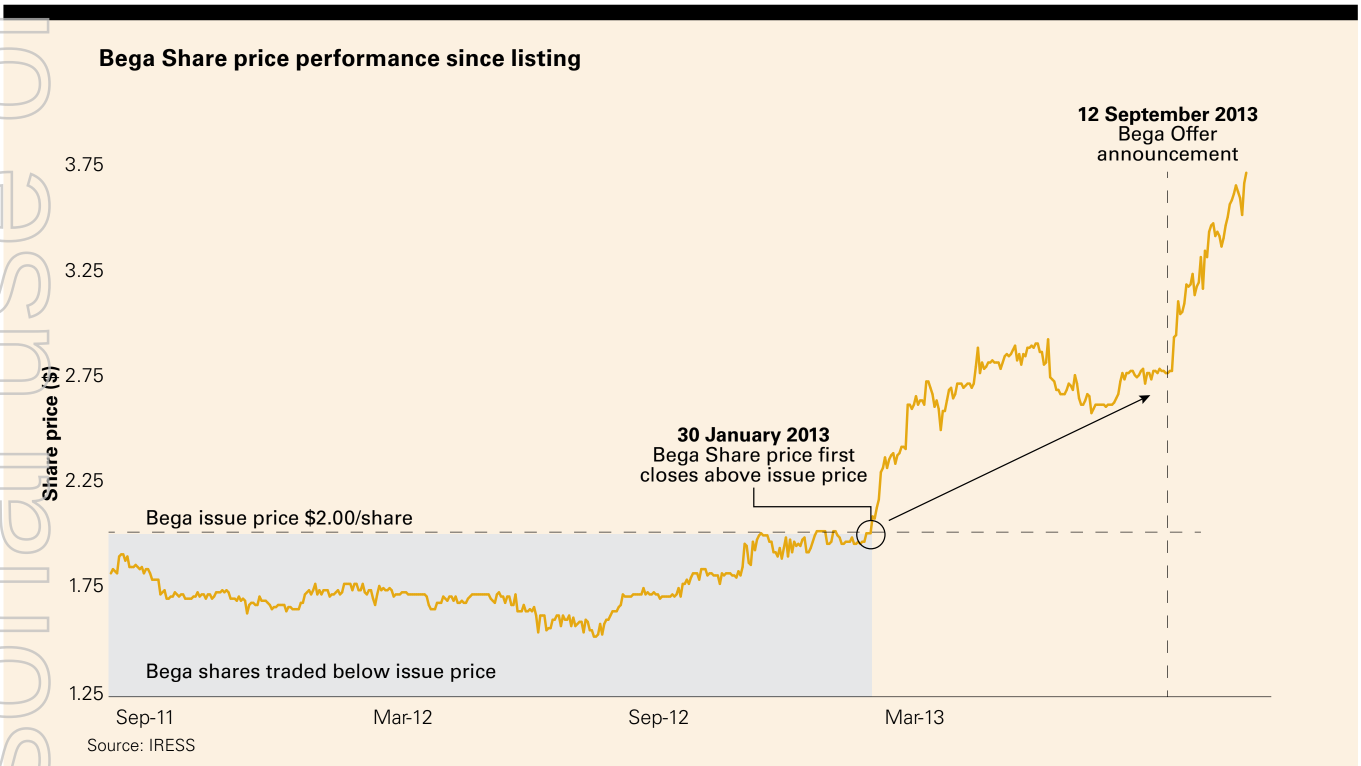
1. As stated by Bega in section 4.5 of its Bidder's Statement.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

6. Bega's Offer is timed to exploit recent gains in Bega's Share price

Bega's Offer Consideration comprises approximately 65% share consideration (based on the Bega Share price close on 11 September 2013). Given the significant share component of the Offer Consideration, your Directors consider that Bega's Offer is opportunistically timed to take advantage of the recent improvement in its share price.

Bega's recent share price performance should be treated with caution by WCB Shareholders given Bega's history of share price underperformance. As highlighted below the price of Bega Shares did not close above its initial public offering issue price of $2.00 per share until January 2013, being almost 18 months after Bega's listing on ASX in August 2011.



The value of Bega Shares, and therefore a significant portion of the value of Bega's Offer Consideration for your WCB Shares, is uncertain and subject to market volatility. There is no guarantee that Bega Shares will continue to trade at their current levels.

Your Directors note that the market price of Bega Shares has risen since the Offer was announced and have closed as high as $3.85 on 15 October 2013. Your Directors do not consider that the current market price of Bega Shares is an appropriate reference point for measuring the implied value of Bega's Offer. Your Directors consider that the Bega Share price has been substantially inflated partly as a result of the significant increase in the market price of WCB Shares since the announcement of Bega's Offer and the announcement of the superior Saputo Offer, noting that Bega currently holds approximately 18% of WCB Shares. More generally your Directors consider that the current Bega Share price is not representative of the current underlying value of Bega.

Your Directors consider that it is more appropriate to assess the implied value of Bega's Offer and all premia calculations by reference to the undisturbed market price of Bega Shares and WCB Shares before Bega's Offer was publicly announced. This is consistent with the approach adopted by the Independent Expert.

The maximum number of Bega Shares which would be required to be issued to WCB Shareholders under Bega's Offer is approximately 55.2 million[1]. This represents an increase of approximately 36% in Bega's current issued share capital. As there is no capacity for WCB Shareholders to elect to receive 100% cash for their WCB Shares under Bega's Offer, there is a risk that some WCB Shareholders who accept Bega's Offer may not intend to hold their Bega Shares in the long term. Those former WCB Shareholders may instead seek to realise the cash value of their Bega Shares by selling them on market. If there is a large number of former WCB Shareholders who seek to sell their Bega Shares received under Bega's Offer within a short period after Bega's Offer closes, this may place downward pressure on the market price of Bega Shares.

1. Based on 56.0 million WCB Shares on issue, 68,627 Performance Rights held by WCB management and 10.0 million WCB Shares currently held by Bega. In section 7.2 of its Bidder's Statement, Bega states that the maximum number of Bega Shares which would be required to be issued to WCB Shareholders under its Offer is approximately 54.4 million, which was based on WCB Shares on issue excluding those issued on 27 September 2013 under WCB's Dividend Reinvestment Plan.

7. Bega's Offer is highly conditional and uncertain and may result in a potential further tax liability for WCB Shareholders

No minimum acceptance condition creates uncertainty

The absence of a minimum acceptance condition creates uncertainty about the likely outcome of Bega's Offer.

In its Bidder's Statement Bega outlines three possible outcomes from its Offer, one being that Bega increases its ownership interest in WCB to 30% but below 50% at the close of Bega's Offer.

In that case, Bega states that it will *further enhance the skills and capabilities of the WCB Board*.

Bega does not explain how it will achieve this. WCB is concerned about the interests of all WCB Shareholders under the above outcome given that Bega is a competitor of WCB.

Lack of detail about Bega's intentions and strategic plans for WCB

Although Bega has outlined in section 3 of its Bidder's Statement its intentions and strategic plans for WCB, these intentions are heavily qualified as being subject to review and conditional on the outcome of these reviews.

WCB finds Bega's lack of detail concerning since:
- Barry Irvin, Executive Chairman of Bega, was on the board of WCB from November 2011 until March 2013; and
- Bega appears to have clearly formed its intentions in relation to the $7.5 million in synergies it has identified from the combination of Bega with 100% of WCB.

Bega Shares are less attractive than WCB Shares

There are different considerations associated with owning Bega Shares that do not currently apply to you as a WCB Shareholder because of the significant differences between the WCB and Bega operating businesses. These are summarised below.

WCB		Bega	
✓	WCB processes approximately 900 million litres of milk[1] at a large, highly efficient site	✗	Bega processes approximately 700 million litres of milk across smaller production facilities
✓	WCB is a manufacturer of value added dairy commodities for global growth markets	✗	Bega generates a significant portion of its revenues from a high volume low margin contract packing business for the highly competitive domestic retail market
✓	WCB retains full ownership of its brands including *Great Ocean Road*, *Sungold* and *Warrnambool*	✗	Bega granted Fonterra the sole and exclusive licence to use the *Bega* trade mark in 2001 for a 25 year term with an option in favour of Fonterra for a further 25 years
✓	WCB's exports comprised 46% of FY13 sales by value	✗	Bega's exports only comprised 30% of FY13 sales by value
✓	WCB's average EBITDA margin from FY11 to FY13 was 7%	✗	Bega's average EBITDA margin from FY11 to FY13 was 6%

Source: ASX announcements.

Scrip for scrip roll over relief is uncertain

In order for WCB Shareholders to benefit from scrip for scrip roll over relief from Capital Gains Tax, Bega must own at least 80% of the voting shares in WCB at the conclusion of Bega's Offer. There is no guarantee that Bega will achieve this level of acceptance because:
- Bega's Offer has no minimum acceptance condition; and
- Murray Goulburn, a key WCB Shareholder, has a 17.26% shareholding and it is unclear whether or not it will accept Bega's Offer.

Accordingly it is uncertain whether scrip for scrip roll over relief from Capital Gains Tax will be available to WCB Shareholders.

1. Based on FY13 milk intake.

1. Reasons why your Directors unanimously recommend that you REJECT Bega's Offer

7. Bega's Offer is highly conditional and uncertain and may result in a potential further tax liability for WCB Shareholders (continued)

If scrip for scrip roll over relief is not available, this may result in a potential further Capital Gains Tax liability in relation to the scrip component of the Offer Consideration for WCB Shareholders who accept Bega's Offer. See Section 7 of this Target's Statement for further details of the tax consequences of Bega's Offer.

Highly conditional

Bega's Offer is highly conditional, being subject to 14 different Conditions (with several sub Conditions).

WCB Shareholders will only receive the Offer Consideration if all 14 Conditions are satisfied or waived. As at the date of this Target's Statement, Bega has not satisfied or waived any of these Conditions.

Your Board believes that there is a material risk that a number of the Conditions may not be satisfied and therefore are likely to require waiver if Bega's Offer is to proceed. Please refer to Section 4.2 of this Target's Statement for an analysis of the nature of the Conditions and their impact on the prospects of success of Bega's Offer.

Unless all of Bega's Offer Conditions are satisfied or waived by Bega before the end of the Offer Period, Bega's Offer will lapse and no Offer Consideration will be received by any WCB Shareholders who have accepted Bega's Offer.

Furthermore WCB Shareholders who accept Bega's Offer will lose the ability to deal with their WCB Shares including accepting the superior Saputo Offer or accepting any other potential higher competing offer, except in certain limited circumstances.

Section 2

Frequently asked questions

2. Frequently asked questions

This Section answers some questions you may have about Bega's Offer. It is not intended to address all relevant issues for Shareholders. This Section should be read together with all other parts of this Target's Statement.

Question	Answer
Bega's Offer	
What is Bega offering for my WCB Shares?	Bega is offering 1.2 Bega Shares and $2.00 cash for every WCB Share you hold.
Did WCB have any knowledge of Bega's intention to make its Offer?	No. Bega informed WCB of Bega's intention to make Bega's Offer just before Bega lodged its Bidder's Statement with ASX and ASIC on 11 September 2013. Bega's Offer was unsolicited by WCB.
What choices do I have in response to Bega's Offer?	As a Shareholder you have the following three choices in respect of your WCB Shares: • **REJECT** the offer and remain a WCB Shareholder[1] – to REJECT Bega's Offer simply DO NOTHING – ignore all documents sent to you by Bega; • sell your WCB Shares on ASX (unless you have previously accepted Bega's Offer and you have not validly withdrawn your acceptance); or • accept Bega's Offer. There are implications for you in relation to each of these choices. An outline of these implications is set out in Section 3 of this Target's Statement.
Will WCB remain listed on the ASX?	That depends on the outcome of Bega's Offer. If Bega obtains greater than 80% of WCB, Bega states that it will seek to delist WCB from the ASX. Any proposal to delist WCB from the ASX will require ASX's consent and may be subject to conditions imposed by the ASX.
What do your Directors recommend?	Your Directors unanimously recommend that you **REJECT** Bega's Offer. The reasons for your Directors' recommendation are set out in Section 1.2 of this Target's Statement. If there is a change in this recommendation or any material developments in relation to Bega's Offer, WCB will keep you fully informed.
What do your Directors intend to do with their own Shares?	Each Director who holds or otherwise has a relevant interest in WCB Shares intends to **REJECT** Bega's Offer in relation to those WCB Shares.
Is there an Independent Expert's Report?	Yes. Your Directors engaged KPMG CF to prepare an Independent Expert's Report on Bega's Offer for the benefit of WCB Shareholders. KPMG CF has concluded that Bega's Offer is **neither fair nor reasonable**. The Independent Expert's Report is included as Appendix 1 to this Target's Statement.

1. Note: even if you reject Bega's Offer, it is possible that your WCB Shares may be compulsorily acquired, so that you would not remain a WCB Shareholder. Compulsory acquisition of your WCB Shares would require Bega to acquire a relevant interest in at least 90% of all WCB Shares, either immediately after Bega's Offer closes or at a future point in time. See further Section 4.7 of this Target's Statement.

Question	Answer
When do I have to make a decision?	If you wish to follow your Directors' recommendation to **REJECT** Bega's Offer, you do not need to do anything. You should **IGNORE** all documents received from Bega. If you wish to accept Bega's Offer, you must do so before its scheduled closing date. Bega has stated that its Offer remains open until 7.00pm (Melbourne time) on 28 November 2013. It is possible that Bega may choose to extend the Offer Period in accordance with the Corporations Act. In addition the Offer Period may be extended automatically in certain circumstances. See section 9.1.5 of the Bidder's Statement for details of the circumstances in which the Offer Period can be extended.
Will Bega increase its Offer?	Bega has not declared its Offer to be final. Accordingly Bega could increase its Offer if it chooses[1]. However WCB cannot speculate on whether Bega will increase its Offer as this is a matter for Bega.
What happens if Bega increases its Offer?	Your Directors will carefully consider any revised Offer from Bega and advise you accordingly. If you have accepted Bega's Offer, you will be entitled to any increase in Bega's Offer.
What happens if I accept Bega's Offer and a superior offer is subsequently made by a third party for my WCB Shares?	If you accept Bega's Offer, you are only able to withdraw your acceptance in the following limited circumstance: if Bega varies its Offer in a way that postpones for more than one month the time by which Bega must meet its obligations under its Offer, for example, by extending the Offer Period for more than one month while Bega's Offer remains conditional. Accordingly if you accept Bega's Offer, you may be unable to accept the Saputo Offer or any other superior offer that may emerge.
What happens if I do nothing?	You will remain a WCB Shareholder. If Bega acquires 90% or more of WCB Shares and Bega's Offer becomes unconditional, Bega states that it intends to compulsorily acquire your WCB Shares. See Section 4.7 of this Target's Statement for more details. If Bega acquires between 50% and 90% of WCB Shares and Bega's Offer becomes unconditional, you will be a minority shareholder in WCB. The implications of this are described in Section 4.6 of this Target's Statement.
If I accept Bega's Offer now, can I withdraw my acceptance later?	Generally no. You may only withdraw your acceptance if Bega varies its Offer in a way that postpones the period Bega is required to satisfy its obligations by more than one month and Bega's Offer is still subject to one or more Conditions. This will occur if Bega extends the Offer Period by more than one month while Bega's Offer is still subject to any Condition.

1. On 12 October 2013 Bega issued a second supplementary Bidder's Statement in which Bega states that it has no present intention to increase its Offer Consideration but reserves the right to do so.

2. Frequently asked questions

Question	Answer
Can Bega extend the closing date of its Offer?	Yes. Bega has stated that its Offer remains open until 7.00pm (Melbourne time) on 28 November 2013. It is possible that Bega may choose to extend the Offer Period in accordance with the Corporations Act. In addition the Offer Period may be extended automatically in certain circumstances. See Section 4.10 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.
Can I be forced to sell my WCB Shares?	You cannot be forced to sell your WCB Shares unless Bega is legally allowed to proceed to compulsory acquisition of WCB Shares. This requires Bega to acquire at least 90% of all WCB Shares (under Bega's Offer or otherwise). If Bega does compulsorily acquire the outstanding WCB Shares you will receive the same consideration for your WCB Shares that you would have received under Bega's Offer but it will take longer for you to receive the Offer Consideration. For more information about compulsory acquisition refer to Section 4.7 of this Target's Statement.
Can I accept Bega's Offer for only some of my WCB Shares?	Yes. The terms of Bega's Offer allow you to accept Bega's Offer for some or all of your WCB Shares.
When will I receive my Bega Shares and cash if I accept Bega's Offer?	It is important to understand that even if you accept Bega's Offer, you will not receive any Bega Shares or cash unless all of the Conditions are satisfied or waived. If Bega's Offer becomes unconditional, you will receive your Offer Consideration by the earlier of: • one month after the date of your acceptance of Bega's Offer or, if Bega's Offer is subject to a Condition when you accept Bega's Offer, within one month after the contract arising from your acceptance of Bega's Offer becomes unconditional; and • 21 days after the end of the Offer Period.
Are there any taxation implications of accepting Bega's Offer?	A general outline of the tax implications for certain Australian resident WCB Shareholders of accepting Bega's Offer is set out in Section 7 of this Target's Statement. As that outline is general in nature and does not take into account your individual circumstances, you should not rely on that outline as advice for your particular circumstances. You should seek your own independent taxation advice as to the taxation implications applicable to your specific circumstances.

Question	Answer
Offer Conditions and their implications	
What are the conditions of Bega's Offer?	Bega's Offer is highly conditional. In summary, the key Conditions to Bega's Offer are: • no ACCC intervention; • Bega shareholders approve the removal of the current 10% share ownership limit under Bega's constitution; • no regulatory actions; • no counterparties to WCB material contracts exercise rights to accelerate repayment of debt, terminate or modify the contract as a result of any change of control of WCB arising under Bega's Offer; • no material acquisitions, disposals or new commitments by WCB; • no WCB material adverse change; • no WCB prescribed occurrences; • no agreement by WCB to pay a break fee, cost reimbursement or similar payment to the proponent of a competing takeover or other proposal; • WCB provides Bega with access to the same confidential information that WCB may provide to the proponent of a competing takeover or other proposal; and • the S&P/ASX All Ordinaries index does not close below 4,500 for 3 consecutive days. The Conditions are set out in full in section 9.2 of the Bidder's Statement. To receive the Offer Consideration, all of the Conditions must be satisfied or waived by Bega before the Closing Date of Bega's Offer. Please refer to Section 4.2 of this Target's Statement for a discussion of the Conditions and their implications.
Are there any risks of accepting Bega's Offer while it is still conditional?	Yes. If you accept Bega's Offer now while Bega's Offer is subject to Conditions, there are significant consequences for you including that: • you will give up your rights to sell your WCB Shares on ASX or to otherwise deal with them (for example, by accepting the Saputo Offer or any other superior offer from another bidder if such an offer is made), subject to your right to withdraw your acceptance of Bega's Offer in certain circumstances; and • you will relinquish control of your WCB Shares and the Rights attaching to them to Bega with no guarantee of payment until Bega's Offer becomes unconditional, subject to your right to withdraw your acceptance of Bega's Offer in certain circumstances.
What happens if I accept Bega's Offer and the Conditions are not satisfied or waived?	If the Conditions are not satisfied and Bega has not waived the Conditions before the end of the Offer Period, Bega's Offer will lapse and your acceptance of Bega's Offer will be void and of no effect whatsoever. This in turn means that: • you will not receive any Offer Consideration from Bega; and • you will continue to own your WCB Shares and you will then be free to deal with them.
How will I know when Bega's Offer is unconditional?	Bega is required to inform WCB, ASX and Shareholders as soon as any Conditions are satisfied or waived. Notices from Bega will be available on the ASX website at www.asx.com.au (ASX code: BGA). These notices will also be available on WCB's ASX company announcement platform. Bega has set 20 November 2013 as the date on which it will give WCB and ASX a notice required by law on the status of the Offer Conditions. This date may be extended if the Offer Period is extended.

2. Frequently asked questions

Question	Answer
Murray Goulburn and Bega's Offer	
What has Murray Goulburn said about Bega's Offer?	Murray Goulburn is a major Shareholder of WCB, holding approximately 17.26% of all WCB Shares as at the date of this Target's Statement. As at the date of this Target's Statement, Murray Goulburn has not made any public statement as to whether or not it intends to accept Bega's Offer.
General	
I am an overseas Shareholder. How does Bega's Offer affect me?	If you are an Ineligible Foreign Shareholder and accept Bega's Offer, you will not be entitled to receive Bega Shares. Instead the Bega Shares to which you would otherwise be entitled will be sold by a nominee approved by ASIC and the net proceeds of sale paid to you (in addition to the $2.00 cash per Share component of Bega's Offer Consideration).
What if I have further questions?	You should contact your legal, financial, taxation or other professional adviser. If you have any questions about Bega's Offer or this document please call the WCB Information Line on 1300 880 732 (toll free for callers within Australia) or +61 1300 880 732 (for callers outside Australia) Monday to Friday between 9.00am and 5.30pm (AEDT).

Section 3

Your choices as a WCB Shareholder

3. Your choices as a WCB Shareholder

Your Directors unanimously recommend that you **REJECT** Bega's Offer.

You have the following three choices available to you.

1. REJECT Bega's Offer

To **REJECT** Bega's Offer you should **DO NOTHING**. This is the course of action unanimously recommended by your Directors.

You are not required to take any action in relation to Bega's Offer. In particular you should not complete or return the Acceptance Form that accompanied the Bidder's Statement nor should you respond to any documentation sent to you by Bega or any other communication from Bega (including telephone solicitation or canvassing by Bega or its representatives).

If you decide to do nothing, you should be aware of the rights of Bega to compulsorily acquire your WCB Shares in certain circumstances. For information on compulsory acquisition, refer to Section 4.7 of this Target's Statement.

2. Sell your WCB Shares on ASX

During the Offer Period, you may sell your WCB Shares on market through the ASX for cash, provided you have not already accepted Bega's Offer for those Shares (or, if you have accepted Bega's Offer, provided you have validly withdrawn that acceptance). See Section 4.5 for details as to how to withdraw your acceptance of Bega's Offer.

The latest trading price for WCB Shares may be obtained from the ASX website www.asx.com.au using the code *WCB*.

If you sell your WCB Shares on market, you will receive the consideration for that sale of your Shares sooner than if you accept Bega's Offer while it is subject to Conditions. If you sell your WCB Shares on market, you:

- will lose the ability to accept Bega's Offer and receive the Offer Consideration (and any possible increase in the Offer Consideration) in relation to those Shares;
- will lose the ability to accept the superior Saputo Offer or any other offer from a competing bidder if one eventuates;
- may be liable for Capital Gains Tax on the sale;
- may incur a brokerage charge;
- will lose the opportunity to receive future returns from WCB in relation to those WCB Shares; and
- may receive consideration for your Shares the value of which is lower than the control value of your WCB Shares as assessed by the Independent Expert.

You should contact your broker for information on how to sell your WCB Shares through the ASX and your tax adviser to determine your tax implications from such a sale.

3. Accept Bega's Offer

WCB Shareholders who accept Bega's Offer:

- will not receive the Offer Consideration unless and until each of the 14 Conditions of Bega's Offer are satisfied or waived;
- will not be able to withdraw their acceptance and sell their WCB Shares, meaning that they would not be able to accept the superior Saputo Offer or any other offer from a competing bidder if one eventuates, except in certain limited circumstances. See Section 4.5 of this Target's Statement; and
- may be liable to pay tax on the disposal of their WCB Shares which may have financial consequences for some WCB Shareholders. See Section 7 of this Target's Statement for further details of the tax consequences of Bega's Offer.

WCB Shareholders who wish to accept Bega's Offer should refer to the Bidder's Statement for how to do so.

Section 4

Information about Bega's Offer and other important issues

4. Information about the Offer and other important issues

4.1 Summary of Bega's Offer

The Offer	Bega is offering to acquire all of your WCB Shares. You may accept Bega's Offer for **some or all** of your WCB Shares.
Offer Consideration	Bega is offering 1.2 Bega Shares plus $2.00 cash for every 1 WCB Share you hold. The Offer Consideration will only be received if all of the Conditions of Bega's Offer are satisfied or waived.
Ineligible Foreign Shareholders	WCB Shareholders resident outside Australia and New Zealand are not entitled to receive Bega Shares under Bega's Offer. If you are an Ineligible Foreign Shareholder and you accept Bega's Offer you will receive the net cash proceeds of sale of the Bega Shares to which you would otherwise be entitled (in addition to the $2.00 cash per Share component of the Offer Consideration). See Section 4.9 of this Target's Statement for further details.
Offer Conditions	Bega's Offer is subject to 14 Conditions. See Section 4.2 of this Target's Statement for further details. The Offer Consideration will only be received if all of the Conditions of Bega's Offer are satisfied or waived.
Bega has not yet declared its Offer final	Bega has not declared its Offer final. Accordingly it is open to Bega to increase the Offer Consideration following any negotiation with the WCB Board or in response to any competing takeover or other similar proposal being announced by a third party[1]. If Bega improves the Offer Consideration, the Corporations Act entitles any WCB Shareholder who has already accepted Bega's Offer to receive the benefit of the improved Offer Consideration. Nevertheless there are still substantial risks of accepting Bega's Offer while it remains conditional. See Section 4.2 of this Target's Statement.
Offer closing date	Bega's Offer is scheduled to close at 7.00pm (Melbourne time) on 28 November 2013 unless Bega's Offer is extended or withdrawn.
Procedural aspects	The Offer Period may be extended by Bega. The Offer Period may be required by law to be extended in certain circumstances. Bega's Offer may be withdrawn in limited circumstances. Bega must notify WCB and ASX on the status of Conditions by a certain date. If you accept Bega's Offer and all of the Conditions are satisfied or waived, Bega is required to provide your Offer Consideration within a certain timeframe. These and other procedural aspects of Bega's Offer are outlined in Section 4.10 of this Target's Statement.

1. On 12 October 2013 Bega issued a second supplementary Bidder's Statement in which Bega states that it has no present intention to increase its Offer Consideration but reserves the right to do so.

4.2 Conditions of Bega's Offer

Bega's Offer is subject to 14 Conditions which are set out in full in section 9.2 of the Bidder's Statement.

Unless all of these Conditions are satisfied or waived by Bega before the end of the Offer Period,[1] Bega's Offer will lapse and no consideration will be received by any WCB Shareholders who have accepted Bega's Offer. Furthermore WCB Shareholders who accept Bega's Offer will lose the ability to deal with their WCB Shares including accepting the Saputo Offer or any potential higher competing offer, except in certain limited circumstances.

When considering how these Conditions might affect the prospects of success of Bega's Offer, you should be aware of the following matters as more fully set out in the table below:

- many of the Conditions are wholly or partly out of WCB's control;
- there is no certainty on whether the Conditions will be satisfied; and
- many of the Conditions require WCB to take (or refrain from taking) various actions, where satisfying those Conditions may not be in the interests of WCB Shareholders.

Condition (adopting the Condition numbering in section 9.2 of the Bidder's Statement)*		Likely to be satisfied?
1	**ACCC**: the ACCC consents or states that it will not object to Bega's acquisition of WCB	Unknown. This Condition is wholly outside WCB's control.
2	**Bega shareholder approval**: Bega shareholders approve a proposed amendment to its constitution to remove the current shareholding limit of 10%	Unknown. This Condition is wholly outside WCB's control.
4	**No WCB material adverse change**: no act, omission, event, change, condition, matter or thing occurs or is announced which results in or is reasonably likely to result in a reduction in the consolidated net assets of WCB by at least $10 million or a reduction in future recurring profit before income tax of WCB by at least $5 million per year	Unknown. Nothing has come to the attention of the Board which indicates that this Condition will not be satisfied. However unforeseen events may emerge during the Offer Period which are wholly or partially outside of WCB's control and which may lead to a breach of this Condition.
6	**No change of control rights**: no person exercises, becomes entitled to exercise or validly states an intention to exercise rights under agreements with WCB to accelerate the repayment of debt greater than $10 million, to terminate or modify or not renew the agreement, to terminate or modify a joint venture agreement or require WCB's interest in that joint venture to be transferred, redeemed or disposed or that requires WCB to acquire a third party's interest in a joint venture	Potentially not. As set out in Section 4.3 Bega's Offer may trigger certain change of control clauses in material contracts which may lead to a breach of this Condition during the Offer Period. The Saputo Offer does not have this Condition.

1. Or in the case of Condition 9.2.3 *No Prescribed Occurrences during the Offer Period*, by the end of three Business Days after the end of the Offer Period.

4. Information about the Offer and other important issues

	Condition (adopting the Condition numbering in section 9.2 of the Bidder's Statement)*	Likely to be satisfied?
7	**No material acquisitions, disposals or commitments**: WCB Group enters into any new material transactions (acquisitions, disposals or new commitments such as capital expenditure, subject to various exclusions that allow *ordinary course of business* transactions)	Potentially not. WCB is not currently aware of any matters that have arisen since the Announcement Date, or which are reasonably likely to arise during the Offer Period, which are likely to breach this Condition. Nevertheless given the overall extent to which this Condition restricts WCB's activities over a potentially lengthy period, it is possible that by pursuing opportunities in the interests of WCB Shareholders this Condition could be breached in the future. For example it may be unclear whether capital expenditure required to be incurred on various value accretive expansion projects would fall within the *ordinary course of business* exception. There may also be other opportunities which WCB may wish to pursue during the Offer Period. WCB will make any decision to pursue such an opportunity, or take any other action, having regard to the best interests of WCB Shareholders, the fiduciary duties of WCB and its Directors and the applicable policies of the Takeovers Panel. Although the Saputo Offer has a similar condition, the financial thresholds applicable to that similar condition provide WCB with materially more latitude and operational flexibility than the equivalent Condition 7 under Bega's Offer.
11	**No new performance rights**: WCB issues or grants any new performance rights	Potentially not. WCB is seeking Shareholder approval at its Annual General Meeting to be held on 24 October 2013 to grant further performance rights to WCB's CEO, David Lord, up to the value of $175,000.

Condition (adopting the Condition numbering in section 9.2 of the Bidder's Statement)*		Likely to be satisfied?
12	**Equal information access**: WCB provides to Bega a copy of any of its non public confidential information that WCB provides to a third party outside the ordinary course of business, including to any proponent of a competing takeover or other corporate control proposal	If WCB solicits or otherwise receives a competing takeover offer or other corporate control proposal from a third party, WCB may wish to provide that party with access to WCB's confidential information e.g. to assist that party with its due diligence enquiries. WCB may determine that it is not appropriate to share that information equally with Bega, as it is a competitor. Legally there is no requirement for WCB to provide equal access to its information to multiple potential acquirers. WCB wrote to Bega shortly after its Offer was announced expressing concern with this Condition. In response Bega has undertaken[1] that it will not rely on this Condition in circumstances where: • WCB receives a request for non public information from a third party for the purposes of a competing proposal; and • the Board acting in good faith determines that: – the competing proposal is or may reasonably be expected to lead to a superior proposal; – failing to provide the non public information to the third party would be likely to constitute a breach of the Board's fiduciary or statutory duties; and – the provision of the same non public information to Bega, being a competitor of WCB's business, could expose WCB to competitive detriment if the competing proposal succeeds or neither the competing proposal or Bega's Offer succeeds. WCB has provided certain confidential information to Saputo in response to its request for specific information to assist Saputo's evaluation of WCB.

1. See section 8.14A of the Bidder's Statement.

4. Information about the Offer and other important issues

	Condition (adopting the Condition numbering in section 9.2 of the Bidder's Statement)*	Likely to be satisfied?
13	**No break fees**: WCB agrees (whether conditionally or unconditionally) to make any payment by way of break fee, inducement fee, cost reimbursement or otherwise to any proponent of a competing takeover or other similar proposal for WCB	WCB wrote to Bega shortly after its Offer was announced expressing concern with this Condition. In response Bega has undertaken[1] that it will not assert that WCB has engaged in frustrating action by entering into an arrangement that involves the payment of a break fee, inducement fee, cost reimbursement or otherwise, provided that the arrangement is consistent with the Takeover Panel's guidance as enunciated in its *Guidance Note 7 – Lock-up devices*. WCB notes that in the context of the Saputo Offer WCB has agreed to pay a break fee to Saputo in certain circumstances. See WCB's announcement dated 8 October 2013 for full details of this break fee arrangement. WCB considers that this break fee arrangement is consistent with the Takeover Panel's guidance on *Lock-up devices*. Nevertheless the undertaking provided by Bega to WCB does not preclude Bega from relying on the break fee arrangement that WCB has entered into with Saputo as a basis for saying that this Condition 13 has now been breached. In other words, unless Bega waives this Condition 13, the break fee arrangement that WCB has entered into with Saputo means that this Offer Condition is breached. It follows that unless Bega waives this Offer Condition any acceptances of Bega's Offer would be void and of no effect.
14	**No market material adverse change**: the S&P/ASX All Ordinaries Index does not close below 4,500 for three consecutive trading days	Unknown. This Condition is wholly outside WCB's control.

* This is a summary of Conditions only. The Conditions are set out in full in section 9.2 of the Bidder's Statement.

4.3 Potential effect of Bega's Offer on WCB's material contracts

WCB has identified a number of material contracts to which WCB or a related body corporate of WCB is a party that contain change of control provisions which may be triggered as a result of, or as a result of acceptances of, Bega's Offer.

A summary of the relevant provisions of these agreements is set out below. This information has been included in this Target's Statement because:

- it may impact on the future prospects of WCB if Bega obtains a relevant interest in more than 50% of WCB Shares. This may be relevant to WCB Shareholders who remain as minority Shareholders in WCB; and
- it may be relevant in assessing the likelihood of the *No change of control rights* Condition of Bega's Offer being satisfied or waived. See section 9.2.6 of the Bidder's Statement.

1. See section 8.14A of the Bidder's Statement.

The relevant provisions are set out below.

(a) Cheese supply agreement between WCB Factory and National Foods Australia Pty Ltd

This agreement sets out the terms on which WCB Factory manufactures certain cheese products and supplies and sells those cheese products to National Foods Australia Pty Ltd.

Under this agreement if a change of control occurs in relation to a party without the consent of the other party, the other party may within 12 months from the change of control terminate the agreement on at least a further 12 months notice. A change of control would be triggered if Bega becomes entitled to more than 50% of WCB Shares or votes cast at a meeting of WCB Directors.

(b) Supply agreement between WCB and Woolworths Ltd

This agreement sets out the terms under which WCB supplies and sells dairy products to Woolworths Ltd.

Under this agreement if a change of control occurs Woolworths Ltd may immediately terminate this agreement. A change of control would be triggered if Bega obtains a relevant interest in more than 50% of WCB Shares.

(c) Agreement between WCB Factory and Kraft Foods Limited

This agreement sets out the terms under which WCB Factory sells milk and butterfat to Kraft Foods Limited and purchases milk from Kraft Foods Limited milk suppliers. This agreement also governed the terms relating to the purchase by WCB Factory of the Mil Lel and Simpson sites from Kraft Foods Limited.

Under this agreement if a third party acquires more than 25% of the voting rights attached to WCB Shares Kraft Foods Limited may terminate this agreement at any time.

(d) Joint venture agreement between WCB and Royal FrieslandCampina

This agreement governs Great Ocean Ingredients, a 50:50 joint venture company formed by WCB and Royal FrieslandCampina in 2007, to produce Vivinal GOS (galacto-oligosaccharides), a high value infant formula ingredient.

Under this agreement if a change of control occurs in relation to a party without the consent of the other party, the other party may immediately terminate the agreement. A change of control is only triggered if a competitor acquires control of WCB.

A competitor is defined as any entity in the most recent publication of The Rabobank listing of the Top 20 dairy companies in the world. As Bega is not currently in The Rabobank listing of the Top 20 dairy companies in the world, this change of control provision would not be triggered if Bega acquires control of WCB.

4.4 Most of the value of the Offer Consideration comprises Bega Shares

Shareholders who accept Bega's Offer will, if Bega's Offer becomes unconditional, receive 1.2 Bega Shares and $2.00 cash for each WCB Share for which they accept Bega's Offer. Therefore approximately two thirds of the value of the Offer Consideration comprises Bega Shares. Accordingly WCB Shareholders should note the following important considerations.

(a) The value of Bega Shares is variable

The future trading price of Bega Shares is uncertain and will be influenced by a wide range of factors. The market price of Bega Shares, and therefore the implied value of the Offer Consideration, may fall.

In its Bidder's Statement Bega presents the implied value of its Offer as $5.78 per WCB Share, based on the closing price of Bega Shares of $3.15 on 11 September 2013, being the last trading day prior to the announcement of Bega's Offer. Using an implied value of $5.78 per WCB Share, the Offer represents a premium of 28% to the closing price of WCB Shares of $4.51 on 11 September 2013.

As a broader comparison, in the 12 months prior to the announcement of Bega's Offer, Bega's share price had closed as low as $1.69 and as high as $3.22. In addition the market price of Bega Shares did not close above the initial public offering issue price of $2.00 until January 2013, being almost 18 months after Bega's listing on ASX in August 2011.

(b) Risks associated with holding Bega Shares

Please refer to section 6 of the Bidder's Statement for a description of the risks that Shareholders will assume if they accept Bega's Offer and receive Bega Shares. Some but not all of these risks apply equally to your current investment in WCB Shares. Other risks are specific to a holding of Bega Shares.

4. Information about the Offer and other important issues

(c) Potential stock overhang

Bega states that the maximum number of Bega Shares which would be required to be issued to WCB Shareholders under Bega's Offer is approximately 54.4 million.[1] This represents an increase of approximately 36% in Bega's current issued share capital. As there is no capacity for WCB Shareholders to elect to receive 100% cash for their WCB Shares under Bega's Offer, there is a risk that some WCB Shareholders who accept Bega's Offer may not intend to hold their Bega Shares in the long term. Those Shareholders may instead seek to realise the cash value of their Bega Shares by selling them on market. If there is a large number of former WCB Shareholders who seek to sell their Bega Shares received under Bega's Offer within a short period after Bega's Offer closes, downward pressure may be placed on the market price of Bega Shares.

4.5 Other risks of accepting Bega's Offer

(a) You generally lose the ability to deal with your Shares

If you accept Bega's Offer you are only able to withdraw your acceptance in the following limited circumstance: if Bega varies the Offer in a way that postpones for more than one month the time by which Bega must meet its obligations under the Offer. This will occur if Bega extends the Offer Period by more than one month and Bega's Offer is still subject to Conditions.

Accordingly if you accept Bega's Offer now while it is conditional, some of the consequences include the following (subject to your right to withdraw your acceptance of Bega's Offer in the limited circumstance described above):

- you will give up your rights to sell your WCB Shares on ASX or otherwise deal with them (for example, by accepting accepting the superior Saputo Offer or any other offer from a competing bidder if one eventuates; and
- you will relinquish control of your WCB Shares and the Rights attaching to them to Bega with no guarantee of payment until Bega's Offer becomes unconditional.

The effect of acceptance of Bega's Offer is set out in section 9.1.20 of the Bidder's Statement. WCB Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the Rights attaching to their WCB Shares and the representations and warranties which they give by accepting Bega's Offer.

In particular WCB Shareholders should note that on Bega's Offer, or any contract resulting from the acceptance of Bega's Offer becoming unconditional, Bega will be entitled to attend meetings of WCB and vote on their behalf in respect of their WCB Shares to defeat resolutions relating to competing offers which may adversely affect the success of Bega's Offer.

(b) Bega may end up with less than a controlling interest in WCB

If Bega's Offer becomes unconditional but Bega does not become entitled to proceed to compulsory acquisition of the WCB Shares it does not already own, Shareholders who have accepted Bega's Offer will receive Bega Shares and become shareholders in Bega. In turn Bega will own a controlling interest in, but not 100% of, WCB.

The extent to which Bega is able to realise its expected synergy benefits and act in accordance with its intentions regarding WCB, in addition to the liquidity of WCB Shares, will be influenced by the level of acceptances ultimately received.

4.6 Consequences of Bega acquiring less than 90% of WCB

If Bega acquires more than 50% but less than 90% of the WCB Shares then, assuming all Conditions to Bega's Offer are satisfied or waived, Bega will acquire a majority shareholding in WCB.

In those circumstances WCB Shareholders who do not accept Bega's Offer will become minority shareholders of WCB. This has a number of possible implications, including:

- Bega will be in a position to cast the majority of votes at a general meeting of WCB. This will enable it to control the composition of WCB's Board of Directors[2] and senior management, and control the strategic direction of the businesses of WCB and its subsidiaries;
- the WCB Share price may fall immediately following the end of the Offer Period although this may be mitigated by the underlying attractiveness of WCB's business;
- the liquidity of WCB Shares may be lower than at present, and there is a risk that WCB could be fully or partially removed from certain S&P/ASX market indices due to lack of free float and/or liquidity;

1. Section 7.2 of the Bidder's Statement
2. Subject to the constitutional requirement for four Supplier Directors on the WCB Board.

- if the number of WCB Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing then Bega may seek to have WCB removed from the official list of the ASX. If this occurs WCB Shares will not be able to be bought or sold on the ASX;
- Bega and WCB will not be able to form an income tax consolidated group and obtain the benefit of costs synergies of having one taxpayer as opposed to two taxpayers; and
- if Bega does not own at least 80% of the voting shares in WCB at the conclusion of Bega's Offer, WCB Shareholders will not be able to benefit from scrip for scrip roll over relief from Capital Gains Tax.

In addition if Bega acquires 75% or more of the WCB Shares it will be able to pass a special resolution at a meeting of WCB Shareholders. This would enable Bega, among other things, to pass amendments to WCB's constitution.

If Bega's Offer lapses or if Bega acquires less than 50% of WCB Shares, the trading price of WCB Shares may be higher or lower than the implied value of the Offer Consideration. If you remain a WCB Shareholder in this circumstance, you will continue to enjoy the rewards, and be subject to the risks, of being a WCB Shareholder.

4.7 Compulsory acquisition

(a) Compulsory acquisition following Offer

Bega states in its Bidder's Statement that if it becomes entitled to proceed to compulsorily acquire outstanding WCB Shares at the end of the Offer Period under Part 6A.1 of the Corporations Act, Bega intends to do so.

Under Part 6A.1 of the Corporations Act, Bega will be entitled to compulsorily acquire any WCB Shares in respect of which it has not received an acceptance of its Offer on the same terms as Bega's Offer if, during or at the end of the Offer Period:

- Bega and its Associates have a relevant interest in at least 90% (by number) of the WCB Shares; and
- Bega and its Associates have acquired at least 75% (by number) of the WCB Shares that Bega offered to acquire (excluding WCB Shares in which Bega or its Associates had a relevant interest at the date of Bega's Offer and also excluding any WCB Shares issued to an Associate of Bega during the Offer Period).

If these thresholds are met, Bega will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted Bega's Offer.

(b) Future compulsory acquisition by Bega

Even if Bega does not satisfy the compulsory acquisition threshold referred to in Section 4.7(a) of this Target's Statement, it is possible that Bega will, at some time after the end of the Offer Period, become the beneficial holder of 90% of the WCB Shares. Bega would then have rights to compulsorily acquire WCB Shares not owned by it within six months of becoming the holder of 90%. The price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

(c) Challenging compulsory acquisition

WCB Shareholders have statutory rights to challenge any compulsory acquisition. However a successful challenge will require the relevant WCB Shareholders to establish to the satisfaction of a court that the terms of Bega's Offer do not represent *fair value* for the WCB Shares. If WCB Shares are compulsorily acquired, Shareholders who have their WCB Shares compulsorily acquired are not likely to receive their Offer Consideration until at least one month after the compulsory acquisition notices are dispatched to them.

4.8 Risks of status quo

If the Offer Conditions are not satisfied or waived by the end of the Offer Period, Bega's Offer will lapse and WCB will remain an independent ASX listed company.[1]

If the Offer Conditions are satisfied or waived by the end of the Offer Period but Bega acquires less than 50% control of WCB, WCB will remain an independent ASX listed company.[2]

If WCB remains an independent ASX listed company but the Board fails to successfully execute the business improvement initiatives and other strategies it has underway to realise value for Shareholders (refer to Section 5 of this Target's Statement), Shareholders who do not accept Bega's Offer will have foregone the opportunity to realise value for their Shares under the Bega Offer.

1. Assuming the Saputo Offer or any other competing offer that may emerge is not successful.
2. Assuming the Saputo Offer or any other competing offer that may emerge is not successful.

4. Information about the Offer and other important issues

4.9 Treatment of Ineligible Foreign Shareholders

Any WCB Shareholder whose address (as recorded in the register of WCB Shareholders) is in a place outside Australia and its external territories or New Zealand is not entitled to be issued with Bega Shares under Bega's Offer.

Instead the relevant Bega Shares that would otherwise be transferred to those Shareholders will be allotted to a nominee approved by ASIC. The nominee will sell the Bega Shares as soon as reasonably practicable after the end of Bega's Offer Period in such a manner, at such a price and on such other terms and conditions as are determined by the nominee, and will distribute to each of those Ineligible Foreign Shareholders their proportion of the proceeds of sale net of expenses. This will be in addition to the $2.00 cash per Share component of the Offer Consideration.

See section 9.1.11 of the Bidder's Statement for further details.

4.10 Procedural aspects of Bega's Offer

Extension of Offer Period	Bega may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to below) while Bega's Offer is subject to Conditions. However if Bega's Offer becomes unconditional (that is, if all the Conditions are satisfied or waived), Bega may extend the Offer Period at any time before the end of the Offer Period. In addition there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period: • Bega improves the Offer Consideration; or • Bega's voting power in WCB increases to more than 50%. If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs. The maximum duration of the Offer Period is 12 months.
Notice of status of Conditions	Section 9.1.17 of the Bidder's Statement states that Bega will give a Notice of Status of Conditions to the ASX and WCB on 20 November 2013. Bega is required to set out in its Notice of Status of Conditions: • whether Bega's Offer is free of any or all of the Conditions; • whether so far as Bega knows, any of the Conditions have been satisfied; and • Bega's voting power in WCB. If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In those circumstances, Bega is required, as soon as practicable after the extension, to give a notice to the ASX and WCB that states the new date for the giving of the Notice of Status of Conditions. If a Condition is satisfied during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Bega must as soon as practicable give the ASX and WCB a notice that states that the particular Condition has been satisfied. As at the date of this Target's Statement Bega had not given notice that any of the Conditions had been satisfied or waived.
Withdrawal of Offer	Bega may withdraw its Offer with the written consent of ASIC and subject to the conditions (if any) specified in ASIC's consent.

Effect of acceptance	If you accept Bega's Offer then, unless withdrawal rights are available (see below) and you exercise these rights, you will give up your right to sell your WCB Shares on market or to sell your Shares into the superior Saputo Offer or to any other person that may make a takeover bid, or to otherwise deal with your Shares in any manner.
Limited ability to withdraw your acceptance	If you accept Bega's Offer, you only have limited rights to withdraw your acceptance. You may only withdraw your acceptance of Bega's Offer if Bega varies its Offer in a way that postpones, for more than one month, the time when Bega needs to meet its obligations under the Offer. This will occur if Bega extends the Offer Period by more than one month and the Offer is still subject to Conditions.
Timing for receipt of Offer Consideration if you accept	The terms of Bega's Offer are that no Offer Consideration for any WCB Shares accepted into the Offer will be made by Bega until the Offer becomes unconditional. If Bega's Offer becomes unconditional, you will receive your Offer Consideration by the earlier of: • one month after the date of your acceptance of Bega's Offer or, if the Offer is subject to a Condition when you accept the Offer, within one month after the contract arising from your acceptance of Bega's Offer becomes unconditional; and • 21 days after the end of the Offer Period. Refer to section 9.1.8 of the Bidder's Statement for further details on when you will receive your Offer Consideration from Bega.
Effect of an improvement in Offer Consideration for Shareholders who have already accepted	If Bega improves the Offer Consideration under its takeover bid, all WCB Shareholders, whether or not they have accepted Bega's Offer before that improvement in the Offer Consideration, will be entitled to the benefit of that improved consideration.
Lapse of Bega's Offer	Bega's Offer will lapse if the Conditions are not satisfied or waived by the end of the Offer Period, in which case all contracts resulting from acceptance of Bega's Offer and all acceptances that have not resulted in binding contracts are void. In that situation you will remain a WCB Shareholder and will be free to deal with your WCB Shares as you see fit.

4.11 Effect of Offer on WCB's employee incentive schemes

WCB operates a number of employee incentive schemes as part of its remuneration strategy for executives and employees. As these plans involve the acquisition of WCB Shares by employees, Bega's Offer may trigger rights to allow employee securityholders to participate in the Offer in the same manner as other WCB Shareholders.

In summary Bega's Offer will have the following consequences.

(a) Performance Rights Plan

The Performance Rights Plan and the Performance Rights Plan rules were approved by WCB Shareholders at the WCB Annual General Meeting held on 25 October 2012. In general terms the Performance Rights Plan was introduced to provide performance incentives for eligible employees, with the aim being to drive long term performance for all WCB Shareholders by fostering a culture of employee share ownership and retention of key employees. Performance rights granted under the Performance Rights Plan are subject to certain vesting conditions. For example the employee meeting certain performance hurdles prescribed by the Board. Performance rights vest on a 1:1 basis into WCB Shares and are granted to eligible employees for no consideration.

4. Information about the Offer and other important issues

As at the date of this Target Statement the only holder of performance rights is David Lord, who holds 68,627 performance rights.

Under the Performance Rights Plan rules, the Board has discretion to accelerate the vesting of performance rights on issue if a takeover bid is made in respect of the WCB Shares or any other corporate control event occurs.

The Board has exercised its discretion to accelerate the vesting of performance rights, effective on and subject to Bega's Offer becoming unconditional[1] and Bega receiving a level of acceptances under its Offer that takes Bega's relevant interest and voting power in WCB to more than 50.1%.

Therefore David Lord's 68,627 performance rights will vest only in these circumstances, after which 68,627 WCB Shares will be issued to David Lord.

Given that Bega's Offer extends to *all new* WCB shares that are issued between 12 September and the end of the Offer Period due to the conversion of, or exercise of rights under, other WCB securities (including the Performance Rights Plan), David Lord may then participate in Bega's Offer in the same manner as other WCB Shareholders in respect of those 68,627 new WCB Shares, if he elects to do so.

(b) Employee Share Plan

The Employee Share Plan offers employees the opportunity to acquire WCB Shares up to the value of $1,000 at the discretion of the Board without having to make any payment for the acquisition of WCB Shares.

As at the date of this Target Statement a total of 111,231 WCB Shares have been issued under the Employee Share Plan.

WCB Shares issued under the Employee Share Plan may not be sold until the earlier of:

- three years after they are issued; or
- the cessation of employment of the relevant employee with the WCB Group.

Under the rules of the Employee Share Plan the Board has the discretion to free all WCB Shares issued under the Employee Share Plan from the three year restriction and waive any vesting conditions applicable to any WCB Shares issued under the Employee Share Plan. The Board has exercised its discretion to do so, effective on and subject to Bega's Offer becoming unconditional[2] and Bega receiving a level of acceptances under its Offer that takes Bega's relevant interest and voting power in WCB to more than 50.1%.

Therefore any employees who hold WCB Shares issued under the Employee Share Plan that are subject to either transfer restrictions or vesting conditions may participate in Bega's Offer in the same manner as other WCB Shareholders only after Bega's Offer has become unconditional and Bega has received a level of acceptances under its Offer that takes Bega's relevant interest and voting power in WCB to more than 50.1%. The rules of the Employee Share Plan also provide that if at any time a takeover offer is made for WCB and the offeror's entitlement to WCB shares exceeds 50% of the number of WCB Shares on issue, WCB employees participating in the Employee Share Plan may instruct WCB to accept the takeover offer in respect of any WCB Shares *held by or on behalf of* that participant and to first apply the sale proceeds[3] towards the repayment of any loan made by WCB to that participant under the Employee Share Plan.

Further if (as is the case with Bega's Offer) the takeover involves the offer of non-cash consideration, the participant is taken to have provided WCB with an irrevocable direction to take any action necessary to convert the non-cash consideration into cash and to apply that cash as if it were sale proceeds.

4.12 Effect of Offer on WCB's Dividend Reinvestment Plan

Under the Dividend Reinvestment Plan WCB Shareholders may elect to receive new WCB Shares instead of receiving cash dividends or a combination of new WCB Shares and cash dividends. All new WCB Shares issued under the Dividend Reinvestment Plan are ordinary shares and rank equally in all respects with all existing WCB Shares. WCB Shares issued under the Dividend Reinvestment Plan can be sold at any time.

The WCB Board has declared a fully franked final dividend for FY13 of 11 cents per Share. The record date was 9 September 2013 and the payment date was 27 September 2013. The Dividend Reinvestment Plan applies to the FY13 final dividend and 723,338 new WCB Shares were issued on 27 September 2013 under the Dividend Reinvestment Plan.

1. Other than Condition 9.2.3 *No Prescribed Occurrences during the Offer Period.*
2. Other than Condition 9.2.3 *No Prescribed Occurrences during the Offer Period.*
3. Being the sale process of the WCB Shares issued under the Employee Share Plan less any brokerage, stamp duty and other costs and expenses incurred in relation to the sale.

Bega's Offer expressly extends to new WCB Shares issued under the Dividend Reinvestment Plan for the FY13 final dividend. Therefore the 723,338 new WCB Shares that were issued to Shareholders who have made an election under the Dividend Reinvestment Plan for the FY13 final dividend will be eligible to participate in Bega's Offer in the same manner as other WCB Shareholders.

Section 5

Profile of WCB (including operational and strategic initiatives)

5. Profile of WCB (including operational and strategic initiatives)

5.1 Introduction

WCB is located at Allansford in south west Victoria, one of the best dairy regions in Australia. WCB was incorporated in 1888 and is Australia's oldest dairy processor. WCB has been producing dairy products for over 125 years.

WCB listed on ASX in 2004 and currently has over 3,900 shareholders.

WCB is Australia's fourth largest dairy processor with FY13 milk intake from over 570 milk suppliers of almost 900 million litres representing 10% of Australia's annual milk production.

WCB owns and operates the Allansford dairy production plant which is one of the largest and highest production capacity sites in Australia where milk collected from its milk suppliers is processed to produce high quality cheese, milk powder, whey protein concentrate, butter, cream and packaged milk.

WCB produces a total of over 130,000 tonnes of dairy products per year that are sold in Australia and to various customers from over 40 countries around the world.

WCB, in conjunction with its joint venture partner Royal FrieslandCampina of The Netherlands, produce Vivinal GOS at a newly constructed plant at Allansford. Vivinal GOS is a highly sophisticated functional ingredient used in infant formulations and supplied to global companies for Australian and international markets.

WCB has a strong regional presence in dairy processing in Australia which is reflected in the success it has achieved in attracting milk suppliers where today it has over 500 milk suppliers across some of the most productive dairy regions in Australia, providing almost 900 million litres of high quality milk each year.

WCB is one of the largest employers in south west Victoria, employing over 400 people across sites in Allansford, Mount Gambier (SA) and Port Melbourne.

WCB operates one of Australia's largest, most diverse and efficient dairy plants strategically located adjacent to one of Australia's best dairy supply regions. WCB's single site and diversity of operations enables WCB to optimise its product mix and operate one of the highest utilised dairy manufacturing plants in Australia. WCB continues to invest in value creating initiatives for the benefit of its Shareholders and suppliers.

5.2 Business activities

(a) Ingredient dairy products

Cheese (Bulk)

The majority of cheese produced at WCB is of a dry salted cheddar type. WCB produces a wide range of cheddar varieties with differing characteristics such as low fat cheddar, skim, gouda, romano and emmental and others are also produced.

The cheddar cheese manufactured at the Allansford site is sold in bulk 20 kilogram form to wholesale customers in Australia and on the international market and packaged into WCB's specialty cheese range at the Mil Lel site.

Approximately 40% of the cheese production is exported to such countries and regions as Japan, Korea, the Middle East, the US, Europe and South East Asia.

The cheese plant was refurbished and renewed as part of a major upgrade in 1993 and has since been further upgraded, including in 2005, to improve efficiency and increase capacity. It is highly computerised and one of Australia's most modern and largest cheese plants.

Skim Milk Powder

WCB produces low heat, medium heat and high heat skim milk powder.

Skim milk powder is used in re-combined milk, bakery products, confectionery, infant formula and dairy desserts such as yoghurts and ice-cream.

Almost all of the milk powder manufactured by WCB is sold on the international market.

The major markets to which milk powders are exported include the Middle East, Japan, China, Europe, South East Asia and South America.

Butter and Cream

WCB's butter plant produces a variety of products including salted butter, unsalted butter and butter blends with sugar, flour and oils for use in bakery products, biscuit making and confectionery.

5. Profile of WCB (including operational and strategic initiatives)

Butter products are generally sold to wholesalers in Australia and also on the international market. The countries and regions to which butter products are exported include Japan, Korea, the Middle East, Russia, the US, South East Asia and Europe.

Cream products are either sold as fresh cream to local customers or frozen to the export market.

Whey Protein Concentrate

WCB's whey protein concentrate plant utilises sophisticated membrane technology to extract protein from whey which is generated from WCB's cheese manufacturing process.

The protein concentrate is then transformed into whey protein concentrate powder composed of 80% milk protein.

This powder is used in health products, sports drinks, nutritional health bars, as a binding ingredient in food processing and as a meal replacement or supplement.

Most of this product is exported, with major customers located in Japan, China and the US.

(b) Consumer products

Sungold milk

Sungold milk is the brand under which WCB sells packaged milk through various channels for consumption by retail consumers. *Sungold* milk comes from one of the cleanest and greenest regions of Australia and travels from the farm to the shelf in less than 24 hours. *Sungold* provides an extensive range of milk to suit all tastes and lifestyles.

Great Ocean Road products

WCB's brand of *Great Ocean Road* cheese and milk is available exclusively through Coles supermarkets. *Great Ocean Road* cheese is available in five block varieties (Vintage, Extra Tasty, Tasty, Light and Colby Cheddar) and two types of shredded cheese (Tasty and Light Cheddar). *Great Ocean Road* milk is available in full cream, low fat and no fat, as well as chocolate and iced coffee flavours.

Warrnambool Cheddars

WCB produces and packages its brand of cheese, simply named *Warrnambool Cheddars*. This includes an award winning black label vintage cheddar and a red label matured cheddar. While the bulk cheddar is made at Allansford, the flavour additions and packaging for this label is completed at the Mil Lel plant in South Australia. *Warrnambool Cheddars* can be found in select IGA stores, select Woolworths stores in regional Victoria, at *Thomas Dux* grocers and at *Cheese World* in Allansford, Victoria.

Enprocal

Enprocal is a specially formulated high energy, high protein supplement for people experiencing difficulties meeting their nutritional requirements or maintaining weight due to medical conditions, including conditions commonly found in the elderly. Enprocal is gluten free, easy to use and can be added to most foods and beverages.

(c) Milk supply and market share

The tables below summaries WCB's milk supply and number of suppliers in the Australian dairy industry.

Year	Milk Intake (mlt)	No. of Suppliers
2001	648	580
2002	725	573
2003	640	570
2004	702	606
2005	757	584
2006	804	610
2007	805	572
2008	853	573
2009	928	495
2010	896	565
2011	879	556
2012	919	580

Year	Milk Intake (mlt)	No. of Suppliers
2013	890	570

(d) Exports

Exports comprised approximately 46% of FY13 sales by value, largely to Asian markets and the Middle East, plus sales to the United States, Europe and South America. WCB's largest export market is Japan, where it operates a sales and marketing joint venture with exclusive distribution rights for WCB products in the Japanese market.

WCB Japan (**WCBJ**) operations have recently been expanded to include distribution agreements for non-competing products from select non-Australian dairy manufacturers. This initiative has seen the development of business in new categories such as cheese powders from France and protein products from New Zealand.

Expanding the WCBJ range of products available for Japan complements and enhances the existing business by providing customers with a broader portfolio of product and positions WCBJ as a specialised supplier of dairy ingredients to the Japanese markets.

(e) Great Ocean Ingredients Joint Venture

WCB and Royal FrieslandCampina entered into a 50:50 joint venture in 2007 to form a new company named *Great Ocean Ingredients* to construct, at WCB's site at Allansford, a new $75 million plant to produce galacto-oligosaccharides (**GOS**).

Royal FrieslandCampina ranked 4th on the Rabobank Top 20 list of world largest dairy companies.

Using innovative and patented technology drawn from the expertise of Royal FrieslandCampina/FrieslandCampina Domo, this venture uses WCB's whey ingredients to be processed into nutritional and functional ingredients, such as Vivinal GOS.

Vivinal GOS is a prebiotic ingredient containing galacto-oligosaccharides. It is used for its beneficial effects on health as well as for fibre enrichment. This ingredient, which plays an important role in the development of a healthy immune system, is used largely in infant formulation and also has application in other products.

(f) Manufacturing

Manufacturing operations occur at a factory site in Allansford, near Warrnambool in south west Victoria. The site, which covers approximately 17 hectares, comprises separate manufacturing facilities for cheese, milk powders, whey protein concentrate, butter, cream and packaged milk. WCB also operates a specialty cheese plant in Mil Lel, just north of Mt Gambier, in South Australia. Milk is collected from farms on a daily basis with a modern fleet of milk tankers. The milk received from suppliers and other sources is processed at the Allansford site.

5.3 WCB's strategic value at a glance

Location	WCB's location is adjacent to one of Australia's best dairy regions, which has moderate climate with reliable rainfall and relatively low cost of operations.
Asset quality	WCB's plant in Allansford is one of Australia's largest, most diverse and efficient dairy plants. WCB's on site laboratory is NATA accredited and its facilities use modern technology and comply with AQIS (Australian Quarantine Inspection Service) export requirements. Quality and food safety programs include ISO 22000:2005, Codex Alimentarius and WQA accreditation.
Efficiency	WCB's single site and diversity of operations enables WCB to optimise its product mix and operate one of the highest utilised dairy manufacturing plants in Australia.
Utilisation	WCB's plant in Allansford is one of Australia's large scale highest utilised dairy manufacturing plants in the country.

5. Profile of WCB (including operational and strategic initiatives)

Innovation	WCB has a strong history of innovating (either stand alone or with partners). An example of this is the *Great Ocean Ingredients* joint venture which used innovative and patented technology drawn from the expertise of Royal FrieslandCampina/ FrieslandCampina Domo and WCB's whey ingredients in order to produce Vivinal GOS. Vivinal GOS is a prebiotic ingredient which plays an important role in the development of a healthy immune system.
Growth	WCB has grown milk volumes, product ranges and volume over an extended period, including since ASX listing in 2004.
Proven performer	WCB has successfully collected milk from high quality suppliers and processed in into an increasing array of valued and high quality dairy products for customers and consumers in Australia and overseas.

5.4 Business Improvement Initiatives

Consistent with WCB's strategy to build a portfolio of higher margin products and deliver more customer specific applications, WCB continues to invest in value creating initiatives for the benefit of its shareholders and suppliers.

Set out below is a summary of WCB's business improvement initiatives which the Board considers will underpin WCB's outlook for improved performance.

Short term	***Consolidate recent initiatives*** WCB is currently: • increasing the percentage of total powder sales in premium specification or customer specific applications at improved margins; • extending customer specific formulation in cheddar and reduced fat cheese; • expanding the Mitsubishi Corporation exclusive premium powder supply agreement; and • rolling out growth plans for *Great Ocean Road* branded cheese and fresh milk supply in Coles supermarket. ***Lactoferrin market*** To take advantage of Asia's strong demand for infant formula, WCB and The Tatua Cooperative of New Zealand have entered into a technology and services agreement, under which Tatua will license WCB to use its intellectual property in relation to the extraction and processing of lactoferrin from milk. Lactoferrin is primarily used as a functional ingredient in premium infant formulations. WCB is currently constructing the lactoferrin plant at its Allansford site, with Tatua providing design and construction services to assist WCB in achieving optimal operating performance. Commissioning is expected around the end of the second quarter of FY14. Tatua will act as WCB's technology partner in manufacturing lactoferrin and assist WCB with sales and marketing activities. The key region is Asia and the key market is China. Lactoferrin is registered as a *novel ingredient* in China and is one of a small group of *value add* ingredients for infant formula in China.

Medium term

Long term cream cheese manufacturing agreement with Kraft

WCB intends to:

- launch *Sungold* branded cream cheese into the export market through an exclusive long term manufacturing agreement with Kraft; and
- build volumes to fully utilise the 5,000 tonnes of available capacity.

WCB will supply cream and milk for Kraft to manufacture the cream cheese. The targeted markets are Japan, Middle East, China, Singapore and Malaysia.

Premium low fat cheese developed for Kraft

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

The unique characteristic of this product is that it maintains the taste and texture of a good quality cheddar.

Instantised WPC capability upgrade

WCB has undertaken a capability upgrade to enable the production of whey protein concentrate (**WPC**) in instantised form. WCB will transition current WPC volumes to the premium instantised form over time. Instantised WPC delivers greater application functionality for sports nutrition and infant formula customers. Supply to market is due to commence in FY14. Targeted markets include the US sports nutrition market, Chinese supplement powder market and expanding offering to Australian customers.

Long term

Higher margin commodities and customer specific applications

As part of WCB's long term corporate strategy WCB intends to target an improved product mix to increase margins and reduce volatility relative to mainstream dairy commodities. Ingredients designed to customer specific applications are a central part of this strategy.

Expand the domestic retail business

Opportunities exist in the domestic market to expand WCB's consumer products offering and contribute to an improved margin product mix. The successful launch of the *Great Ocean Road* cheese brand underpinned a significant increase in speciality cheese revenues in FY13.

Proactive in industry opportunities

As part of WCB's long term corporate strategy WCB intends to maintain a constructive dialogue with industry players in search of value creating opportunities to collaborate, rationalise or consolidate existing activities.

Maintain lowest cost business status

As part of WCB's long term corporate strategy WCB intends to leverage its status as a lowest cost processor by maintaining high plant utilisation and efficiency supported by a continuous improvement operating culture.

Progressive milk procurement package

As part of WCB's long term corporate strategy WCB intends to deliver a creative milk procurement package to milk suppliers, and attract and retain sufficient suppliers to achieve optimum intake levels.

5. Profile of WCB (including operational and strategic initiatives)

5.5 Strategic initiatives

Before Bega's Offer was announced, WCB was well advanced with a major strategic initiative involving the formation of a new joint venture. Negotiations for entry into binding joint venture documentation had progressed substantially. However the announcement of Bega's Offer created uncertainty in terms of the ability to continue those negotiations, as entry into the joint venture could potentially have breached one of Bega's Offer Conditions that prohibits WCB from, among other things, entering into new joint ventures. As a result of that uncertainty, negotiations with the prospective joint venture partner have now ceased.

5.6 Market outlook

WCB has experienced a strong resurgence in international pricing in the first half of FY14 and is contracting sales at average prices which are significantly higher than the FY13 average. In addition the substantial weakening of the Australian dollar in relation to the US dollar in recent months has provided a welcome margin lift across the export product group. The numerous business improvement projects and initiatives outlined above are contributing to an improving product mix, higher margins and less volatility relative to commodity products. These factors provide a positive outlook for the international markets over the first half of this financial year and for WCB's operations in general.

On 2 October 2013 WCB announced that it forecasts that its EBITDA for FY14 will be in the range of $47.0 million to $52.0 million. See Section 6 of this Target's Statement for further information in relation to this forecast, including the underlying assumptions, sensitivities and risks associated with this forecast.

5.7 Key risks faced by WCB

Set out below is a summary of the key risks that WCB Shareholders are exposed to as a result of their investment in WCB. The risks identified in this Section are not exhaustive, and no assurances or guarantees of future performance of, profitability of, or payment of dividends by WCB are given.

Company specific risks	
Milk price	Aggressive upward milk pricing behaviour by WCB's competitors may increase the cost of the raw material input.
Milk supply	If there is a significant reduction in WCB's milk supply for processing it would have a significant adverse financial impact on WCB's production cost base. It is common practice in the dairy industry within the region of WCB's milk collection for there not to be written milk contracts.
Factors influencing milk pricing	The two main influences on returns from the global bulk dairy market are dairy commodity prices and the USD exchange rate as trade is usually conducted in US dollars. An increase in commodity prices and/or depreciation in the value of the AUD relative to the USD has a positive impact on milk prices. Conversely, a decrease in commodity prices and/or an appreciation in the AUD relative to the USD has a negative impact on milk prices. To a large extent the movement in milk prices relative to market conditions mitigates milk pricing risk. The manner in which milk pricing is determined by WCB generally results in the milk price reflecting global market conditions.
Product pricing by competitors	The majority of domestic cheese and fresh milk market is heavily consolidated and aggressive pricing behaviour on product pricing by competitors seeking to gain market share may impact WCB adversely.

Company specific risks	
Timing of lactoferrin initiative	The new lactoferrin project is expected to commence sales in February 2014. Any delay in commissioning this project will impact adversely on FY14 results.
Domestic supermarket dominance	The Australian consumer goods market is dominated by two major supermarket chains. Discounting behaviour from these supermarket chains may affect WCB's margins for its sales of consumer products in Australia.
Reliance on major distributors	WCB relies on a number of distributors and relationships to procure the bulk of its sales. A loss of any of these contracts would result in the products previously supplied under those contracts becoming surplus as a consequence of the loss of the contract.
Exchange rate fluctuation	As noted above global dairy trade is predominantly in USD. WCB's returns from export dairy sales are directly influenced by the USD exchange rate. Approximately 46% of WCB's FY13 revenue (by value) related to exports. To manage fluctuation and uncertainty relating to the USD exchange rate WCB has implemented strategies to mitigate against longer term and short term currency exposure.
Sales prices	WCB is exposed to fluctuations in world economic conditions and international commodity prices, particularly for cheese, milk powder, whey protein concentrate and butter.
Business interruption	Like all businesses, WCB is dependent on the ongoing, efficient operations of their systems and infrastructure. Inherent risks include natural disasters, failure of critical machinery, power, gas, water supply and computer equipment and industrial action.
Loss of key personnel	WCB may be adversely affected by the loss of one or more of its key personnel in the short to medium term.
Environmental risks	WCB, as with other dairy food processors, produces air, noise, odour and waste emissions in the course of production. WCB may be required to take action and incur significant expenses due to current and future environmental regulations in relation to its past, current and future conduct. In particular, as a result of a *clean up notice* issued by the Environmental Protection Authority (**EPA**) in early 2010, WCB and a third party may be liable for as yet quantified clean up costs (if any) in relation to the disposal of waste water from WCB's manufacturing facility at Allansford from 1936 to 1991.
Product risks	As with all dairy food processors, WCB is exposed to the risk of product contamination by such infections or pathogens as listeria, salmonella, e coli, bacillus cereus clostridium perfringens or e.sakazakii.

5. Profile of WCB (including operational and strategic initiatives)

Industry specific risks	
Regulatory and free trade issues	The dairy food processing industry is regulated by government legislation and regulation. Any changes in legislation, regulation or codes of practice including the imposition of or increases in levies, taxes or other imposts may have an adverse effect on the profitability of WCB. As a substantial part of WCB's products are exported worldwide, the business is subject to risks common to other exporters such as international trade barriers and international trade regulation.
Disease	The areas from which WCB sources its milk supply are, and have been for some time, free of diseases that pose a risk to humans through the consumption of dairy products, such as anthrax, bovine tuberculosis and brucellosis.
Agricultural conditions	The quantity and quality of WCB's milk production may be adversely affected by a prolonged period of lower than average rainfall. In recent years a number of areas in Australia have been affected by adverse climatic conditions and in some areas particularly where dairy and grain production has relied on surface water allocations. For example, in the Murray River and Darling River areas, milk production has suffered a significant decline having a negative impact on the dairy industry in those regions.
Business risks	
Economic risks	As with other companies conducting business in Australia, the performance of WCB is affected by the general prevailing economic conditions. The global economic downturn resulted in a rapid and unexpected fall in dairy commodity prices in 2009.
Interest rates	Given that WCB partly funds its operations with debt, it has an exposure to changes in interest rates.
Investment risk	The ability of WCB to pay dividends is dependent on its profitability and other factors. The price at which WCB Shares trade on ASX will fluctuate due to WCB specific factors such as profitability and dividends, and other general market factors, not directly related to the performance of WCB.

5.8 Directors

(a) Terry Richardson (Chairman, Non Executive Director)

Mr Richardson was appointed Chairman in August 2013 and has been a supplier non executive Director since 2007. Mr Richardson has been a dairy farmer in Australia and New Zealand for 35 years. He was formerly a director with Kiwi Co-operatives Dairies Ltd for seven years and an agribusiness consultant with Agriculture New Zealand.

(b) David Lord (Managing Director, CEO)

Mr Lord joined WCB in June 2010 and was previously the Managing Director and CEO of Parmalat Australia from 2002 until June 2009. His previous roles in Parmalat included COO and responsibility for running their Victorian Operation. In addition to his experience in dairy operations, Mr Lord has a broad understanding of fast moving consumer goods and branded dairy products. He has had previous senior management roles with Huttons, Players Group and QUF Industries (Pauls Limited).

(c) Andrew Anderson (Non Executive Director)

Mr Anderson has been a supplier non executive Director since 2009. Mr Anderson was formerly the Senior Lecturer in Accounting and Finance at Deakin University (Warrnambool) and is an accountant in practice operating his own business specialising in rural accounting and finance. He and his wife have operated Rossander Angus, an Angus cattle stud/breeding enterprise for 40 years, as well as a dairy farming operation for the past 11 years.

(d) Kay Antony (Non Executive Director)

Ms Antony has been a supplier non executive Director since 2010. She has been a dairy farmer for 16 years and a former director of Westvic Dairy.

(e) John Gall (Non Executive Director)

Mr Gall has been a supplier non executive Director since 2010. He was first elected as a Director in 1990 and following his resignation in 2007, was re-elected as a Director in 2010. He has been a dairy farmer for over 40 years. He and his immediate family have supplied WCB for more than 70 years.

(f) Bruce Vallance (Non Executive Director)

Mr Vallance has been a supplier non executive Director since 2009 and prior to this was an Associate Director from 2006. Mr Vallance has been a dairy farmer in Nirranda for 20 years with a background in broad acre and intensive animal enterprises. He is President of the Wannon branch of the UDV.

(g) Michael Carroll (Independent Director)

Mr Carroll has been a Director since 2009. Mr Carroll serves a range of agribusiness companies in a board and advisory capacity. Current directorships include Sunny Queen Pty Ltd, Queensland Sugar Limited, Select Harvests Ltd, Rural Finance Corporation, Geoffrey Gardiner Dairy Foundation Limited, Rural Funds Management and Rural Funds Farming. He has over 25 years experience in the food, agribusiness and finance sectors including 18 years at NAB Ltd.

(h) Neville Fielke (Independent Director)

Mr Fielke was appointed Director in August 2013. Mr Fielke has extensive experience in the Consumer, Food, Beverage, Leisure and Advisory sectors. 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 include Watties in New Zealand and H.J. Heinz in Japan during this period. Mr Fielke was also CEO and Managing Director of Racing Victoria Ltd from 2001-2003. Since 2007 Mr Fielke 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.

(i) Raymond Smith (Independent Director)

Mr Smith was appointed Director in May 2013. Mr Smith was Chief Financial Officer of Smorgon Steel Group Ltd for 11 years to 2007 and has significant corporate and financial experience in the areas of strategy, acquisitions, treasury and capital raisings. Mr Smith is non executive Director of other ASX listed companies Transpacific Industries Group Ltd, Crowe Horwath Australasia Ltd and K&S Corporation Ltd and is also a trustee of the Melbourne & Olympic Parks Trust.

(j) John McLean (Associate Director)

Mr McLean has been an Associate Director since 2010. He was Executive Director from 2000 until his retirement in 2007. He was then reappointed in April 2009 until June 2010. He was an employee of WCB for over 50 years including 32 years in the role of Manager/Chief Executive Officer.

(k) Bruce Morley (Associate Director)

Mr Morley has been an Associate Director since 2010 and prior to this, was an independent non executive Director since 2000. Mr Morley was a former Executive Director of Sigma Company Limited (now Sigma Pharmaceuticals Limited).

5. Profile of WCB (including operational and strategic initiatives)

5.9 Senior management

(a) Anthony Cook (General Manager – Milk Supply)

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

(b) William Hannah (Chief Financial Officer)

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

(c) Bernard Kavanagh (General Manager – Corporate Development)

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

(d) Ross Martin (General Manager – ICT/PMO)

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

(e) Paul Moloney (Company Secretary)

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

(f) Bill Slater (General Manager – Retail Dairy)

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

(g) Richard Wallace (General Manager – Operations)

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

(h) John Williams (General Manager – Sales, Marketing & Innovations)

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

Section 6

WCB financial information and forecasts

6. WCB financial information and forecasts

6.1 Introduction

This Section sets out a summary of key consolidated historical and forecast financial information of WCB and its subsidiaries, including the basis of preparation and presentation and WCB management's discussion and analysis of financial performance. The financial information in this Section comprises:

- historical audited statements of financial performance for FY12 and FY13 (**Historical Financial Information**); and
- the Directors' pro forma forecast statement of financial performance for FY14 (**Directors' Forecast**),

collectively the **Financial Information**.

The Financial Information should be read in conjunction with the other information contained within this Target's Statement. The Directors' Forecast presented in this Section has been reviewed by PwC whose Investigating Accountant's Report is included as Appendix 2 to this Target's Statement. WCB Shareholders should note the scope and limitations of the Investigating Accountant's Report.

The Directors' Forecast should be read in conjunction with the Directors' material best estimate assumptions described in Section 6.6, the sensitivity analysis in Section 6.7 and the risk factors in Section 6.8 of this Target's Statement.

6.2 Basis of preparation

The Financial Information in this Section has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, other mandatory professional reporting requirements and WCB's adopted accounting policies.

The Financial Information in this Section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act. Shareholders should refer to the WCB audited financial statements for FY12 and FY13 for more detailed disclosures in relation to the historical financial performance, financial position and accounting policies of the WCB Group.

The Historical Financial Information presented in this Section was derived from the audited WCB financial statements for FY12 and FY13. These reflect the financial performance of WCB and its subsidiaries, including WCB's share of profits from its joint venture arrangements.

The Statements of Financial Performance are presented after adjusting for certain non-recurring items to allow greater comparability with the Directors' Forecast. The adjustments made are outlined in Section 6.3 of this Target's Statement.

The Directors' Forecast was prepared by WCB management and adopted by the Board and represents your Directors' best estimate of WCB's forecast financial performance for FY14. It is based on:

- the Directors' assessment of the present economic and operating conditions; and more specifically
- a number of material best estimate assumptions set out in Section 6.6 of this Target's Statement as determined by the Directors.

The Directors consider that they have used reasonable care in preparing the Financial Information and consider the assumptions to be reasonable when taken as a whole. However this information is not fact, there are margins of uncertainty surrounding any assumptions about future conditions and forecast performance and Shareholders are cautioned not to place undue reliance on the Directors' Forecast.

Forecasts are by their nature subject to uncertainties and can be affected by unexpected events, many of which are outside the control of the Directors. Any variation to the assumptions on which the Directors' Forecast has been prepared could be materially positive or negative to actual financial performance. Therefore the Directors cannot guarantee the achievement of the Directors' Forecast.

The Directors' Forecast should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the best estimate assumptions or that WCB will achieve, or is likely to achieve, the particular results. WCB Shareholders are encouraged to read the material best estimate assumptions in Section 6.6 in conjunction with the sensitivity analysis in Section 6.7 and the key risks set out in Section 6.8 of this Target's Statement.

The Directors' Forecast also takes no account of the adviser and other third party costs incurred to date and to be incurred by WCB in responding to Bega's Offer, on the basis that they are non recurring and therefore not reflective of the underlying performance of WCB. The expected reported statutory results for WCB in FY14 will include costs associated with responding to Bega's Offer. See further Section 8.9.

6.3 Consolidated historical and forecast financial performance

Set out below is a summary of WCB's adjusted consolidated historical financial performance for FY12 and FY13 and the pro forma forecast financial performance for FY14.

Financial performance

$ million	Year ended 30 June 2012	Year ended 30 June 2013	Forecast Year ending 30 June 2014
Sales Revenue	**497.8**	**496.5**	**570.5**
EBITDA[(1)]	**35.5**	**27.1**[(2)]	**51.1**
Depreciation and Amortisation	(12.7)	(11.8)	(13.1)
EBIT	**22.8**	**15.3**	**38.0**
Net Interest Paid	(3.1)	(4.1)	(4.5)
Profit Before Tax	**19.7**	**11.2**	**33.5**
Income tax expense	(4.5)	(2.6)	(9.1)
Pro Forma Net Profit After Tax	**15.2**	**8.6**	**24.4**
Adjustments	**–**	**(1.1)** [(2)]	**(4.6)** [(3)]
Statutory Net Profit After Tax	**15.2**	**7.5**	**19.8**

1. EBITDA includes the net share of profits from equity accounted joint ventures.

Adjustments

2. FY13 financial performance was adjusted to exclude the after tax effect of an exceptional specific bad debt expense ($1.6m), which is considered exceptional by both size and nature. This reconciles the pro forma EBITDA presented above to statutory EBITDA of $25.5 million.
3. FY14 forecast adjusted to exclude the after tax effect of $6.5 million of external costs incurred to date and to be incurred in responding to Bega's Offer by Bega, on the basis that they are non-recurring and therefore not reflective of the underlying performance of WCB. Refer Section 8.9 of this Target's Statement for details.

6.4 Management's discussion and analysis of historical financial performance

Management's discussion and analysis of WCB's historical financial performance is based on the historical audited results for FY12 and FY13. These results are presented to assist in understanding the underlying trends of the business.

FY13 performance was subdued, relative to FY12, as a result of a number of external factors beyond management's control:

- increased milk production in key dairy exporting nations impacting global supply, resulting in strong downward pressure on commodity prices;
- the high Australian Dollar exchange rate continued to suppress US dollar based commodity prices; and
- increased domestic competition for milk supply, limiting the extent to which the reduction in global prices was reflected in domestic raw milk prices.

These difficult trading conditions were partly mitigated by strategic shifts in product mix towards higher margin, value added products, where possible, and the progression of a number of corporate level strategy and business improvement initiatives. The capital expenditure associated with implementing these initiatives was approximately $5 million in FY13.

Full discussion of WCB's historical financial performance can be found in the Annual Reports which are available on WCB's website (http://www.wcbf.com.au/investors/annual-reports.aspx).

6.5 Management's discussion and analysis of forecast financial performance

FY13 to FY14 forecast

The final quarter of FY13 saw a substantial recovery in global US dollar commodity prices alongside an easing of the AUD:USD exchange rate. WCB expects these conditions to continue for the remainder of FY14. The Directors' Forecast shows a significant recovery in NPAT in FY14, based on the following factors:

- an increase in sales revenues reflecting:
  - the full year benefit of a lower average Australian dollar exchange rate, following the substantial fall against the US dollar in Q4 FY13 which has continued in the first three months of FY14;

6. WCB financial information and forecasts

  - US dollar denominated commodity prices remaining at levels broadly consistent with current spot prices and customer contracts, with some reduction expected in the second half of FY14;
  - the commencement of lactoferrin sales in the second half of FY14 (see Section 5.4 of this Target's Statement for further details); and
  - milk intake volume reductions mainly due to the loss of one corporate supplier, which is more than offset by the factors outlined above.
- while selling prices are forecast to increase, the NPAT benefit is offset to the extent that the price uplift is passed though to milk suppliers; and
- operating and other cost movements to reflect a combination of the approximately 3% pay rate increase included in the 2013 enterprise bargaining agreement settlements, expected supplier price variations and expected inflationary increases.

6.6 Material best estimate assumptions

The material best estimate assumptions underpinning the Directors' Forecast are set out below.

(a) Specific assumptions

Key exchange rate and commodity price assumptions

The key variables underlying the historical performance and used in preparing the Directors' Forecast are set out below.

Forecast exchange rates and commodity prices

	Actual	Actual	Forecast
	Year ended 30 June 2012	Year ended 30 June 2013	Year ending 30 June 2014
Average realised exchange rate (AUD:USD)	1.0089	1.0307	0.9385[1]
Export Skim Milk Powder (USD per tonne)	3,418	3,336	4,453[2]
Export Butter (USD per tonne)	4,248	3,648	4,234[3]
Export Cheese (USD per tonne)	4,491	3,995	4,484[4]
Export WPC (USD per tonne)	9,281	10,541	10,478[5]

Notes:
1. Future foreign exchange commitments are partly hedged. The forecast exchange rate reflects the AUD:USD on unhedged exposures, being the Directors' view on likely forward rates as at the date of this Target's Statement. The average rate for hedged exposures is 0.9466 AUD:USD.
2. Based on a combination of YTD prices achieved, contracted prices, quoted forward prices and customer specific considerations.
3. Based on a combination of YTD prices achieved, contracted prices, quoted indices and customer specific considerations.
4. Based on a combination of YTD prices achieved, contracted prices, quoted indices and customer specific considerations.
5. Based on a combination of YTD prices achieved, contracted prices, quoted indices and customer specific considerations.
Domestic sales prices are generally correlated to export sales prices, taking into consideration foreign exchange impacts.

Sales volumes

	Actual Year ended 30 June 2012	Actual Year ended 30 June 2013	Forecast Year ending 30 June 2014
Commodity Volumes (mt)			
Cheese	39,986	35,870	34,024
Skim Milk Powder	35,918	35,601	28,832
Whey Protein Concentrate	3,170	3,199	2,788
Butter	13,636	13,498	12,606
Cream	6,147	6,118	5,972
Consumer Goods Volumes (mt equivalent)			
Retail cheese	1,111	2,117	3,973
Packaged milk	2,584	2,926	3,330

Sales volumes have been determined with regard to product availability, contractual commitments and forecast customer requirements.

Lactoferrin

The Directors' Forecast assumes EBITDA of $2.8 million relating to initial sales arising from the lactoferrin project commencing in February 2014.

Raw material costs

The final milk price for the year will be determined in accordance with WCB's milk pricing policy. The Directors' Forecast assumes a final price $6.30 per kg of milk solids.

Volume of milk purchased

The volume of milk to be purchased has been determined with regard to numerous factors including the number of suppliers, seasonal conditions and historical trends relating to milk production and milk composition.

Due to the seasonal nature of farm milk production, as at 30 September 2013, approximately 26% by volume of milk purchases for the year are complete. This compares to 28% for the same period last year.

The volume of milk purchases for FY14 is expected to reduce by 9.9% over FY13 primarily due to the loss of one significant corporate customer (63 million litres), and reduced milk for toll manufacture, partially offset by improvement in climatic conditions following unseasonably low rainfall conditions in Q4 FY13.

Operating costs

With the exception of milk purchases, variable operating costs per tonne are forecast to remain broadly consistent with FY13 actual costs and no abnormal expenditure is expected to be incurred in the forecast period.

Fixed operating costs are forecast to remain broadly consistent with FY13 actual costs and no abnormal expenditure is expected to be incurred in the forecast period.

Interest rates

WCB's forecast interest expense is calculated at a weighted average interest rate of 6.53% per annum on total forecast borrowings. Forecast borrowings reflect the timing and quantum of expected capital expenditure during the year of $29.5 million which includes $15.3 million for the lactoferrin project.

Investments/PP&E

The Directors' Forecast assumes:

- no significant changes in the fair values of investment properties as at 30 June 2014; and
- no significant impairments or writedowns required for PP&E balances as at 30 June 2014.

6. WCB financial information and forecasts

Joint Venture equity contribution

The Directors' Forecast assumes a combined $3.3 million NPAT contribution from joint ventures compared to $1.7 million in FY13, primarily reflecting increased sales prices for the Great Ocean Ingredients joint venture.

Taxation

Australian income tax has been forecast at an effective tax rate of 27% for FY14. This rate reflects the equity accounted contribution from joint ventures, which is accounted for post tax. No other material permanent differences are expected.

Foreign exchange

In accordance with management's policy for managing the risk of fluctuations in exchange rates, forecast foreign exchange commitments are partially hedged at an average rate of 0.9466 AUD:USD, with the unhedged exposures forecast at 0.9385 AUD:USD reflecting the Directors' view on likely forward rates.

(b) General assumptions

The general assumptions set out below should be read in conjunction with the risk factors outlined in Section 5.7 of this Target's Statement:

- no significant adverse or beneficial changes in prevailing political and economic conditions in the markets in which WCB operates, including no major oil supply interruption, no global flu pandemic and no major terrorist incidents;
- no significant industrial, operational, contractual, political disturbances or terrorist activity impacting the continuity of operations;
- no adverse changes in climatic conditions, in particular rainfall will be in line with historical average levels;
- no significant changes in the competitive environment in which WCB operates or in the conduct of any major competitor;
- no material amendment to, termination or loss of, any material agreement or arrangement relating to WCB, including those described in Section 4.3. The parties to those agreements or arrangements are assumed to continue to comply with their respective terms;
- no significant changes in statutory, legal or regulatory requirements that would have a material effect on operations;
- WCB's accounting policies will remain consistent with those adopted for FY13 and disclosed in the Annual Report 2013;
- no changes in Australian Accounting Standards or other mandatory professional reporting requirements and the Corporations Act, which may have a material effect on the Group's financial performance, financial position or cash flows;
- no change in taxation legislation which would have a material impact on WCB's financial performance, financial position or cash flows, including Australian corporation income taxation rates of 30%;
- no material environmental losses, litigation or contingent liabilities would arise or be settled to the detriment of WCB;
- no material acquisitions or divestitures of business, or investments or assets; and
- no loss of key personnel.

The Directors consider that they have used reasonable care in the preparation of the Directors' Forecast information and consider the assumptions to be reasonable when taken as a whole. However forecasts are by their nature subject to uncertainty and unexpected events, many of which are beyond the control of the Directors. Accordingly the Directors' Forecast may vary materially from the actual results and there can be no guarantee or assurance that the forecasts will be achieved.

6.7 Sensitivity analysis

The Directors' Forecast is sensitive to changes in key assumptions used in preparing that forecast. The table below sets out a summary of the potential impacts from possible changes in key assumptions.

Care should be taken in interpreting the sensitivity analysis. The sensitivity analysis treats each change in the specific assumption in isolation from the others, whereas in many cases changes may be interdependent, with associated changes having cumulative or offsetting impacts. The analysis presented is no indication of the likely level of variation that could occur in relation to each assumption. Proportional variations of the changes may not result in a proportional change to the forecast impact. In practice, management would seek to respond to any adverse changes in one variable by taking appropriate action to minimise its impact. The effect of such mitigating action is not necessarily linear and is excluded from the sensitivity analysis.

Sales prices

The variations set out below are based on sensitivities in assumptions over the forecast period to 30 June 2014.

Variation in assumption	EBITDA +/- ($ millions)
+/- 5% change in uncontracted sales prices for cheese	1.9
+/- 5% change in uncontracted sales prices for skim milk powder	3.3
+/- 5% change in uncontracted sales prices for butter	1.5
+/- 5% change in uncontracted sales prices for whey protein concentrate	0.8
+/- 5% change in uncontracted sales prices for cream	1.1

Variations in the table above assume that no changes in milk price occur as a result of movements in sales prices, sales volumes or milk intake volumes. These variations also exclude sales made under long term agreements for which the sales price is linked to input milk prices.

It is not possible to quantify the impact of general changes in milk intake volumes as the strategic decisions taken by management in response to variations in volumes available are dependent on a large number of factors including this timing of variations and plant production capacity.

Milk intake prices

Milk purchase prices are determined by a number of factors such as commodity prices, exchange rates, milk supply and market demand for dairy products the latter being reflected in the milk price paid by milk processing competitors in WCB's milk collection area. As a result, movements in these variables are generally directly reflected in determining the price payable for milk intake and care should be taken if considering the impact of movements in one of these variables in isolation.

The variation below assumes that all other assumptions in the forecast are held constant with the exception of one material sales contract which includes a ratchet based on input milk prices for which the impact is included in the calculated impact below. In particular this calculation does not assume any impact on inventories.

Variation in assumption	EBITDA +/- ($ millions)
+/- $0.10 per kg milk solids change in milk purchase price	4.9

USD:AUD Foreign Exchange Rate

The variation below assumes that all other assumptions in the forecast are held constant. In particular, any impact of FX fluctuations on domestic sales prices is not reflected. This calculation does not assume any impact on inventories.

Variation in assumption	EBITDA +/- ($ millions)
+5 cents average rate for unhedged exposures for the remainder of FY14	(6.2)
- 5 cents average rate for unhedged exposures for the remainder of FY14	6.9

6.8 Key risks

There are a number of risks, both specific to WCB and general investment risks, which may materially and adversely affect the future operating and financial performance of WCB and the value of WCB Shares. Those (and other) risks could cause WCB's performance to differ materially from the forecasts included in this Target's Statement. Many of these risks are outside the control of WCB and its Directors.

Section 5.7 of this Target's Statement describes some of those material risks. The risks described in that Section are not the only ones WCB faces – some risks may not be known to WCB and some that WCB currently believe to be immaterial could later turn out to be material. One or more or a combination of these risks could materially impact WCB's business, revenues, operating income, net income, cash flow, net assets, liquidity or capital resources.

Section 7

Taxation consequences

7. Taxation consequences

7.1 Introduction

The information in this Section is a general summary of the Australian income tax, CGT, GST and stamp duty consequences for Australian resident WCB Shareholders who accept Bega's Offer. This information is relevant only to those WCB Shareholders who hold their WCB Shares on capital account. This information relates only to WCB Shares, and not to other rights held over WCB Shares. Stamp duty and GST information is set out in Sections 7.4 and 7.5 of this Target's Statement respectively.

This Section does not consider the Australian tax consequences for WCB Shareholders:

- who hold their WCB Shares as trading stock or as revenue assets;
- who acquired their WCB Shares through an employee share scheme;
- that may be subject to special tax rules, such as financial institutions, insurance companies, partnerships (except where expressly stated), tax exempt organisations, trusts (except where expressly stated), superannuation funds (except where expressly stated) or temporary residents; or
- who are subject to the taxation of financial arrangements rules in relation to gains and losses on their WCB Shares.

The information in this Section is based on taxation law and practice in effect as at the date of this Target's Statement. It is not intended to be an authoritative or complete statement or analysis of the taxation laws applicable to the particular circumstances of every WCB Shareholder. WCB Shareholders should seek independent professional advice regarding the taxation consequences of accepting Bega's Offer or otherwise disposing of their WCB Shares.

7.2 Tax consequences of disposal of WCB Shares by Australian residents

(a) General Capital Gains Tax considerations

Acceptance of Bega's Offer will result in the disposal of WCB Shares by WCB Shareholders. This disposal will constitute a Capital Gains Tax (**CGT**) event. The effective date of disposal for CGT purposes will be the earlier of the time at which the WCB Shareholder accepted Bega's Offer or the time at which Bega's Offer becomes unconditional. If Bega's Offer does not become unconditional, then no CGT event will occur.

The disposal of WCB Shares may result in a capital gain or capital loss for the WCB Shareholder.

A capital gain will arise if the WCB Shareholder's capital proceeds exceed the cost base of their WCB Shares. A capital loss will arise if the WCB Shareholder's capital proceeds are less than the reduced cost base of their WCB Shares.

The capital proceeds received by a WCB Shareholder who accepts Bega's Offer (or has their WCB Shares otherwise acquired under Bega's Offer) will be equal to the sum of the amount of cash received and the market value of the Bega Shares received, determined at the time of the disposal of the WCB Shares (being the time of acceptance of Bega's Offer).

The cost base or reduced cost base of WCB Shares should broadly equal the money that a WCB Shareholder has paid or was required to pay to acquire its WCB Shares, plus certain other amounts associated with the acquisition of the WCB Shares and disposal to Bega, such as brokerage or stamp duty. The cost base, but not the reduced cost base, of WCB Shares may also include indexation (refer below).

Net capital gain

Subject to the CGT reductions and exemptions discussed below, capital gains and capital losses of a taxpayer in a year of income are aggregated to determine whether the taxpayer has a net capital gain or loss for that period. Any net capital gain, after applying carried forward capital losses, is included in the taxpayer's assessable income. It is subject to income tax after deductions, including, subject to satisfying any applicable loss recoupment rules, deductions for any tax losses.

Capital losses

Capital losses may only be offset against capital gains realised in the same income year. A net capital loss for an income year can, subject to satisfaction of the loss recoupment rules, where applicable, be carried forward to be offset against capital gains in future income years.

(b) Circumstances in which capital gains may be reduced or disregarded

WCB Shareholders who accept Bega's Offer may be able to reduce or disregard a portion of a capital gain in the circumstances set out below. WCB Shareholders may be able to disregard a portion of a capital gain to the extent that it is attributable to the acquisition of Bega Shares where they elect scrip for scrip roll over relief to apply. For further information, refer to Section 7.2(c) of this Target's Statement.

7. Taxation consequences

Pre-CGT Shareholders

If a Shareholder acquired (or is deemed to have acquired) their WCB Shares prior to 20 September 1985, any capital gain or capital loss from the disposal of those WCB Shares is disregarded. However where a WCB Shareholder who holds WCB Share acquired, or deemed to have been acquired, before 20 September 1985 (**pre CGT WCB Shares**) and acquires a Bega Share in consideration for the disposal of their pre CGT WCB Shares, they will acquire a post CGT Bega Share with a cost base equal to its market value. The post CGT Bega Share will be subject to CGT on any future disposal.

Indexation

If a WCB Shareholder acquired (or is deemed to have acquired) their WCB Shares at or before 11.45 am on 21 September 1999, the cost base of their WCB Shares may be indexed for inflation, by reference to changes in the Consumer Price Index from the calendar quarter in which the WCB Shares were acquired (or deemed to be acquired) until the calendar quarter ended 30 September 1999. Indexation adjustments are taken into account only for the purposes of calculating a capital gain, not a capital loss.

A WCB Shareholder who is an individual, complying superannuation entity, a listed investment company or a trust and has held their WCB Shares for at least 12 months will have the option of applying either the indexation method or the CGT discount (refer below) to calculate the capital gain arising from the disposal of WCB Shares, but cannot apply both.

Whether any WCB Shareholder should use the indexation method or the CGT discount will depend on their particular circumstances. WCB Shareholders should consult their own tax advisers in relation to this matter.

CGT discount

WCB Shareholders who make a capital gain as a result of accepting Bega's Offer and do not choose to apply the indexation method referred to above may be eligible for the CGT discount.

Broadly the CGT discount can reduce an eligible taxpayer's capital gain if the taxpayer has held the relevant asset (in this case, WCB Shares) for at least 12 months prior to disposal. The CGT discount applies after an eligible taxpayer has applied capital losses against their capital gains for the income year.

The size and availability of the applicable CGT discount is determined by the legal status of the WCB Shareholder:

- individuals are subject to CGT on 50% of any capital gain;
- complying superannuation entities are subject to CGT on two thirds of any capital gain;
- companies (other than in a capacity as trustee) are not entitled to the CGT discount;
- trustees; where beneficiaries are presently entitled to the income of the trust, the net capital gain for the trust is determined with the benefit of the 50% CGT discount if the WCB Shares have been held for at least 12 months (refer above). On distribution by the trustee, the net capital gain would be grossed up to 100% in the hands of beneficiaries;
- beneficiaries that are individuals or complying superannuation entities should be entitled to the CGT discount (at 50% for individuals and 33 1/3% for superannuation funds) in respect of the disposal of the WCB Shares by the trust. The beneficiaries will include the discounted gain in their assessable income, which may be offset by any current year or carry forward losses of the beneficiary (subject to satisfying the relevant loss recoupment tests, where applicable);
- beneficiaries that are companies are not entitled to the CGT discount. They will include the grossed up capital gain in their assessable income, which may be offset by any current year or carry forward losses of the company; and
- where no beneficiaries are presently entitled to the net income of a trust that is a WCB Shareholder, the full amount of any capital gain in respect of the disposal of WCB Shares will be included in the assessable income of the trustee.

WCB Shareholders that are trusts should obtain specific tax advice as to whether they are entitled to obtain the benefit of the CGT discount and in relation to the tax consequences of distributions attributable to discounted capital gains.

(c) Scrip for scrip roll over relief in respect of the Bega Share component of the Offer Consideration

WCB Shareholders may be able to disregard some of their capital gain where scrip for scrip roll over relief is available.

Subject to the requirements summarised below scrip for scrip roll over relief may be available to WCB Shareholders who acquired their WCB Shares on or after 20 September 1985 and derive a capital gain as a result of acceptance of Bega's Offer.

Scrip for scrip roll over relief is not available for WCB Shareholders who accept Bega's Offer and hold WCB Shares acquired before 20 September 1985. However where a WCB Shareholder who holds WCB Shares acquired before 20 September 1985 acquires a Bega Share under Bega's Offer, any capital gain or loss is disregarded and they will acquire a post CGT Bega Share with a cost base equal to the Bega Share's market value. The post CGT Bega Share will be subject to CGT on any future disposal.

Scrip for scrip roll over relief does not apply where WCB Shareholders derive a capital loss as a result of acceptance of Bega's Offer.

Scrip for scrip roll over relief will only be available to WCB Shareholders if Bega's Offer results in Bega becoming the owner of 80% or more of the voting shares in WCB.

It is possible that Bega may have an interest of less than 80% of WCB Shares at the conclusion of Bega's Offer. In this case those WCB Shareholders who have accepted Bega's Offer will not be entitled to scrip for scrip roll over relief. In these circumstances, WCB Shareholders who accept Bega's Offer may be subject to CGT on the entire proceeds of cash and scrip received from Bega.

All WCB Shareholders should seek independent professional advice regarding whether scrip for scrip roll over relief can be obtained.

Combination of cash consideration and scrip consideration

Scrip for scrip roll over relief should be available to the extent of any scrip consideration received, provided that the conditions noted above are satisfied.

Roll over relief will not be available for any capital gain realised in respect of the exchange of WCB Shares for cash.

Allocation of cost base

To determine the capital gain that is not the subject of scrip for scrip roll over relief, the WCB Shareholder's cost base that is reasonably attributable to the cash consideration may be calculated for each WCB Share by multiplying the existing cost base in each WCB Share by the fraction of the total value of the consideration provided in respect of each WCB Share disposed of to Bega that is ineligible for roll over relief such as cash consideration (**Ineligible Proceeds**).

Choosing scrip for scrip roll over relief

If Bega owns at least 80% of WCB Shares at the conclusion of Bega's Offer and satisfies other relevant conditions then in order to access scrip for scrip roll over relief, eligible WCB Shareholders who wish to obtain roll over relief must elect to do so. WCB Shareholders can elect roll over relief by preparing their tax returns in a manner consistent with the election.

Cost base of Bega Shares acquired through the scrip consideration

For WCB Shareholders who obtain scrip for scrip roll over relief, their cost base in the WCB Shares disposed of, less the cost base attributable to the Ineligible Proceeds will be applied proportionately over their replacement Bega Shares in order to determine the cost base in those Bega Shares.

The cost base of the replacement Bega Shares will be relevant for any CGT event in relation to their Bega Shares in the future. For the purposes of determining eligibility for cost base indexation or the CGT discount on a sale of the replacement Bega Shares, a WCB Shareholder will be treated as having acquired the Bega Shares at the time the WCB Shareholder acquired the relevant WCB Shares.

Dividends received in relation to Bega Shares acquired through the Scrip Consideration

Bega may declare dividends on Bega Shares in the future. In order for WCB Shareholders to benefit from any franking credits attached to any dividends paid to holders of Bega Shares, the shareholders must satisfy the *holding period rule* in respect of the Bega Shares.

Broadly the holding period rule provides that Bega Shares must be held at risk for a continuous period of at least 45 days during the relevant qualification period, otherwise the shareholder is not entitled to the benefit of any franking credits attached to such dividends. The 45 day holding period rule does not apply where the WCB Shareholder is an individual and has franking credits of less than $5,000 for an income year.

7. Taxation consequences

7.3 Taxation consequences of disposal of WCB Shares by non residents

Generally a WCB Shareholder who is not a resident for Australian income tax purposes and who holds their WCB Shares on capital account will not be subject to CGT on the disposal of their WCB Shares if broadly WCB is a company with its value not predominantly reflected in Australian real property, or if the WCB Shareholder, together with its associates, holds less than 10% of the total WCB shares on issue.

Non resident WCB Shareholders who are subject to CGT on disposal of their WCB Shares will not be entitled to the CGT discount in relation to that portion of the capital gain which arises after 8 May 2012.

7.4 Stamp Duty

No Australian stamp duty should arise for the WCB Shareholders in respect of the disposal of their WCB Shares to Bega.

The issue of Bega Shares to WCB Shareholders arising from their acceptance of Bega's Offer, should not give rise to any Australian stamp duty if:

a) at the time of the issue of the Bega Shares, Bega does not (directly or indirectly) have any landholdings (meaning any interest in land, including any leasehold interest) in any Australian State or Territory; or

b) Bega does have such landholdings however Bega is listed on the ASX and all its issued shares are quoted at the time the Bega Shares are issued to the WCB Shareholders and:

   i) as a result of the issue of the Bega Shares no WCB Shareholder (on an associate inclusive basis) will:

      A) commence to hold an interest of 90% or more in Bega; or

      B) having such a 90% or more interest, acquire a further interest in Bega; and

   ii) the issue of the Bega Shares neither results in, nor is it part of a broader arrangement, that relates to, the acquisition or holding of an interest of 90% or more in Bega.

7.5 GST

No GST should be payable by WCB Shareholders in respect of their acceptance of Bega's Offer.

WCB Shareholders may be charged GST on third party costs (such as adviser fees) they incur and which relate to their participation in Bega's Offer. WCB Shareholders may be entitled to input tax credits for such costs, but should seek independent advice in relation to their specific circumstances.

Section 8

Additional information

8. Additional information

8.1 Directors' interests and dealings in WCB Shares

(a) Interests in WCB securities

As at the date of this Target's Statement, the Directors' relevant interests in WCB Shares is as shown in Section 1.1 of this Target's Statement.

In addition, David Lord has 68,627 performance rights. The approval of WCB Shareholders will be sought at WCB's Annual General Meeting on 24 October 2013 for a further grant of performance rights to Mr Lord up to the value of $175,000.

(b) Dealings in WCB Shares

No Director has acquired or disposed of a relevant interest in any WCB Shares in the 4 months ending on the date immediately before the date of this Target's Statement except through participation in the WCB Dividend Reinvestment Plan in respect of the FY14 Final Dividend announced to ASX on 28 August 2013.

(c) Intentions of your Directors in relation to Bega's Offer

Each of your Directors who has a relevant interest in WCB Shares intends to **REJECT** Bega's Offer in relation to those WCB Shares.

8.2 Interests and dealings in Bega Shares

(a) Interests in Bega Shares

As at the date of this Target's Statement, no Director had a relevant interest in any Bega Shares.

(b) Dealings in Bega Shares

No Director has acquired or disposed of a relevant interest in any Bega Shares in the 4 months ending on the date immediately before the date of this Target's Statement.

8.3 Benefits and agreements

(a) Directorships

As at the date of this Target's Statement, no Director of WCB is a director of Bega.

(b) Benefits in connection with retirement from office

As a result of Bega's Offer no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of WCB.

(c) Agreements connected with or conditional on Bega's Offer

There are no agreements made between any Director of WCB and any other person in connection with, or conditional on, the outcome of Bega's Offer other than in their capacity as a holder of WCB Shares.

(d) Benefits from Bega

None of the Directors has agreed to receive, or is entitled to receive, any benefit from Bega which is conditional on, or is related to, Bega's Offer, other than in their capacity as a holder of WCB Shares as outlined in Section 1.1 of this Target's Statement.

(e) Material interests of Directors in contracts with Bega

None of the Directors has any interest in any contract entered into by Bega.

8.4 Material litigation

WCB does not believe that it is involved in any litigation or dispute which is material in the context of WCB and WCB Group taken as a whole.

8.5 Issued capital

As at the date of this Target's Statement, WCB's issued capital consisted of 55,969,511 WCB Shares.

WCB also has 68,627 performance rights on issue.

8.6 Substantial holders

As at the date of this Target's Statement, the following persons held an interest in WCB Shares of more than 5% as disclosed in substantial holding notices provided to ASX:

Name	Number of WCB Shares	Percentage of WCB Shares
Murray Goulburn	9,661,981	17.26%
Bega	10,268,762	18.35%

8.7 ASX announcements

WCB is a *disclosing entity* under the Corporations Act and therefore has continuous disclosure obligations under that legislation and also under the ASX Listing Rules. WCB is required to immediately disclose to the market through ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of WCB's Shares.

WCB is in compliance with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules. WCB's announcements are available free of charge from the ASX website at www.asx.com.au (ASX code: WCB).

The most recent financial information regarding WCB is the WCB Trading Update announced on ASX on 7 October 2013. A copy of this document is also available free of charge from WCB on request and is also available on WCB's website at http://www.wcbf.com.au/.

8.8 Material change in financial position of WCB

There has been no material change to the financial position of WCB since the release of the WCB Trading Update announced to ASX on 7 October 2013.

8.9 Takeover response costs

Bega's Offer will result in WCB incurring expenses that would not otherwise have arisen in the 2014 financial year. These include legal, financial and tax expenses from advisers engaged by WCB to assist in responding to Bega's Offer. The total cost of the takeover response depends on the outcome of Bega's Offer, the duration of Bega's Offer and required response activities, and the complexity of the issues addressed in the response. Therefore it is difficult to estimate the likely total cost to WCB. However as at the date of this Target's Statement, the Directors estimate the total defence costs to be approximately $6.5 million.

8.10 Consents

CIMB Corporate Finance (Australia) Limited has consented to being named in this Target's Statement as the financial adviser to WCB and has not withdrawn that consent at the date of this Target's Statement.

Minter Ellison has consented to being named in this Target's Statement as the legal adviser to WCB and has not withdrawn that consent at the date of this Target's Statement.

KPMG CF has given before the date of this Target's Statement, and has not withdrawn, its consent to being named in this Target's Statement as the Independent Expert and to the inclusion of the Independent Expert's Report in this Target's Statement.

PricewaterhouseCoopers Securities Ltd has given before the date of this Target's Statement, and has not withdrawn, its consent to being named in this Target's Statement as the Investigating Accountant and to the inclusion of the Investigating Accountant's Report in this Target's Statement.

Each person named in Section 8.10 of this Target's Statement as having given its consent to the inclusion of a statement or to being named in this Target's Statement:

- has not authorised or caused the issue of this Target's Statement;
- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than a statement included in this Target's Statement with the consent of that person; and

8. Additional information

- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement or report which has been included in this Target's Statement with the consent of that party.

8.11 Reliance on ASIC class orders

As permitted by ASIC Class Orders 01/1543 and 07/429, this Target's Statement contains statements which are made, or based on statements made, in documents lodged by Bega with ASIC or given to ASX and trading data on ASX. In accordance with these class orders, the consent of Bega or ASX (respectively) is not required for the inclusion of such statements or data in this Target's Statement. Any WCB Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Shareholder Information Line on 1300 880 732 (toll free for callers within Australia) or +61 1300 880 732 (callers outside Australia).

In addition, as permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or published book, journal or comparable publication.

8.12 No other material information

This Target's Statement is required to include all the information that WCB Shareholders and their professional advisers would reasonably require to make an informed assessment whether or not to accept Bega's Offer but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in the Target's Statement; and
- only if the information is known to any Director.

The Directors are of the opinion that the only information that WCB Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept Bega's Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in releases by WCB and Bega to ASX before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless expressly indicated otherwise in this Target's Statement). However the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of WCB Shares;
- the matters WCB Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers to WCB Shareholders;
- the nature of Bega's Offer; and
- the time available to WCB to prepare this Target's Statement.

8.13 Approval of Target's Statement

This Target's Statement has been approved by a resolution passed by the Directors. All Directors voted in favour of that resolution.

Signed for and on behalf of WCB by:

T J Richardson

Terry Richardson
Chairman

Date: 16 October 2013

Section 9

Glossary and interpretation

9. Glossary and interpretation

9.1 Glossary

ACCC	the Australian Competition and Consumer Commission
AEDT	Australian Eastern Daylight Time
ASIC	the Australian Securities and Investments Commission
Associate	has the same meaning as given to that term for the purposes of Chapter 6 of the Corporations Act (as modified by ASIC from time to time)
ASX	ASX Limited ABN 98 008 624 691 or, where the context requires, a financial market operated by it
ASX Listing Rules	the listing rules of ASX, as amended or replaced
AUD	Australian dollars
Bega	Bega Cheese Limited ACN 008 358 503
Bega's Offer or **Offer**	the off market takeover bid by Bega for all WCB Shares other than those already held by Bega, as described in the Bidder's Statement
Bega Shares	fully paid ordinary shares in the capital of Bega
Bidder's Statement	the bidder's statement by Bega dated 27 September 2013 setting out the terms, Conditions and other information in relation to Bega's Offer (being an amended bidder's statement that replaces the bidder's statement by Bega dated 12 September 2013), read in conjunction with Bega's second supplementary Bidder's Statement dated 11 October 2013
Business Day	a day on which banks are open for business in Melbourne, excluding a Saturday, Sunday or public holiday
CGT	capital gains tax
Conditions	the conditions of Bega's Offer set out in section 9.2 of the Bidder's Statement
Corporations Act	the *Corporations Act 2001* (Cth)
Director	a director of WCB
Directors' Forecast or **WCB's forecast**	the Directors' pro forma forecast consolidated statement of financial performance for WCB and its subsidiaries for FY14
EBITDA	earnings before interest, tax, depreciation and amortisation

Employee Share Plan	the WCB Employee Share Plan described in Section 4.11(b) of this Target's Statement
FY12	the financial year from 1 July 2011 to 30 June 2012
FY13	the financial year from 1 July 2012 to 30 June 2013
FY14	the financial year from 1 July 2013 to 30 June 2014
FY15	the financial year from 1 July 2014 to 30 June 2015
GST	goods and services tax
Independent Expert or **KPMG CF**	KPMG Corporate Finance (a division of KPMG Financial Advisory Services (Australia) Pty Ltd)
Independent Expert's Report	the report prepared by the Independent Expert included as Appendix 1 to this Target's Statement
Investigating Accountant or **PwC**	PricewaterhouseCoopers Securities Limited
Investigating Accountant's Report	the report of the Investigating Accountant expressing a limited assurance opinion on the Directors' Forecast and the Directors' best estimate assumptions underlying it. The Investigating Accountant's Report is included as Appendix 2 to this Target's Statement
Ineligible Foreign Shareholder	a WCB Shareholder whose address as shown in the register of members of WCB is in a jurisdiction other than Australia, its external territories or New Zealand, unless Bega is satisfied that it is not precluded from lawfully issuing Bega Shares to that WCB Shareholder either unconditionally or after compliance with conditions that Bega regards as acceptable and not unduly onerous
Murray Goulburn	Murray Goulburn Co-operative Co. Limited ACN 004 277 089
Offer Consideration	the consideration offered by Bega under its Offer. As at the date of this Target's Statement, the Offer Consideration is 1.2 Bega Shares and $2.00 cash for each WCB Share
Offer Period	the period during which Bega's Offer will remain open for acceptance in accordance with section 9.1.5 of the Bidder's Statement
Performance Rights Plan	the WCB Performance Rights Plan described in Section 4.11(a) of this Target's Statement
Related Body Corporate	has the meaning given to that term in the Corporations Act
relevant interest	has the meaning given in sections 608 and 609 of the Corporations Act

9. Glossary and interpretation

Rights	all accretions and rights that accrue to or arise from WCB Shares after the date the bidder's statement is lodged with ASIC, including all rights to receive dividends, to receive or subscribe for shares, notes, options or other securities and all other distributions or entitlements declared, paid, made or issued by WCB after that date
Saputo	Saputo Inc.
Saputo Offer	the recommended off-market takeover bid by Saputo to acquire all WCB Shares for $7.00 cash per Share as announced to ASX on 8 October 2013
Target's Statement	this document
USD	US dollars
VWAP	the volume weighted average trading price of shares on ASX
WCB	Warrnambool Cheese and Butter Factory Company Holdings Limited ACN 071 945 232
WCB Board or **Board**	the board of directors of WCB
WCB Factory	The Warrnambool Cheese and Butter Factory Company Limited ACN 004 032 053
WCB Share or **Share**	a fully paid ordinary share in the capital of WCB
WCB Shareholder or **Shareholder**	a holder of WCB Shares

9.2 Interpretation

In this Target's Statement, unless the context otherwise requires:

- the singular includes the plural and vice versa and words importing one gender include other genders;
- terms defined in the Corporations Act as at the date of this Target's Statement have the meanings given to them in the *Corporations Act 2001* (Cth) at that date;
- a reference to dollars, A$, AUD, $ and cents is a reference to Australian currency;
- a reference to a statute of any parliament or any section, provision or schedule of a statute of any parliament includes a reference to any statutory amendment, variation or consolidation of the statute, section, provision or schedule and includes all statutory instruments issued under the statute, section, provision or schedule;
- a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- a reference to Section or Appendix is a reference to a section of or appendix to this Target's Statement and a reference to this Target's Statement includes any Appendix;
- a reference to time is a reference to AEDT; and
- headings and bold type are used for reference only.

Appendix 1

Independent Expert's Report

Appendix 1 – Independent Expert's Report

KPMG Corporate Finance
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The Directors
Warrnambool Cheese and Butter Factory Holdings Company Limited
5331 Great Ocean Road
Allansford VIC 3277

12 October 2013

Dear Directors

Independent Expert Report

PART ONE – INDEPENDENT EXPERT'S REPORT

1 Introduction

On 12 September 2013 (Announcement Date), Bega Cheese Limited (Bega) made an off-market bid to acquire the remaining 81.89 percent fully-paid ordinary shares in Warrnambool Cheese and Butter Factory Holdings Company Limited (WCB) which it does not already own (the Proposed Transaction). This includes the 17.04 percent owned by Murray Goulburn Co-Operative Co. Limited (Murray Goulburn).

Bega's offer comprises 1.2 Bega shares and $2.00 cash for every WCB share (the Offer). As per the Bidder's Statement this provides a value of $5.78 per WCB share using the Bega share price at closing on the 11 September 2013. The Offer is subject to a number of conditions which are outlined in Section 9.2 of the Bidder's Statement.

On 23 August 2013, WCB announced its intention to pay a fully franked final dividend of $0.11 per WCB share (WCB Final Dividend). The WCB Final Dividend had a record date of 9 September 2013, with payment taking place on 27 September 2013. Pursuant to WCB's dividend reinvestment plan, shareholders with a holding of ordinary shares as at the record date received the WCB Final Dividend payment by way of a share issuance.

The Board of Directors of WCB has requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to provide an independent expert's report (IER) indicating whether in our opinion, the Proposed Transaction is fair and reasonable to the WCB shareholders.

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On 8 October 2013, Saputo Inc (Saputo) announced an off-market takeover offer for all of the shares in WCB. This alternate offer consists of $7.00 cash for each WCB share. KPMG Corporate Finance has only been engaged to provide an opinion on the Proposed Transaction with Bega and therefore do not express an opinion on whether Saputo's offer is fair and reasonable to WCB shareholders.

Details of the Proposed Transaction are set out in Section 5 of our report and in depth in Section 4 of the Target's Statement to which this report is attached.

This report is a summary of KPMG Corporate Finance's opinion as to the merits or otherwise of the Proposed Transaction. This report should be considered in conjunction with and not independently of the information set out in the attached report.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

1.1 WCB

WCB is the oldest dairy company and one of the largest milk processors in Australia. The company produces and sells dairy products in Australia and internationally, marketing their products to wholesale and retail customers. Exports are predominately to Asia and the Middle East.

WCB is listed on the Australian Stock Exchange (ASX) and on 11 September 2013, being the day before the announcement of the Proposed Transaction, WCB's market capitalisation was $249.2 million.

1.2 Bega

Bega is a vertically integrated Australian dairy company engaged in receiving, processing, manufacturing and distributing dairy and associated products. Predominately servicing the domestic market with retail and business-to-business supplier arrangements, Bega also services the export market.

Bega is listed on the ASX and on 11 September 2013 Bega's market capitalisation was $478.4 million.

2 Scope of report

2.1 Technical requirements

While there is no statutory requirement for an IER to be included in the Target's Statement, the Directors of WCB have requested KPMG Corporate Finance to prepare a report to assist WCB shareholders in assessing the Proposed Transaction. Under the current Proposed Transaction, Bega wishes to acquire all the shares in WCB they do not already own, pursuant to an off-market takeover. Accordingly, our report has been prepared under the requirements of s640 of the Corporations Act (the Act). Refer to Section 6 for further details on the technical requirements and the basis of assessment for the IER.

3 Summary of opinion

3.1 The Proposed Transaction is neither fair nor reasonable to WCB shareholders

In our opinion, having assessed the Proposed Transaction to WCB shareholders, we consider the Proposed Transaction to be **neither fair nor reasonable**.

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A critical element in forming our opinion has been our analysis of WCB's trading results in FY13[1] as opposed to what is expected in FY14[2] and beyond. During FY13, the Australian dairy industry experienced difficult trading conditions, in particular for exporters such as WCB. The negative impact of a high Australian dollar (AUD) exchange rate, low global commodity prices and strong farm gate[3] milk prices (relative to the reduction in export pricing) significantly impacted profit in FY13. The margins generated by WCB in the FY13 period (i.e. 5.1 percent EBITDA margin) was well below the prior three year's margins which averaged 7.6 percent. As we note in Section 8.3 of our report, the key considerations to take into account for the FY13 trading year are:

- international commodity prices were depressed over the first three quarters of FY13 (on average prices were 12 percent below that of the previous period)
- a strong AUD:United States dollar (USD) exchange rate during FY13 depressed the domestic price received for exports

To account for the tight export trading conditions, during the FY13 period, WCB focused on increasing sales of consumer goods and direct milk sales given these products were (at the time) generating higher margins than the export products. This maintained the revenue levels from FY12[4] through FY13, however, resulted in significant reductions in overall margins and profit given the high cost of selling these products.

In the fourth quarter of FY13 the market showed significant signs of correction for exporters as the AUD depreciated against the USD. WCB, as a predominately export focused company, is particularly sensitive to the AUD exchange rate. In this regard, market commentators expect the AUD exchange rate to further depreciate against the USD. This is expected to increase WCB's profitability in FY14 and in the longer term as their current hedges roll off towards the middle of FY14.

In terms of supply, Dairy Australia is expecting Australian milk production to increase between 1 and 3 percent year on year (yoy) compared to FY13, which was a decline of 3 percent from FY12 production. Further, WCB, based on market estimates from market commentators, are expecting international dairy commodity prices to increase during the FY14 period, although there is no certainty that this will occur.

In addition to the expected turnaround in market conditions in FY14, WCB have also recently invested capital into several growth initiatives that are expected to yield strong returns in the forecast period. Of most importance are the Lactoferrin and Galacto Oligosaccharides (GOS) initiatives:

- the GOS joint venture (in partnership with Royal FreislandCampina) has been operational since 2010. In recent periods the GOS joint venture parties have been repaying loans associated with the initial construction of the facility in favour of taking profit distributions. Early in FY14, a significant portion of the GOS plant and equipment lease liability was repaid, meaning that the returns expected to be received in the forecast period to each joint venture party will increase

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[1] FY13 refers to the year 1 July 2012 to 30 June 2013
[2] FY14 refers to the year 1 July 2013 to 30 June 2014
[3] Farm gate prices: Net value of the product when it leaves the farm, after marketing costs have been subtracted
[4] FY12 refers to the year 1 July 2011 to 30 June 2012

- in FY13, WCB incurred (and will continue to incur, in FY14) capital expenditure at their Allansford site in respect of a new Lactoferrin processing facility. As outlined in Section 8.2.5 of our report, WCB entered into a technology partnering agreement with Tatua Cooperative Dairy Company Limited (Tatua), whereby WCB will be producing Lactoferrin using Tatua's intellectual property and technology. Lactoferrin is currently a highly profitable product with WCB estimating that they will generate a strong return on their invested capital

  Several other market participants already operate in Lactoferrin production primarily for the Chinese and Japanese markets (where high quality Lactoferrin receives the highest margin). In a recent prospectus, Synlait Milk Limited (Synlait), a New Zealand (NZ) based dairy company, stated they are also in the process of constructing their Lactoferrin facilities. On consideration of the high margin returns that can be generated from Lactoferrin we have also considered the fact that Bega, through its Tatura operations, also utilise the Tatua developed Lactoferrin technology facility and would understand the highly profitable nature of the product and most importantly understand the operational requirements of the facility to fully utilise its potential

WCB Management expects the two initiatives outlined above to generate significant future returns for the company.

Given WCB's exposure to macro economic variables and its investments in new growth initiatives, we do not consider the FY13 results to be representative of the long term maintainable position of the company and should therefore not be viewed in isolation. Accordingly, we believe that FY13 profits should not be used as a proxy for maintainable earnings as it does not provide a reasonable basis to value the ongoing operations of WCB.

In forming our opinion we have also considered the terms of the Offer whereby WCB shareholders would receive 1.2 Bega shares. Bega's share price and its associated volatility over the 12 months prior to the Announcement Date, where it has traded between \$1.69 and \$3.22, has a level of importance when evaluating the consideration offered. This volatility may concern shareholders with respect to both the impact on the implied value of the Offer and for those who have a view to holding Bega shares in the longer term. It should be noted that since listing in 2011 the share price of Bega has appreciated significantly from the \$2.00 listing price to \$3.15 at the close on the day prior to the Announcement Date. This is a result of the operational performance and successful integration of acquisitions.

3.2 Assessment of fairness

KPMG Corporate Finance has assessed the Offer as **not fair** to WCB shareholders as we have assessed the underlying value of a share in WCB (on a controlling basis) to fall within the range of \$6.96 to \$7.49 whilst our range of assessed value for the Offer falls within the range of \$5.77 to \$6.08.

Our assessment of the value of WCB is for a controlling interest which incorporates a premium for control. When assessing the controlling value of WCB, we have considered those synergies and benefits which would generally be available to a pool of hypothetical purchasers. We have not included the value of synergies and benefits that may be unique to Bega. Accordingly, our valuation of a share in WCB has been determined regardless of the acquirer.

Bega is offering WCB shareholders 1.2 Bega shares and \$2 for every WCB share. In assessing whether the Offer is fair we have compared the value of the WCB shares being acquired (on a controlling basis)

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with the value of the consideration being offered, represented by the Bega share price (on a minority or non-controlling basis) and cash consideration components.

The results of our assessed values under the Proposed Transaction are set out below:

Table 1 – Assessment of fairness

Assessment of fairness $ per share	Report section	Low	High
Assessed value of WCB			
Selected WCB equity value ($ million)	*11.0*	390.00	420.00
Fully diluted WCB shares outstanding (million)		56.04	56.04
Assessed value of WCB per share		6.96	7.49
Assessed value of the Offer consideration			
Assessed share price of Bega	*12.3*	3.14	3.40
Share consideration under the Offer (1.2 scrip ratio)		3.77	4.08
Cash consideration under the Offer		2.00	2.00
Assessed consideration under the Offer per WCB share		5.77	6.08
Assessed consideration equity value ($ million)		323.23	340.71
Discount of the Offer to the assessed value of WCB shares		-17.1%	-18.9%

Notes: Figures may not add due to rounding
Source: KPMG Corporate Finance analysis

Accordingly, the Offer is not fair.

Our assessment of the Offer is based on information available as at the date of this report. We note that the assumptions underlying our assessment, in particular, the estimated trading price of Bega shares, may change and as such, we have included a sensitivity table to indicate how the implied value of the consideration under the Offer, may vary.

Table 2 – The Offer consideration with share price sensitivity

The Offer consideration with share price sensitivity $ per share								
Indicative share price of Bega	3.00	3.10	**3.14**	3.20	3.30	**3.40**	3.50	3.60
Cash consideration	2.00	2.00	**2.00**	2.00	2.00	**2.00**	2.00	2.00
Total consideration offered under the Offer[1]	5.60	5.72	**5.77**	5.84	5.96	**6.08**	6.20	6.32
Implied Offer Equity Value ($ million)	313.81	320.54	**323.23**	327.26	333.99	**340.71**	347.44	354.16

Notes:
1. The Offer comprises 1.2 Bega shares and $2 cash for each WCB share
Figures may not add due to rounding
Source: KPMG Corporate Finance analysis

3.3 Assessment of reasonableness

Taking into account the difference between our assessed value of a WCB share and the consideration offered and the advantages and disadvantages listed below, KPMG Corporate Finance considers the Offer as **not reasonable.**

We note that on 8 October 2013, Saputo announced an off-market takeover offer for all of the shares in WCB, the consideration being $7.00 cash for each WCB share.

3.3.1 Advantages

The principle advantages of the Proposed Transaction for WCB shareholders are:

- *the Offer consideration provides a premium to WCB's share price prior to the announcement of the Proposed Transaction*: furthermore, the cash component of the Offer provides an immediate cash consideration for those shareholders interested in realising some value for their WCB shareholding in the short term. In consideration of the above we note:
  - the Offer (as contained in the Bidder's Statement) provides a premium of 28 percent over the closing price of WCB shares the day prior to the Proposed Transaction announcement. Likewise the Offer provides a premium of 33 percent to the 3 month volume weighted average price (VWAP) of WCB shares and a premium of 34 percent to the 6 month VWAP. This is in line with takeover premia observed in the market, in this regard refer to further commentary on takeover premiums in Section 11.6 of our report

    We also note in Section 8.6 that WCB is considered a relatively illiquid stock. Illiquid stocks typically trade at a discount to their underlying value. As such any Offer premium should be considered on this basis

    We expect that the WCB share price is likely to trade at lower levels than current levels and the consideration offered by Bega after the Offer expires.
  - the Offer provides a $2.00 per share cash component. This is likely to be attractive to those investors that are looking for immediate consideration for their shareholding in WCB and who believe that such value cannot be derived in the absence of the Offer. We understand that a significant portion of WCB's shareholders are farmer suppliers or ex-farmer suppliers of which, due to recent economic conditions, may find the cash consideration component attractive, whilst also offering those shareholders continued exposure to an Australian dairy company
  - *availability of synergies to the Combined Group*: the management of WCB and the details outlined in the Bidder's Statement anticipate that there are also considerable opportunities within any WCB and Bega combined group (Combined Group) to capture significant recurring benefits (or synergies) should Bega acquire a controlling stake in WCB. These opportunities include, but are not limited to, removing duplication in head office costs, facility rationalisation and milk flow transportation management and rationalisation

  Section 4.5 of the Bidder's Statement estimates that these synergies approximate $7.5 million per annum (pre-tax) in a 100 percent controlling interest scenario.

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WCB management estimate that the synergies available to Bega are in the range of $16.5 to $23.3 million (excluding one-off integration costs). Of this amount, WCB management estimate that the synergies available to other dairy market participants represent approximately $14.4 million per annum (pre-tax), primarily as a result of the removal of head office cost duplication (excluding any one-off integration costs)

WCB management also estimate that the facility and milk transportation rationalisation would result in synergies available solely to Bega of approximately $8.9 million per annum (excluding any one-off integration costs). This includes WCB's estimate that Bega would be able to close the Mil Lel plant

For WCB shareholders this benefit will only apply on a diluted basis having regard to the terms of the Offer whereby they receive cash for approximately 35[5] percent of their WCB shareholding

There is some risk that all of the benefits outlined above will not be fully realised, will take longer or cost more than expected to implement

These details are further discussed in Section 1.2 of the Target's Statement

- *ability to participate in the larger Combined Group provides certain benefits*:
  - diversification: the Combined Group will have greater diversification of operations in terms of both supply and market penetration:
    - in terms of supply, the WCB shareholders will gain access to geographical diversification (whilst still within Australia) through Bega's primary milk supply region, being New South Wales (NSW). WCB currently source the majority of their supply throughout Victoria and South East South Australia. This will allow for cash flows with reduced influence of the weather patterns (in particular rainfall) in any one particular region
    - increased scale/size/market position: the Combined Group will be one of the largest milk processors in Australia. As such, they will be in a stronger position to compete with other domestic and international dairy companies
  - stronger balance sheet: the Combined Group is likely to have a stronger balance sheet, which will give it greater capacity to participate in industry consolidation on a global and domestic basis. The Combined Group may be able to access capital that WCB and/or Bega were unable to access on a stand-alone basis

    increased liquidity: due to its increased size and market position, the Combined Group may attract an increased level of investor interest that may generate an increased level of liquidity in its shares trading on the ASX.

3.3.2 Disadvantages

The principal disadvantages of the Proposed Transaction for WCB shareholders are:

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[5] Based on implied value of Bega shares on the day prior to the announcement (11 September 2013).

KPMG

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- *uncertainty associated with value of scrip and thus the consideration offered*: in this regard, the actual value of the consideration under the Offer is uncertain and dependant on the share price of Bega at the completion of the Offer

  For those shareholders that do accept the Offer and hold their Combined Group shares in the longer term, there is uncertainty over the future value of the scrip held in the Combined Group. Each WCB shareholder's decision to accept the Offer should be regarded as a separate investment decision with regard to their assessment of the Bega (or Combined Group) risk profile, the individual's risk appetite and their personal circumstances

  Further, those shareholders looking for immediate liquidity who do not want to accept the Offer, can sell their shares on the market at a premium compared to the historic share price, prior to the Offer expiry

- *Bega is unlikely to obtain 90 percent of the shares in WCB*: in this regard, it is uncertain what percentage ownership Bega will ultimately achieve from the Proposed Transaction given Murray Goulburn's shareholding. Murray Goulburn is a significant competitor of both Bega and WCB in the Australian dairy industry and it's strategic intention around its holding in WCB and its view on the Proposed Transaction is currently unknown. We note that Murray Goulburn can prevent Bega from achieving the 90 percent shareholding threshold requirement for compulsory acquisition of all of the remaining interest in WCB shares. As outlined in Section 4.5 of the Bidder's Statement, should Bega achieve a relevant interest in WCB less than 90 percent, their estimated synergistic benefits would not be fully realised. Bega estimates that 50 percent of the synergies will be available if they achieve between 50 percent and 90 percent relevant interest and nil if they achieve less than 50 percent

- *diluted exposure to synergies available to the Combined Group*: WCB management has identified synergies available to general market participants and synergies only available to Bega. Because the Offer consists of both scrip and cash, WCB shareholders will have less exposure to synergies being realised by the Combined Group when compared to an all scrip offer

- *diluted exposure to the WCB upside:* WCB's recent earnings in FY13 were significantly influenced by economic conditions and low commodity prices in their major export markets. While our valuation reflects assumptions in relation to improved economic and financial performance, it is possible that the WCB business could achieve higher growth rates than anticipated considering its growth initiatives and strong performance of its joint ventures. The WCB shareholders who accept the Offer will have a diluted exposure to this potential upside. Refer to Sections 5 and 6 of the Target's Statement for additional commentary on WCB's expected future performance and growth initiatives

- *uncertainty associated with the Offer not containing a minimum acceptance threshold*: there are three outcomes that may unfold in regard to Bega's ultimate shareholding in WCB as a result of the Offer not containing a minimum acceptance threshold, being:
  - Bega achieves less than 50 percent plus one share of WCB
  - Bega achieves greater than 50 percent plus one share but less than 90 percent of WCB, and

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- Bega achieves the 90 percent compulsory acquisition threshold or more, effectively representing 100 percent control of WCB

This uncertainty regarding the ultimate interest of Bega post the Offer period means that there is uncertainty over:

- the post Offer WCB board representation and composition
- the effective control over the WCB operations

- *opportunity to participate in a control transaction*: if WCB shareholders accept the offer they may lose the opportunity to participate in any future control transaction relating to WCB. For instance, in a scenario where a competing bidder makes an offer for WCB (such as the cash offer made by Saputo), those shareholders that have already accepted the Bega offer will have limited circumstances where they can participate in any competing offer
- *integration risk*: there is a risk that some of the potential upside of the transaction may not materialise. This will depend on, *inter alia*, the effective and efficient integration of the two companies. In this regard, it is noted that Bega acquired and appear to have successfully integrated Tatura Milk Industries Limited (Tatura) in 2007 (and remaining shareholding in 2011). Notwithstanding that, we note there are risks involved in the integration process
- *ownership dilution*: shareholders of WCB will hold a reduced stake in the Combined Group, which will reduce their influence over the activities of the Combined Group. This may be of greater concern to shareholders who are also farmer suppliers (or ex-farmer suppliers) who will have a reduced representation on the board of the Combined Group
- *subject to conditions precedent:* the Offer is subject to a number of conditions which may result in the Offer being withdrawn, namely:
  - before the end of the Offer period, the Australian Competition and Consumer Commission (ACCC) has consented, or has stated it will not object to the Proposed Transaction
  - the shareholders of Bega have approved, by special resolution, the shareholding limit constitutional amendments which currently limits the maximum shareholding of any person, together with his or her associates to 10 percent of the share capital in Bega
  - no prescribed occurrences as defined in the Bidder's Statement

  Refer to Section 9.2 of the Bidder's Statement for further details on the Offer conditions
- *scrip for scrip rollover relief may not be available*: the tax consequences of each individual investor varies. General advice in relation to the tax implications of the Offer are set out in Section 5.0 of the Bidder's Statement

  Subject to certain conditions being satisfied, scrip for scrip rollover relief will only be available if Bega, post the completion of the Offer period, holds greater than 80 percent of the WCB shares. In the event this threshold is not satisfied the shareholders who accept the Offer may be subject to Capital Gains Tax (CGT) implications

- *impact of any potential synergistic rationalisation on the local economy*: as WCB advised its shareholder listing contains a significant portion of farmer suppliers or ex-farmer suppliers from the local region, our consideration of disadvantages also relates to the potential impact on the local Warrnambool (South-West Victorian region) economy. It has been estimated by both the management of WCB and the Bidder's Statement that significant synergies may be available to a Combined Group. As such, should Bega gain control of WCB and successfully implement their cost rationalisation strategies this may come at a consequence to the local economy in South-West Victoria to which WCB is currently a major employer
- *Ineligible Foreign Shareholders*: as indicated in Section 9.1.11 of the Bidder's Statement, Ineligible Foreign Shareholders[6] will not be entitled to Bega shares as part of the Offer consideration. Foreign shareholders who accept Bega's offer will have to sell their Bega shares on the ASX through an ASIC approved nominee. Consequently, such shareholders will receive cash for their WCB shares, however all brokerage and exchange rate fees which are incurred as a result of the sale will be at the cost of the shareholder.

3.4 Implications if the Proposed Transaction does not result in effective control or does not proceed

In the event the Proposed Transaction does not result in effective control for Bega, the WCB shares will continue to be listed on the ASX. Section 3.0 of the Bidder's Statement indicates that Bega will be seeking to de-list WCB from the ASX should it obtain a relevant interest in WCB of greater than 80 percent.

The Board of Directors of WCB have advised that they intend to continue to develop the WCB business in a manner similar to that pursued over the last 12 months.

In this regard, we note:

- WCB shares are likely to initially trade at lower levels than current levels and the current implied value of the consideration offered by Bega under the Proposed Transaction. The extent of any decline will likely be dependent on the market's assessment of any other future transaction, its ability to achieve the FY14 earnings estimates, movements in market sentiment and the level of liquidity in the WCB share trading volumes
- the expected advantages of the Proposed Transaction will not be realised. However, some of the possible disadvantages and risks of the Proposed Transaction will not arise

  WCB will have incurred costs, estimated at $6.5 million and expended management time in relation to the Proposed Transaction

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[6] For the definition of Ineligible Foreign Shareholders refer to the Glossary of Terms in Section 10.0 of the Bidder's Statement.

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4 Other matters

In forming our opinion, we have considered the interests of WCB as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications of the Proposed Transaction on individual shareholders as their financial circumstances are not known. The decision of shareholders, whether or not to accept the Offer, is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting WCB shareholders in considering the Proposed Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Target Statement to be sent to WCB shareholders in relation to the Proposed Transaction, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Target Statement.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 of the attached report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information as set out in Section 6 of our attached report.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Danie van Aswegen
Authorised Representative

Ian Jedlin
Authorised Representative

Warrnambool Cheese and Butter Factory Holdings Company Limited
Independent Expert Report
12 October 2013

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5 The Proposed Transaction

5.1 Overview

On 12 September 2013, Bega made an off-market bid to acquire the remaining 81.89 percent fully-paid ordinary shares in WCB which it does not already own. This includes the 17.04 percent owned by Murray Goulburn.

Bega's offer comprises 1.2 Bega shares and $2.00 cash for every WCB share (the Offer). As per the Bidder's Statement this provides a value of $5.78 per WCB share using the Bega share price as at closing on 11 September 2013.

The Proposed Transaction is subject to a number of conditions set out in the Bidder's Statement. However, the Proposed Transaction does not contain a minimum acceptance condition.

6 Scope of the report

6.1 Purpose

While there is no statutory requirement for an IER to be included in the Target Statement, the Directors of WCB have requested KPMG Corporate Finance to prepare a report to assist WCB shareholders in assessing the Proposed Transaction. Under the current Proposed Transaction, Bega wishes to acquire all the shares in WCB they do not already own pursuant to an off-market takeover. Accordingly, our report has been prepared under the requirements of s640 of the Act.

Under Section 640 of the Act, an IER is required to state whether an offer is considered fair and reasonable.

6.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by the Australian Securities and Investment Commission (ASIC) indicates the principles and matters which it expects a person preparing an independent expert report to consider. RG 111 notes:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100 percent ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison
- an offer is 'reasonable' if it is 'fair'

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- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the securities subject to the Offer. It is a requirement of RG 111 that the comparison be made assuming 100 percent ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without considering the percentage holding of the 'bidder' or its associates in the target prior to the bid. That is, RG 111 requires the value of WCB to be assessed as if the bidder was acquiring 100 percent of WCB. In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of WCB, we have considered those synergies and benefits that would be available to more than one potential purchaser (or a pool of potential purchasers) of WCB. As such, we have not included the value of special benefits that may be unique to Bega. Accordingly, our valuation of WCB has been determined regardless of the bidder and any special benefits have been considered separately.

6.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of WCB for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with WCB's management in relation to the nature of the Company's business operations, specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

WCB has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of WCB. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, WCB remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We do not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective financial information are accurate, complete or reasonable. We do not warrant or guarantee the achievement of any such forecasts or projections.

Accordingly, KPMG Corporate Finance cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period. In particular, we have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any prospective financial information. Any variations from forecasts/projections may affect our valuation and opinion.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. The Independent Directors of WCB, together with the Company's legal advisers, are responsible for conducting due diligence in relation to WCB. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. WCB has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to WCB and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising WCB. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by WCB.

7 Industry overview

7.1 General

The Australian dairy industry experienced tough conditions during FY13, with milk production finishing 3 percent down yoy at 9.2 billion litres[7]. Despite these conditions in FY13, assessments conducted by Dairy Australia forecast that the global dairy market will grow in terms of both value and volume in the

[7] Dairy Australia – Dairy 2013 Situation and Outlook (September 2013 Update)

short, medium and long term. These increases are expected to be driven by demand from China, South East Asia and the Middle East.

Various market commentators have identified the significant factors influencing dairy demand from regions with developed dairy markets as being:

- imported products are perceived to be safer and more trusted, as developed dairy exporting regions tend to have more stringent laws and regulations in place surrounding the dairy production process
- developed regions are experiencing lower economic growth rates than in the developing regions, these include large import regions such as South East Asia and the Middle East
- the emergence of the 'middle class' in developing economies, who will have more disposable income and therefore an increased demand for consumables
- birth rates are higher in the developing markets and a larger portion of the population are younger
- consumers are becoming more health and food conscious, with major growth in 'modern' retailing and food service in developing regions
- increased promotion of the benefits of dairy, in particular for children. This strengthens the demand especially in those regions where dairy consumption has traditionally been low.

7.2 Australian dairy industry

7.2.1 Main players in the Australian dairy industry

There are several significant participants in the Australian dairy. The top 6 players in terms of received volume of milk are illustrated in the table below.

Table 3: Main players in the Australian dairy industry

Company	Activities and products
Murray Goulburn - 31.0 percent of market share in 2013	Processes, manufactures, packages, distributes, markets and serves the wholesale supply market with a range of milk and dairy products, including fresh dairy products and non-fresh dairy products
Lion - 24.0 percent of market share in 2013	Processes, manufactures, packages, distributes and markets dairy and other food products
Fonterra - 18.0 percent of market share in 2013	Co-operative owned by the NZ dairy farmers, and primarily supplies milk and cheese products
WCB - 10.0 percent of market share in 2013	Processes, manufactures, packages, distributes and markets cheese, butter, milk powder and speciality dairy products
Bega - 7.0 percent of market share in 2013	Manufacturer of cheese and cheese products. Acquired a 70 percent shareholding of Tatura, which manufactures cream cheese, powders, infant formula and nutraceuticals
Parmalat Australia - 6.0 percent of market share in 2013	Production and distribution of fresh milk, cream and yogurt, for both the Australian and export market

Note: Market share is calculated based on volume of milk received (WCB sourced data)
Source: Ibis World, ACCC and WCB information

7.2.2 Australian Dairy Production

Raw milk production finished FY13 3 percent down on the prior year at 9.2 billion litres. The decreased production is the consequence of lower farm gate prices at the start of the season, difficulties in stock feed sourcing/price and unfavourable weather conditions.

The peak dairy season for Australia is during the spring months (September to November) as this follows the period when calves are born and therefore a cow's lactating process commences. When the supply of raw milk is at its peak, supply is often higher than required by the dairies. The opposite occurs in the shoulder season and shortages can exist. The highly seasonal nature of the business has been controlled to some degree by extensive planning and initiatives to change the timing of when the calves are born. That is, increased calves being born in months other than spring.

Inputs into the production process

Raw milk is the main input into all dairy products and is sourced either directly from farmers, milk brokers or via milk swaps whereby the processors directly swap volumes of milk between each other. Milk swaps occur when processors have access to milk in regions that are not in close proximity to their own plants but are close to their competitors' plants. The most significant input used to produce dairy products is the raw milk. Other inputs include salt, emulsifiers and water.

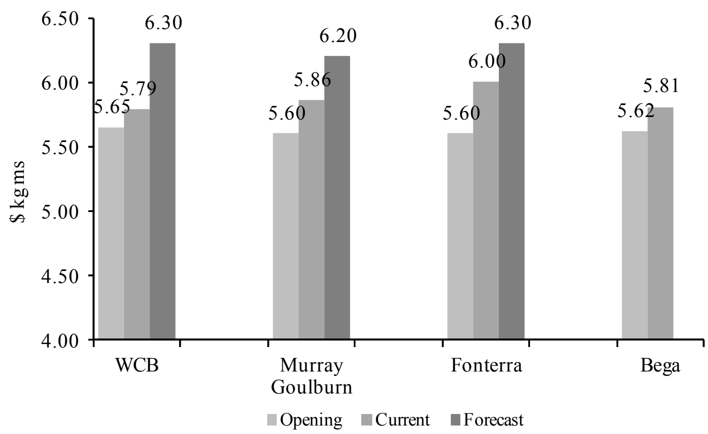
Processing Plants

To transform raw milk into product form, depending on the product being produced, various heating, pasteurising and ageing techniques are applied. The production process is very capital intensive and it is largely machinery that processes the raw milk into the different products.

Dairy Price Setting

Raw milk prices are set with reference to the domestic competitors' pricing and global commodity prices. It is important for processors to establish competitive prices in Australia, as the farmers are not contracted to supply their milk to a particular processor and can switch if they can achieve a more favourable price. Incentives are offered to farmers for supplying certain quantities of raw milk, as well as for supplying during the shoulder season.

Figure 1: FY14 prices set by major industry players



Source: WCB Information – based on publically announced milk prices

From the figure above it can be observed that the current FY14 raw milk price set by the competitors is within $0.21/kgms of each other. Forecast milk prices have a smaller variance at $0.10. Farm gate prices have increased from the start of the season, being 1 July 2013, and the increasing trend is expected to continue as the forecast price is again higher than the current level.

7.2.3 Current Market Conditions

The conditions in the dairy industry have improved during the first 3 months of FY14, with growth forecast at between 1 to 3 percent to 9.3 billion to 9.5 billion litres of milk[8]. These improved forecasts have been reflected in the results of the Australian Dairy Farmers Survey conducted in August 2013, which illustrated that farmer confidence has improved and 73 percent of the farmers are fairly-to-very positive about the industry and its outlook. The farmers improved view is due to improved farm gate prices, the depreciation of the AUD and better weather conditions.

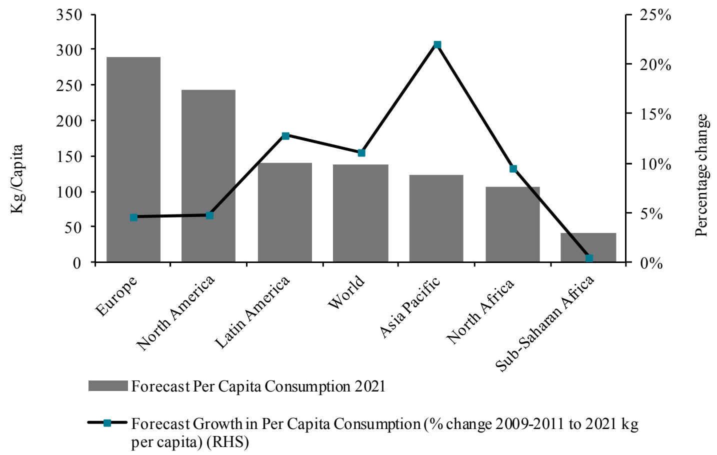
[8] Dairy Australia – Dairy 2013 Situation and Outlook (September 2013 Update)

Dairy consumption has increased in Australia and other regions of the world. Below are the latest figures released from Dairy Australia on average annual Australian dairy consumption per capita[9]. They relate to forecast 2011/2012 figures:

- milk: strong consumption growth over the 2011 and 2012 to 106.2 litres per year
- cheese: consumption has stabilised in recent years at 13.4 kg per person
- butter: market share of the table spread market has increased, with average consumption at approximately 3.9kg per person
- yogurt: consumption is 7.5kg per year

Per the Organisation for Economic Co-operation and Development and Food and Agriculture Organisation (OECD-FAO) Agricultural Outlook for 2012-2021, world average dairy consumption per annum is forecast to increase 11.1 percent from 2009-2011 figures by 2021. The figure below displays the principal regional areas of growth:

Figure 2: Principle dairy growth regions



Source: OECD-FAO (2012), OECD-FAO Agricultural Outlook 2012-2021

From the graph we can see that the leading growth area is the Asia Pacific region, which is already playing a significant role in world dairy demand and price setting. The effect of this growth will have a more significant impact on the Australian dairy industry compared to some of the other exporting countries, due to Australia's close proximity to the countries' where demand is growing at the highest pace.

[9] Dairy Australia website: Consumption Summary 'Per capital consumption of major dairy products (litres/kg)'

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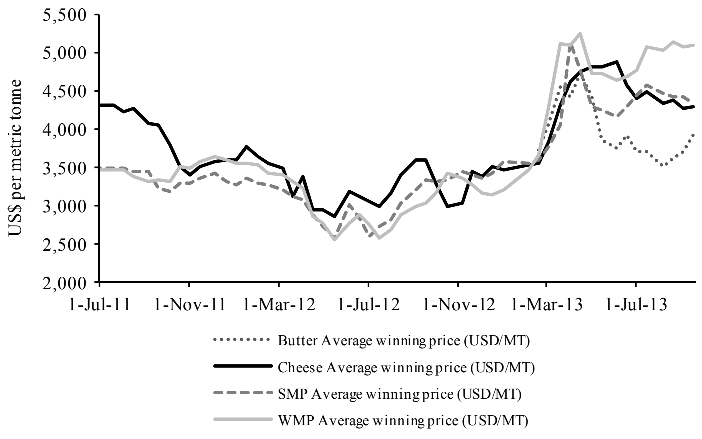
World production & commodity prices

Per Dairy Australia (September 2013), there is a global dairy short fall[10]. Milk production in the biggest seven export regions fell by 2.5 percent in March and 4.1 percent in April 2013. Adverse weather conditions, in both Russia and China, has impacted on these countries production ability and had a major flow-on impact on global dairy availability.

Demand for exports in China has continued to increase, with almost 440,000 tonnes of dairy product being imported into the region during the first quarter of 2013, which is up 26 percent on the corresponding period in 2012[11]. Imported milk products are of high demand in the region as there is insufficient supply in the area and consumer preference for imported dairy. The reputation of the Chinese dairy industry deteriorated as a consequence of the 2008 Melamine adulteration incident and associated food safety issues.

The shortfall in world dairy supply has pushed the commodity prices up, with the Oceania free-on-board prices peaking in April 2013. This can be seen on the figure below:

Figure 3: Dairy commodity prices from July 2011 to September 2013



Source: Global Dairy Trade – Average winning bid prices

Since dairy commodity prices peaked in April 2013, they have declined but not to the extent of the low levels of 2012. Market commentary has forecast dairy commodity prices to decrease over the next 12 months, but not back to the levels experienced during FY12. The actual and expected pricing movements can be observed on the figure below:

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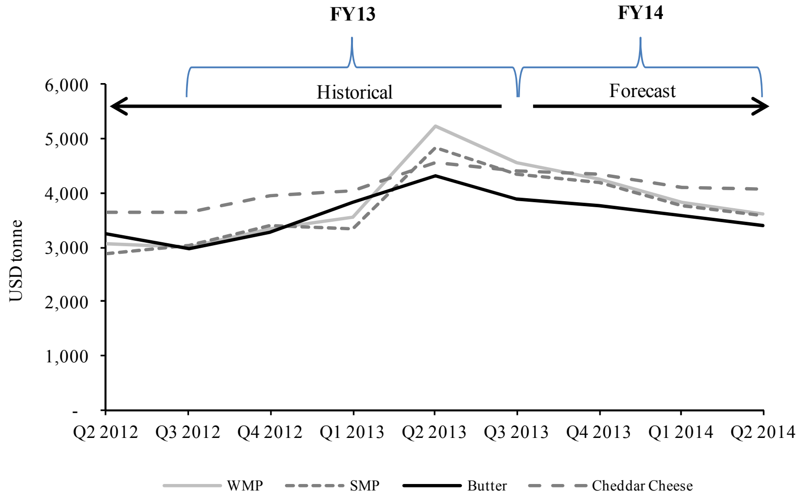
[10] Dairy 2013: Situation and Outlook, September 2013 Update, (Dairy Australia)

[11] Dairy 2013: Situation and Outlook, September 2013 Update, P. 11 (Dairy Australia)

Figure 4: Actual and expected dairy pricing



Source: Various market commentaries, KPMG Corporate Finance analysis

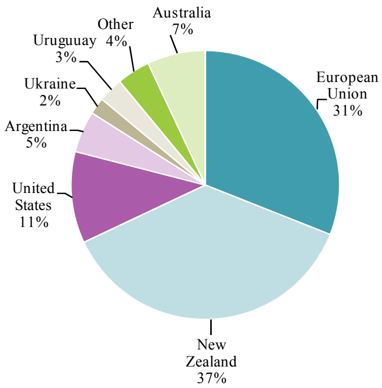
In response to the higher prices, some buyers in the international dairy market are still focusing on short-term buying and are avoiding long-term price commitments at the higher prices. Dairy orders are expected to pick up again in the Southern Hemisphere's peak season, where supply will increase, therefore pushing prices down. The Southern Hemisphere's peak season is at the end of spring, being October and November.

7.2.4 Export Market

The key future drivers in the export market are expected to be the strong production outlook in most of the major exporting regions, high farm gate prices and decreasing feed costs which are likely to encourage farmers to boost their milk output. This will be underpinned by the forecast economic growth in developing countries which are typically large dairy product importers, including Asia, the Middle East and North America.

The figure below illustrates the major export dairy regions in 2012.

Figure 5: Major exporting regions market share - 2012



Source: Dairy Australia

NZ was the market leader in the dairy industry with the largest market share of dairy exports at 37 percent in 2012 (which represents 95 percent of their dairy production). This is despite finishing the FY13 season 1 percent down. Per NZ Dairy, the region has been able to gain market share by making a concerted effort at increasing competitiveness through being a low cost milk producer. NZ has also established favourable trade agreements with major dairy importing regions, including China and Taiwan. For example in China, NZ dairies only have to pay a 5 percent tariff on whole milk powder (WMP), whereas other suppliers have to pay a 10 percent tariff. 44 percent of NZ's total exports are WMP, of which the significant majority are shipped to China.

The European Union (EU) experienced a difficult season in FY13, as spring conditions started a month late which effected pasture growth. Overall EU milk deliveries in the first half of 2013 were 1.4 percent lower than the same period in 2012 (Dairy Australia). Output for 2013 is expected to remain constant when compared to 2012, as margins have improved and fodder stock has recovered in the low season (Autumn – September to November).

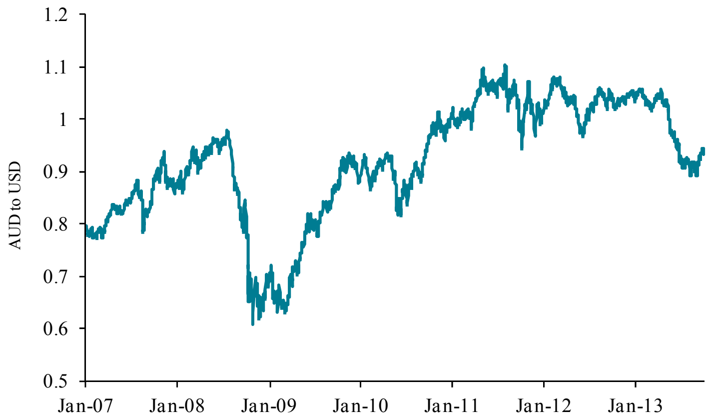
Impact of exchange rates

Australian dairy exporters have experienced a volatile earnings profile in recent years due in part to fluctuations in foreign exchange markets. Australian manufactured dairy products, in particular, are sold into export markets through large forward contracts denominated in USD. The AUD:USD exchange rate over the FY12 period was more volatile compared with the sustained strength of the AUD against the USD in the first three trading quarters of FY13. This sustained strength has contributed to a depressed earnings profile for many Australian businesses exposed to FX markets, including WCB. We note, however, the recent depreciation in the AUD against the USD has resulted in estimates of more favourable trading conditions for Australian export companies for the remainder of FY14 (Oxford

Economics – September 2013). This will assist in making Australia's dairy exports more competitive in the global market, with Ibis World forecasting export growth in FY14 of 7.9 percent[12].

The graph below shows the movements of the AUD against the USD, which illustrates that between 2011 and the start of 2013, the AUD was predominantly above parity.

Figure 6: Movements of AUD against the USD 2003 to September 2013



Source: S&P Capital IQ

Australia's main export market in terms of both volume and value is Japan, closely followed by China. This can be seen on the graphs below that show the market value and volume of exports in FY12:

Figure 7: Australia top 10 export markets

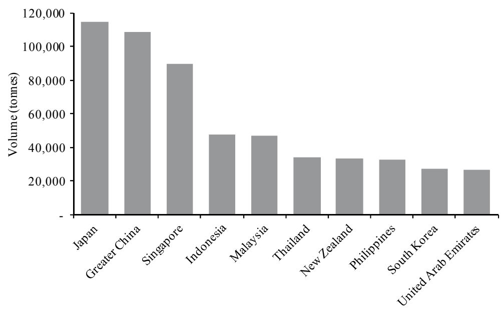
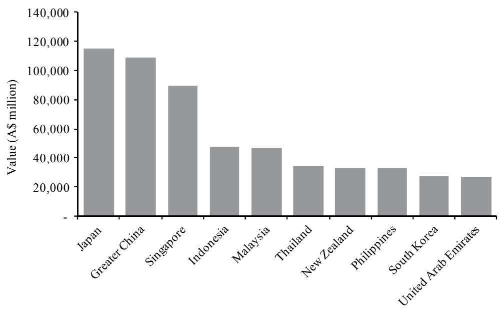


Figure 8: Australia top 10 export markets



Source: Australian dairy exports 2011/2012 (Dairy Australia)

[12] Ibis World Report: Butter and the Dairy Product Manufacturing in Australia (August 2013)

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From these graphs we can observe that the majority of Australian exports are to the developing markets in the Asia Pacific region due to the close proximity. This demonstrates that Australian dairy products have an export advantage over some of the other regions such at Europe, due to the cost and time advantage of shipping to the developing regions in the Southern Hemisphere.

7.3 Outlook for the dairy industry

The outlook for the Australian dairy industry is positive due to:

- depreciation of the AUD compared to USD, which will make Australian products more profitable and competitive in the international market. The weakening of the AUD is expected to continue or at least remain at the current below USD parity level
- dairy selling prices are forecast to decline slightly when compared to the April 2013 peak, but to a level higher than in 2012. Demand from international markets is expected to continue to rise, in particular from China due to their preference for Australian (and developed market) products
- as a result of the lower than expected dairy production in FY13 and subsequent increase in prices, many buyers have been using their existing inventories and are expected to re-enter the market once prices decline
- current milk production forecast growth of 1 to 3 percent in FY14 (Dairy Australia – September 2013). In addition farm gate prices lifted 20 to 25 percent, which is expected to provide an incentive for the farmers to increase production, therefore increasing availability of raw milk for dairy production

These optimistic dairy industry indicators have been reflected in the dairy farmers survey conducted in August 2013 by Dairy Australia. This survey aims to provide insight into the view of the raw milk suppliers and their opinion on the industry's performance. The results illustrated that farmer confidence has improved and 73 percent of the farmers are fairly-to-very positive about the industry and its outlook.

8 Overview of WCB

WCB produces and sells dairy products in Australia and internationally. It manufactures cheddar cheese varieties, butter products, such as salted and unsalted butter, fresh and frozen cream products, nutritional and functional ingredients and also distributes retail milk.

It is the oldest dairy company and one of the largest milk processors in Australia. The company markets its products to wholesale and retail customers, as well as exports certain products. In FY13 products were predominately exported to Asian markets and the Middle East and also to the US, Europe and South America. These exports comprised approximately 50 percent of total sales for the last three years.

8.1 History

WCB was founded in 1888 and was first listed on the ASX in 2004.

Table 4: WCB History

Date	Event
1888	Company established
1889	All suppliers became shareholders
	Commenced cheese production
1929	Third factory built on current site, after fire destroyed two previous factories
1935	Affiliation with Kraft commenced
1956	Kraft & WCB purchase Sungold Milk brand and business
1993	Commissioned new cheese and WPC plant
1986	WCB becomes full owner of Sungold Milk
1997	Kraft sale of natural cheese business to Dairy Farmers
1998	Built new milk powder plant
2002	Established sales office in Tokyo, Japan
2004	Built new fresh milk processing plant for Sungold Milk
2004	Listed on ASX at $3.00 per share
2005	Cheese capacity upgrade
2006	Butter making technology and capacity upgrade
2007	Entered into joint venture with Friesland Foods
2008	Established "WCB Japan" as a sales and distribution company
2009	Opening of "Great Ocean Ingredients"
2012	Capacity upgrade of the processing plant for Sungold Milk

Source: WCB

8.2 Overview of WCB Business Units

8.2.1 Milk supply and operations

Milk supply from nearby farms is the primary input into all of WCB's products. WCB is located in the centre of arguably the best dairy district in Australia. Suppliers' farms are located in South-West and Central Victoria and the Fleurieu Peninsula, Adelaide Hills and the South-East of South Australia. The geography of WCB's milk supply and manufacturing and packaging sites are outlined on the map below. Once finished goods are in a condition for sale a significant portion are then exported with the remaining sold domestically.

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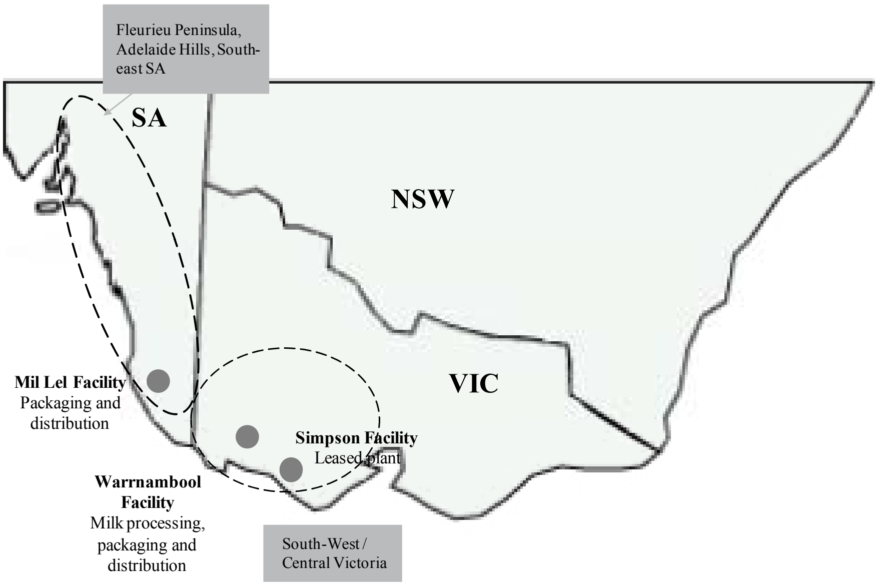
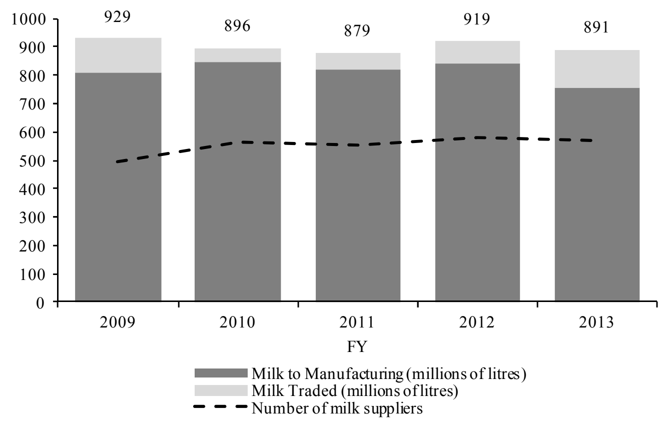
Figure 9: WCB domestic milk operations



Source: WCB

The figure below outlines the trend in total milk intake over the past 5 years. The vast majority of milk supply comes from dairy farms in South-West and Central Victoria and accounted for 69.3 percent of milk intake in FY13. The total milk intake fell by 3.1 percent in FY13 due to a combination of climatic conditions and farm gate milk prices as highlighted in the chart below. We note that the use of milk changed in FY13 due to one-off milk trades. Over the past 5 years, the number of milk suppliers has also remained relatively stable.

Figure 10: WCB historical milk supply



Source: WCB

8.2.2 Manufacturing

Dairy manufacturing occurs at WCB's site in Allansford, near Warrnambool, in South-West Victoria. Fresh unpasteurised milk is collected daily from farms and processed at the Allansford site. Due to the short life of the unpasteurised milk the vast majority of milk is fed directly into the manufacturing plant. Further, the Allansford site has a limited amount of storage capacity for surplus milk.

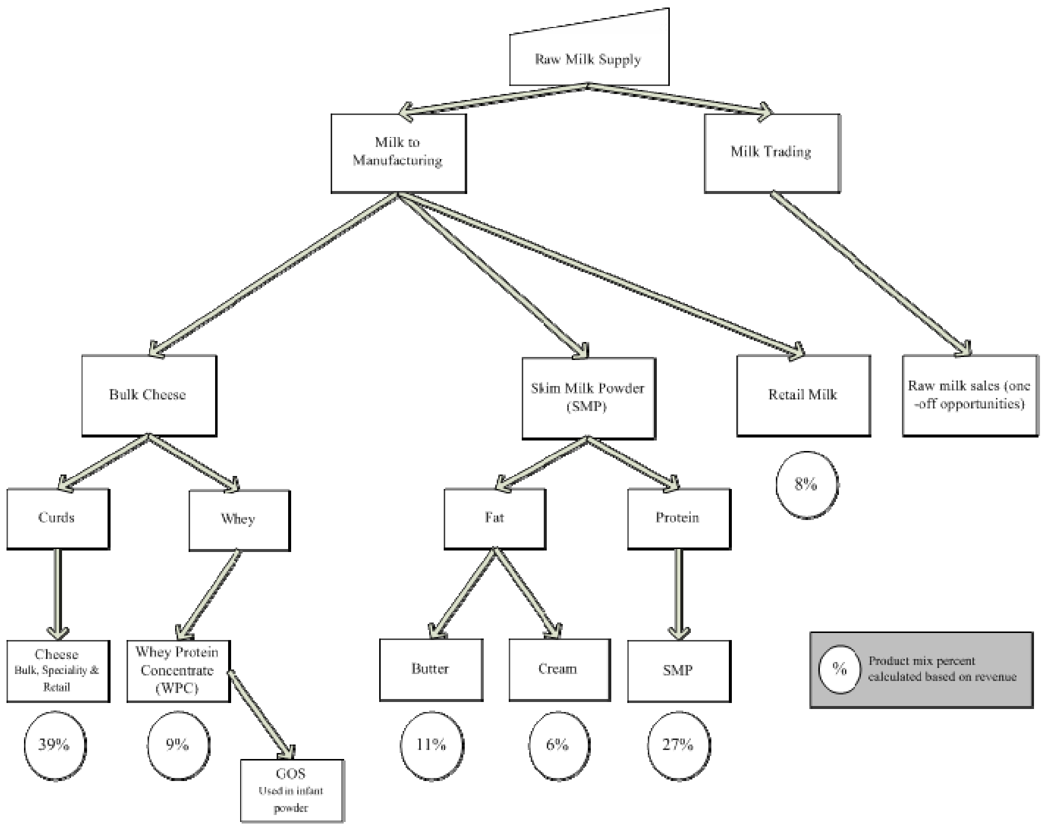
The Allansford site covers approximately 17 hectares and is made up of five separate manufacturing facilities for cheese, milk powders and whey protein concentrate, butter and cream, packaged milk and specialty functional ingredients. WCB also owns a plant in Mil Lel in South Australia that operates as a cutting and packaging facility.

WCB produce a diverse range of products from their single site in Allansford which allows them to rapidly divert the milk flow to certain products in order to optimise the product mix and maintain profitability. Consequently, the Allansford plant is one of the largest single sites (with 891 millions of litres of milk supply in FY13) and is one of the highest utilised dairy manufacturing sites in Australia.

8.2.3 Consumer Goods Brands and Products

WCB manufactures and sells nine types of dairy products being; cheese, butter, whey protein concentrate, GOS, butter, cream, skim milk powder (SMP), retail packed milk and raw milk. The uses of milk supply and products manufactured are outlined in the chart below and illustrate the flexibility with which WCB is able to divert milk supply to higher margin products depending on current market conditions. The FY13 percentage revenue contribution of each dairy product produced by WCB is also shown below. We note that cheese and SMP are the most significant products, contributing approximately 39 percent and 27 percent respectively.

Figure 11: WCB milk flow at the Allansford Site



Source: WCB, KPMG Corporate Finance analysis

WCB produces dairy products under the following brands.

Table 5: WCB Consumer Brands

Brand	Product Type	Products
1. Sungold Milk	Retail Milk	Packaged fresh milk including full cream fresh milk, low fat milk, no fat milk, jersey milk and flavoured milks
2. Warrnambool Cheddars	Cheese	Cheese and flavoured cheddar cheeses sold in the domestic market only
3. Great Ocean Road	Cheese & Retail Milk	Cheese and milk products under an exclusive agreement with Coles
4. Prime Nutrition	Protein Supplements (WPC, SMP)	Prime nutrition is focussed on supplying nutritional supplements for the aged sector. Enprocal is a protein supplement (derived from WPC and SMP) for elderly people used in meeting their nutritional requirements

Note: GOS is produced and sold by the Great Ocean Ingredients JV and not directly by WCB
Source: WCB, KPMG Corporate Finance analysis

8.2.4 Industry alliances

WCB have in place several agreements within the Australian food and beverage industry:

- WCB have in place a cheese supply agreement with Lion Pty Ltd (Lion) for the supply of bulk cheese. WCB also has a tolling agreement with Lion for the conversion of raw milk into cheese
- in addition to this, Lion lease a cut and wrap facility from WCB (that is located on the Allansford site) and the Simpson production facility. These two lease agreements apply to both land and buildings
- in January 2012, WCB announced the establishment of a new five-year deal with Coles Supermarkets (Coles) to supply dairy products under a new consumer brand. The brand, Great Ocean Road (GOR), is sold exclusively through Coles stores across Australia and includes a range of high quality cheddar cheeses and fresh milk products. Commencing in May 2012, WCB supplies specialty cheddar cheese under the GOR brand. WCB will also supply a range of fresh milk products into Coles' Victorian stores under the GOR brand
- in FY13, WCB agreed with Kraft Foods Australia to develop a premium low fat cheese to be sold under the Kraft Livefree brand. The product is the lowest fat cheese on the market containing 80 percent less fat than regular tasty cheese
- in March 2013, WCB and Kraft Foods Australia announced a cream cheese manufacturing agreement whereby Kraft will produce up to 5,000 tonnes per annum of cream cheese to be exported by WCB under their Sungold brand. Initial production is expected in the second quarter of FY14

In addition to the above, WCB have interests in two operating joint ventures and an agreement with Tatua focused on particular functional ingredients as discussed below.

8.2.5 Growth Initiatives & Strategy

WCB has a strategy to build a portfolio of higher margin products and deliver more customer specific applications of their products. Accordingly, WCB has focussed attention on higher value ingredients over the past couple of years through a combination of growth initiatives centred around certain functional ingredients:

- skim milk powder

  WCB produce specialised premium milk powders targeting high-end consumer product applications such as reconstituted milk, canned coffee and high quality milk-based beverages in the Japanese market. In relation to this, WCB have agreed a premium milk powder supply agreement with Mitsubishi Corporation and therefore the majority of SMP produced is exported

- whey protein concentrate

  WCB extract protein from the whey generated in the cheese manufacturing process and convert it into a concentrated protein powder predominately for export. In FY13 WCB approved investment in a plant upgrade to produce the higher quality instantised whey protein concentrate (IWPC)

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- galacto oligosaccharides

  WCB has a 50 percent interest in the Great Ocean Ingredients (GOI) joint venture with dairy co-operative Royal FrieslandCampina. GOI owns and operates the $75 million manufacturing plant at the Allansford site which was commissioned in 2010. GOI applies patented technology from Royal FrieslandCampina to whey inputs from WCB to produce the high value ingredient, GOS, which is a prebiotic ingredient used in the infant nutrition market

  As outlined in their outlook for FY14, WCB expect continued strong returns from this joint venture. This is underpinned by growing global demand for GOS and WCB have subsequently approved a capacity expansion for the GOI plant at Allansford

- lactoferrin

  Agreement

  In FY13, WCB reached agreement with Tatua of NZ, whereby WCB approved investment into a new manufacturing plant to produce lactoferrin. Lactoferrin is a naturally occurring component of cow's milk and is highly valued as an ingredient in the infant formula and nutrition markets. Under the agreement, Tatua will act as technology partner in the construction and commissioning of a lactoferrin plant at the Allansford site and have, therefore, licensed their lactoferrin intellectual property to WCB. Construction has commenced and the plant is expected by WCB to be operational by the end of CY13[13] with sales to commence in early CY14[14]

  Outlook

  WCB expect demand for lactoferrin to continue to increase over the medium term and in conjunction with the high margins lactoferrin is forecast to generate. The project is expected by WCB to have a significant impact on its operating profits once the project is fully implemented.

  Following discussion with management, we note there are certain risks associated with the lactoferrin initiative such as:

  - construction risks: whether the project is on time and on budget. By partnering with Tatua (who currently produce lactoferrin) WCB have access to their experience and technological know-how, meaning production should be achieved more quickly than if WCB were to progress with their initiative on a standalone basis
  - as part of the agreement, Tatua have provided WCB with a yield guarantee over lactoferrin production
  - there are currently few suppliers of lactoferrin globally such as Tatua, Tatura (subsidiary of Bega), Royal FrieslandCampina, Hilmar Ingredients and Glanbia Nutritionals and Westland Co-operative Dairy Company. Synlait are also currently in the development stage of producing lactoferrin, announcing to the market that they are looking to generate significant margins.

[13] CY13 refers to the year 1 January 2013 to 31 December 2013
[14] CY14 refers to the year 1 January 2014 to 31 December 2014

Therefore the risk of new market entrants is heightened considering the high profit margin lactoferrin produces

We also note that WCB have a history of successful product innovation and partnering with strategic partners. This has most recently been demonstrated by the GOI joint venture

WCB have indicated that they are on track to complete construction in November 2013 with commissioning of the plant in November/December 2013 and production of lactoferrin to commence in December 2013. WCB forecast sales to commence in February 2014 based on the commissioning of the plant in December 2013. Due to improved demand compared to original expectations WCB plan to expand the plant by July 2014

- Asian focus

WCB has a 49 percent interest in the Warrnambool Cheese and Butter Japan Company Limited (WCBJ) joint venture with Mori International Corporation of Japan. The joint venture was formed in 2008 to facilitate and enhance the sales, marketing and promotion of WCB's products in the Japanese dairy market

In addition, the WCBJ joint venture is expanding to also provide sales and marketing services to approved non-competing dairy companies internationally

In conclusion, over the longer term WCB's strategy is focussed on higher margin commodities and functional ingredients and an expanded retail business.

8.3 Financial performance

WCB's audited consolidated income statements for the five years ended 30 June 2013 are set out in the table below:

Table 6: WCB historical consolidated financial performance

Consolidated profit and loss statement	12 months to				
$ million	**30-Jun-09**	**30-Jun-10**	**30-Jun-11**	**30-Jun-12**	**30-Jun-13**
Revenue from continuing operations	**439.9**	**415.5**	**503.6**	**496.6**	**495.9**
Other income	1.2	0.7	0.5	1.2	0.7
Changes in inventories of finished goods and WIP	8.3	1.1	10.7	20.5	(1.0)
Raw materials and consumables used	(395.2)	(319.3)	(394.2)	(402.9)	(376.8)
Depreciation and amortisation expense	(11.5)	(12.8)	(12.9)	(12.7)	(11.8)
Finance costs	(5.5)	(7.2)	(5.8)	(3.1)	(4.1)
Distribution expenses	(16.1)	(18.2)	(18.0)	(18.6)	(23.5)
Employee benefits expense	(34.8)	(34.6)	(39.2)	(41.5)	(46.0)
Corporate advisory expenses	-	(0.7)	-	-	-
Other expenses	(17.8)	(18.7)	(21.3)	(23.0)	(25.4)
Share of net profit/(loss) of JVs	1.3	3.9	1.4	3.2	1.7
Profit before income tax	**(30.1)**	**9.7**	**24.8**	**19.7**	**9.6**
Income tax expense	10.1	(0.9)	(6.3)	(4.5)	(2.1)
Profit for the year	**(19.9)**	**8.8**	**18.5**	**15.2**	**7.5**
Other comprehensive income (OCI)					
Change in FV of cash flow hedges	2.1	(4.1)	0.8	(0.8)	(3.4)
Income tax on OCI components	(0.6)	1.2	(0.2)	0.3	1.0
Total comprehensive income the for year	**(18.5)**	**5.9**	**19.1**	**14.6**	**5.1**
Statistics					
Revenue growth	*-16.1%*	*-5.5%*	*21.2%*	*-1.4%*	*-0.2%*

Consolidated earnings	12 months to				
$ million	**30-Jun-09**	**30-Jun-10**	**30-Jun-11**	**30-Jun-12**	**30-Jun-13**
Profit before income tax	**(30.1)**	**9.7**	**24.8**	**19.7**	**9.6**
Add: Depreciation and amortisation expense	11.5	12.8	12.9	12.7	11.8
Add: Finance costs	5.5	7.2	5.8	3.1	4.1
EBITDA	**(13.1)**	**29.7**	**43.5**	**35.5**	**25.5**
Less: Depreciation and amortisation expense	(11.5)	(12.8)	(12.9)	(12.7)	(11.8)
EBIT	**(24.6)**	**16.9**	**30.6**	**22.8**	**13.7**
Statistics					
Weighted average shares on issue (million)	*39.7*	*39.9*	*48.1*	*54.5*	*55.1*
Basic EPS	*-50.2*	*22.1*	*38.5*	*27.8*	*13.6*
Diluted EPS	*-50.2*	*22.1*	*38.5*	*27.8*	*13.6*
EBITDA margin	*-3.0%*	*7.1%*	*8.6%*	*7.1%*	*5.1%*
EBIT margin	*-5.6%*	*4.1%*	*6.1%*	*4.6%*	*2.8%*
EBITDA growth	*-127.2%*	*326.7%*	*46.5%*	*-18.4%*	*-28.2%*
EBIT growth	*-166.7%*	*168.7%*	*81.2%*	*-25.3%*	*-40.0%*

Note: Figures may not add due to rounding
Source: WCB, KPMG Corporate Finance analysis

In relation to the historical income statements outlined above, we note:

- revenue from continuing operations is comprised predominately of the sale of goods (approximately 97 percent of operating revenue in FY13) and the sale of services. Other operating revenue items include rent, interest, dividend income and net foreign exchange gains and losses. Revenue from the sale of goods has been relatively stable over the past 3 years from FY11 to FY13 as a result of WCB's flexibility in manufacturing operations whilst volatility in operating profit is explained by WCB's relevant product mix. For instance, in periods of low export pricing, WCB can switch their production to more domestic markets to maintain revenue. This however, comes at a cost of margins and profitability as the export products typically derive higher margins
- volatility in profit after tax (PAT) yoy is explained by the exposures that WCB has to global commodity prices, AUD foreign exchange rates, local farm gate milk prices and the seasonality of milk production. Most of these variables are not able to be controlled by WCB, indicating that WCB's business is highly subject to macro economic factors

Forecast for FY14

- we note that on 2 October 2013, WCB announced revised earnings guidance of earnings before interest, tax, depreciation and amortisation (EBITDA) for FY14 in the range of \$47.0 million to \$52.0 million. This represents a significant improvement from EBITDA of \$25.5 million in FY13. This forecast is expected by WCB to be driven by:
  - a recovery in international commodity pricing (refer to Section 7 Industry Overview)
  - continued weakness and depreciation of the AUD which has led to improved export margins
  - a shift back to earnings derived by the commodity and consumer goods core business segments and the continuing ability to maintain flexibility over the product mix
  - growth initiatives such as the commencement of lactoferrin production in FY14 and ramp up to full capacity in FY15 are expected to add significantly to forecast net profits due to their high gross profit margins

WCB commissioned PricewaterhouseCoopers Securities Ltd (PwC) to undertake an independent review of WCB's FY14 forecast. PwC's Investigating Accountant's Report is included as Appendix 2 to the Target's Statement.

WCB Shareholders should note the scope and limitations of the Investigating Accountant's Report.

Results for FY13

- for FY13, total revenue (operating revenue and other revenue) was \$496.5 million which represented a decrease of 0.3 percent from FY12, however PAT of \$7.5 million represented a reduction of 50.7 percent from FY12. Despite relatively steady levels of overall milk intake (891 million litres in FY13 compared to 919 million litres in FY12 due to climatic conditions) the PAT result was characterised by the following factors over two distinct periods of performance

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First 9 months of FY13

- international commodity prices were depressed over the first three quarters of FY13 with average prices 12 percent below that of the previous year
- high raw milk costs when compared to the relative reduction in the commodity pricing
- a strong AUD reduced the domestic price received for exports. This also made effective foreign exchange hedging more difficult to manage

Last 3 months of FY13

- towards the end of FY13, international commodity prices increased and there was depreciation in the AUD. However, these positive factors were not large enough nor sustained for a long enough period of time to compensate for the poor trading conditions existing over the majority of FY13
- according to WCB, they were able to quickly alter their product mix to allocate milk and other resources to products with more attractive margins (as compared to the export market at the time) which resulted in the relatively flat yoy change to total revenue despite the difficult trading conditions
- more specifically, a larger proportion of milk (15.2 percent of total milk supply) was diverted to direct milk sales[15], this offset the decline in export revenues and also led to increased transportation costs. In addition to this, WCB diverted milk supply away from cheese production and towards SMP to capitalise on spikes in international SMP prices
- this resulted in the product mix for FY13 being significantly different compared to the previous year (volumes of commodity products were down, however, this was offset by increased direct milk sales volumes and specialty cheese volumes). As a result, the change in segment revenues as compared to FY12 were as follows: commodities decreased by $44.4 million, consumer goods increased by $14.4 million and milk trading increased by $29.5 million (an increase of 129.9 percent from FY12)
- on an EBIT basis, commodities contributed 24.5 percent (compared to 57.0 percent in FY12), consumer goods contributed a negative 16.9 percent (compared to 6.3 percent in FY12) and milk trading contributed 59.8 percent (compared to 18.1 percent in FY12)

- the above points refer to the fact that in FY13 WCB produced similar revenues over the full year as compared to FY12. However, due to the unfavourable movement in export pricing and foreign exchange, WCB directed more milk supply to higher margin domestic consumer goods and low margin direct milk sales. As a result the overall margin generated in FY13 softened as did the overall profit result
- other revenue items of $0.7 million (additional to operating revenue) include net gains and losses from the disposal of property, plant and equipment (PP&E), fair value gains on the revaluation of the

[15] The increase in direct milk sales was partially due to WCB selling milk to Lion sourced from the Fleurieu Peninsula

investment property (last valued at 30 June 2013) and government grants. The government grants were awarded to WCB under the following schemes in FY13: regional development, energy grants credit scheme and export development program

- the inventory build up in FY12 was associated with the production and associated ageing of speciality cheese under the Coles agreement and subsequently inventory volumes decreased in FY13 as the speciality cheese began to be sold. Also, as a result of funding the inventory build up finance costs increased by $1 million
- depreciation and amortisation charge decreased as WCB reviewed the useful lives of its major PP&E assets in FY13. As new projects commence in FY14 the charge is likely to increase
- the increase in employee benefits expense was predominantly due to consumer price index (CPI), increases, increased employee numbers and a bonus payment relating to FY12 paid in FY13
- other expenses of $25.4 million in FY13 are amongst other things comprised of insurance costs, bad and doubtful debts, consultants fees and water used in the manufacturing process

The share in net profit of JV's represents WCB's 50 percent interest in GOI and 49 percent interest in WCBJ. Over FY13, GOI performed as expected but returns were negatively affected by foreign exchange movements whilst WCBJ reported expected results due to demand for dairy in the Japanese market. Overall the contribution of net profit from the JV's declined by approximately 47 percent

Results for FY12

- an 18.4 percent reduction in EBITDA to $35.5 million was characterised by a rapid decline in commodity prices over the last half of FY12 and a high average AUD over the period

Results for FY11

- WCB achieved $43.5 million EBITDA which represents an increase of 46.5 percent and $18.5 million net profit after tax (NPAT) which represents a 110.2 percent increase from the previous year. Despite an appreciating AUD, these strong financial results were the result of strong global demand relative to stable supply which supported WCB's second highest farm gate milk price of 42.5 cents per litre (increased from 34.0 cents per litre in 2010)

Results for FY09 and FY10

- following on from the difficult trading conditions in the second half of FY09 dairy export commodity prices had not fully recovered following anomalies witnessed in the previous year and the AUD continued to appreciate. Combined with a recovery in demand and stable milk supply WCB recorded strong EBITDA growth
- a sharp fall in EBITDA from $48 million to ($13.1) million in FY09 was characterised by a collapse in dairy export commodity prices as a result of the global financial crisis, a fall in average farm gate prices by 19.6 percent and an appreciating AUD.

8.4 Financial position

WCB's historical audited consolidated balance sheets at 30 June 2009, 2010, 2011, 2012 and 2013 are summarised in the table below:

Table 7: WCB historical consolidated financial position

As at $m	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13
Assets					
Current assets					
Cash and cash equivalents	-	-	-	1.8	3.8
Trade and other receivables	68.6	85.4	84.6	93.5	111.2
Inventories	39.6	40.7	51.3	71.8	70.8
Other current assets	3.8	-	12.0	-	-
Total current assets	**111.9**	**126.1**	**147.8**	**167.1**	**185.8**
Non-current assets					
Investments	14.6	18.5	19.8	23.1	23.7
Property, plant & equipment (net)	92.8	86.2	72.1	74.7	85.3
Investment properties	9.5	9.8	10.0	10.0	10.1
Deferred tax assets	3.6	4.0	0.4	-	-
Intangible assets	1.6	1.6	1.6	1.6	1.6
Total non-current assets	**122.2**	**120.1**	**103.9**	**109.4**	**120.8**
Total assets	**234.1**	**246.2**	**251.7**	**276.5**	**306.6**
Liabilities					
Current liabilities					
Trade and other payables	30.6	37.2	58.7	56.1	52.6
Borrowings	74.8	72.7	24.2	43.9	71.3
Derivative financial instruments	-	0.5	-	0.4	4.1
Current tax liabilities	-	-	2.2	-	1.5
Provisions	4.6	4.8	5.7	5.5	5.8
Total current liabilities	**110.0**	**115.2**	**90.8**	**105.9**	**135.4**
Non-current liabilities					
Borrowing	27.0	28.7	8.8	8.3	8.0
Deferred tax liabilities	-	-	-	1.1	0.8
Provisions	0.3	0.4	0.5	0.5	0.5
Total non-current liabilities	**27.3**	**29.1**	**9.3**	**9.8**	**9.3**
Total liabilities	**137.4**	**144.2**	**100.1**	**115.7**	**144.8**
Net assets	**96.7**	**102.0**	**151.6**	**160.7**	**161.8**
Equity					
Contributed equity	29.0	29.1	65.0	67.7	69.6
Reserves	53.2	61.2	74.1	81.2	82.7
Retained profits	14.5	11.6	12.4	11.9	9.5
Total equity	**96.7**	**102.0**	**151.6**	**160.7**	**161.8**
Statistics					
Weighted average shares on issue (million)	*39.7*	*39.9*	*48.1*	*54.5*	*55.1*
Market capitalisation	*81.0*	*117.1*	*215.2*	*185.8*	*245.8*
Return on equity	*-31%*	*9%*	*16%*	*12%*	*6%*

Note: Figures may not add due to rounding
Source: WCB, KPMG Corporate Finance analysis

In relation to the consolidated balance sheets outlined above, we note:

- trade and other receivables are predominately trade debtors and also include other receivables which generally arise from transactions outside of the usual activities of WCB. In FY13, the latter amounted to $12.9 million (compared to $20.0 million in FY12) for amounts such as debtors relating to milk swaps, sundry debtors, fodder advances and GST
- temporary increases in working capital and the total asset balance in FY13 reflect the build up in trade receivables following contracted sales of $20 million in June 2013 under the new GOR supply agreement with Coles
- inventories primarily include raw materials such as milk and finished goods such as bulk cheese held in storage for maturation purposes
- other current assets in FY11 represented PP&E classified as held for sale. The parcel of assets was subsequently sold to WCB's JV company GOI. The assets are located on the GOI site and used by GOI in their manufacturing process
- investments refer predominately to WCB's interest in the GOI and WCBJ joint ventures
- PP&E includes $22.6 million of asset purchases on sustaining and new business initiatives and depreciation of $11.8 million
- investment properties refer to an investment property portfolio compromising land and improvements held at Simpson, Timboon, Allansford and Mil Lel. The portfolio was last fair valued at 30 June 2013 by certified practicing valuer C.J Ham & Murray Pty Ltd
- intangible assets refer to goodwill acquired from the final 50 percent purchase of Warrnambool Milk Products Pty Ltd from United Milk Tasmania
- borrowings include secured bank overdrafts, bills payable and lease liabilities spread across three financial institutions. It is WCB policy to fix interest rates for approximately 50 percent of its long term borrowings with the remaining 50 percent of variable rate borrowings subject to a weighted average interest rate of 3.5 percent over FY13
- total debt increased by $27.1 million in FY13 which included $20.1 million required for the build up in working capital and the investment in PP&E. The movement in net debt is discussed further in Section 8.4.1
- derivative financial instruments refer to the value of forward foreign exchange contracts in the form of cash flow hedges
- a fully franked dividend of 11 cents per ordinary share was declared after year end and is not recognised as a liability at year end. There was no interim dividend declared in FY13. The final dividend was paid on 27 September 2013 out of retained profits at 30 June 2013. In FY12 a final dividend of 11 cents per share was paid out.

8.4.1 Net debt

WCB monitors the relative levels of debt to equity by reference to the gearing ratio calculated as net debt divided by total capital, where net debt is total borrowings (revolving credit and capital leases) less cash and cash equivalents and total capital is equity as shown in the balance sheet, plus net debt.

Table 8: WCB's historical net debt

As at $ million	30-Jun-12	30-Jun-13
Net debt	50.3	75.5
Book value of total equity	160.7	161.8
Book value of invested capital	211.1	237.3
Gearing ratio	24%	32%

Note: Figures may not add due to rounding
Source: WCB

The increase in net debt of $25.2 million was a result of the build up in working capital and investment in PP&E. WCB's target is to maintain a gearing ratio between 25 percent and 50 percent with an allowance for the gearing ratio to be outside of this range in the short term following unforeseen circumstances.

8.4.2 Contingent liabilities

WCB had a contingent liability to refund to existing suppliers a portion of the interest under a specific milk vat (storage device) loan agreement. As soon as a supplier elects not to supply milk to WCB the contingent liability is extinguished. As at 30 June 2013 the maximum contingent liability amount was $128,000 compared to $47,000 in FY12.

Upon commencement of operations in 2009 WCBJ obtained a working capital loan with WCB as guarantor. Therefore the guarantee would become payable by WCB if WCBJ defaulted on the working capital loan. WCB noted in their 2013 Annual Report that no liability is expected to arise as a result of this arrangement and from 1 September 2013 the guarantee would no longer be required.

8.4.3 Derivatives

As WCB exports dairy products to numerous countries it is exposed to foreign exchange risk. WCB holds a number of positions in derivative financial instruments to manage this exposure, including forward foreign exchange contracts to sell USD (the common currency for international dairy sales) accounted for as cash flow hedges. WCB's risk management policy is to hedge 100 percent of contracted sales and 50 percent of anticipated sales transactions in USD for no more than the subsequent 12 months.

Instruments are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As at 30 June 2013 the fair value of derivatives was $4.1 million. WCB reported no current assets classified as derivatives as at 30 June 2013.

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8.5 Capital structure

As at 4 October 2013, WCB's issued capital comprises 55,969,511 million fully paid ordinary shares, which are listed and traded on the ASX. Pursuant to its constitution, there are no other restrictions on the amount of shares held in WCB. In addition, we note that:

- on 4 October 2013 pursuant to WCB's dividend reinvestment plan, 723,338 shares were issued
- WCB have in place a long-term incentive plan and in FY13 68,627 performance rights (based on a price at $2.55) were granted to the CEO for no consideration. Under the performance rights plan the Board has the discretion to accelerate the vesting of the performance rights on issue if a takeover bid is made in respect of the WCB shares. The Board has indicated that it will exercise this discretion subject to Bega's offer becoming unconditional. Accordingly, as the Bega offer is for all of the shares it does not already own we have assumed the performance rights vest.

On this basis we have used 56,038,138 for WCB's fully diluted ordinary shares.

8.5.1 Ordinary shareholders

WCB's top 10 shareholders as at 4 October 2013 (latest available) are displayed below:

Table 9: Top 10 shareholders

Shareholder	Shares held at 04 Oct 2013	% of issued equity
Bega Cheese Limited	9,702,147	17.3%
Murray Goulburn Co-Operative	9,661,981	17.3%
RBC Investor Services	806,616	1.4%
Estate Thomas C Gall	759,200	1.4%
RBC Investor Services	699,519	1.2%
Mr John Andrew Gall	636,129	1.1%
Geoffrey Charles Marsh	600,000	1.1%
Bernard James Kavanagh	596,809	1.1%
CG Nominees (Australia) Pty	566,615	1.0%
J & H Renyard Pty Ltd	545,278	1.0%
Total shares held by top 10 shareholders	**24,574,294**	**43.9%**
Other shareholders	31,395,217	56.1%
Total shares on issue	**55,969,511**	**100.0%**

Source: WCB and its advisers

8.5.2 Shareholder spread

As at 11 September 2013, WCB's shareholder spread is set out below, which shows that 62 shareholders, or 1.7 percent, hold 60.3 percent of WCB's total issued capital.

Table 10: Shareholder spread

Range	Total holders	Units	% of Issued Capital
1 - 1,000	1493	716,143	1.3%
1,001 - 5,000	1133	2,626,289	4.8%
5,001 - 10,000	339	2,501,605	4.5%
10,001 - 100,000	537	16,087,285	29.1%
Greater than 100,000	62	33,314,851	60.3%
Total	**3564**	**55,246,173**	**100.0%**

Source: WCB and its advisers

8.5.3 Director's interests

The directors of WCB held approximately 2.9 percent of ordinary shares as at 4 October 2013 (latest Annual report).

Table 11: Director's relevant interests

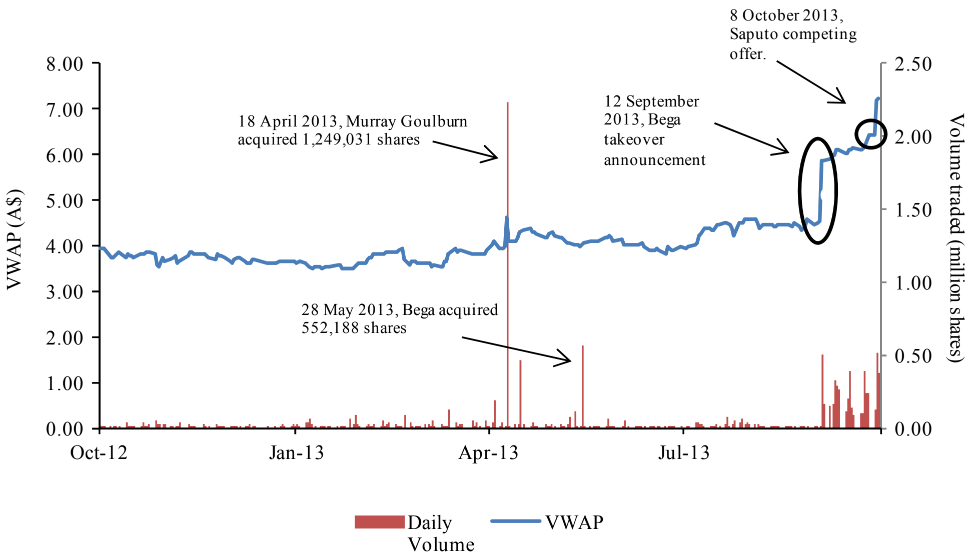
Names	Position	Number of shares held	% of issued shares
Terry Richardson	Chairman, Non Executive Director	668	0.0%
David Lord	Managing Director, CEO	10,000	0.0%
Andrew Anderson	Non Executive Director	32,515	0.1%
Kay Antony	Non Executive Director	7,735	0.0%
John Gall	Non Executive Director	1,267,941	2.3%
Bruce Vallance	Non Executive Director	76,312	0.1%
Michael Carroll	Independent Director	n/a	
Neville Fielke	Independent Director	n/a	
Ray Smith	Independent Director	n/a	
John McLean	Associate Director	233,684	0.4%
Bruce Morley	Associate Director	na	
Total		**1,628,855**	**2.9%**

Source: WCB and its advisers

8.6 Share price performance

The chart below graphs the daily share price, represented by daily volume weighted average price (VWAP), and daily trading volume of WCB's shares from 10 October 2012 to 09 October 2013.

Figure 12: Daily VWAP and volume of WCB's ordinary shares



Note: Includes on and off market trades
Source: S&P Capital IQ, KPMG Corporate Finance analysis

In relation to the chart above, we note:

- before the Bega takeover announcement, the share price of WCB had increased 55.5 percent since listing on the ASX on 4 June 2004[16]
- from Announcement Date until 9 October 2013, the share price has increased by 61 percent
- on 30 September 2011, Bega acquired 645,387 shares and on 10 October 2011, Bega acquired an additional 124,845 shares
- on 19 January 2012, WCB announced the establishment of the new five-year deal with Coles to supply dairy products under a new consumer brand, GOR

[16] To calculate the pre-announcement movement in share price, the pre-announcement date of 11 September 2013 was used

- on 28 February 2013, WCB announced that the directors decided not to declare a dividend for the half year ended 31 December 2013. This was due to the reduced half year result and the uncertainty around the full year expectations
- on 18 April 2013, Murray Goulburn acquired an additional 2.2 percent stake in WCB for $5.5 million. This equated to an additional 1.25 million shares at $4.60 per share
- on 28 May 2013, Bega acquired an additional 552,188 shares
- on 30 July 2013, WCB revised its earnings guidance for FY13 to be approximately 52 percent below FY12. This was an improvement on the guidance given in April 2013, where the company had expected that its 2013 net profit was likely to fall by at least 80 percent as a result of subdued international commodity prices
- in early 2013, Barry Irvin (Chairman of the board at Bega) resigned from his position as a member of the Board of Directors of WCB
- Frank Davis (WCB's independent director and Chairman of the company) retired effective 28 August 2013. The Board announced that current Deputy Chairman Terry Richardson will assume the position of Chairman
- on 12 September 2013, Bega made an off-market offer to acquire the remaining 81.89 percent stake in WCB that it did not already hold.

8.6.1 VWAP and liquidity analysis

Set out in the table below is an analysis of the periodic VWAPs and liquidity of WCB's shares for:

- Period 1: the 12-month period prior to and including 11 September 2013 (period before the Announcement Date). For example, '1 day' within Period 1 means one day prior to and including 11 September 2013
- Period 2: the period after the Announcement Date, being 12 September 2013, until and including the 9 October 2013

Table 12: WCB's VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ million	Cumulative volume million	% of issued capital
Period 1 - pre-offer						
1 day	4.51	4.69	4.55	0.05	0.01	0.02
1 week	4.45	4.69	4.52	0.16	0.03	0.06
1 month	4.33	4.69	4.46	1.21	0.27	0.49
3 months	3.80	4.69	4.33	4.48	1.03	1.87
6 months	3.50	4.70	4.31	24.97	5.79	10.48
12 months	3.42	4.70	4.16	31.45	7.56	13.68
Period 2 - post-offer						
12/09/2013 - 09/10/2013	5.65	7.29	6.28	30.78	4.90	8.84

Notes: Calculations include off and on market trades
Source: S&P Capital IQ, KPMG Corporate Finance analysis

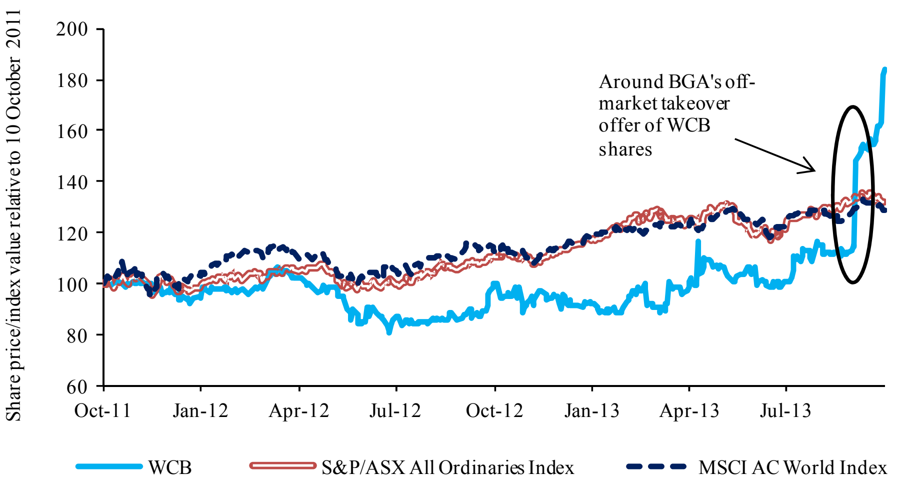
In relation to the table above, we note that:

- in the 12 months prior to the Announcement Date, 13.7 percent of WCB's shares were traded, with 10.5 percent traded in the last 6 months
- in the week prior to the Announcement Date only 0.06 percent of WCB's shares were traded
- prior to the Announcement Date WCB shares were thinly traded, with only 0.5 percent of shares being traded within the month prior
- following the announcement until 9 October 2013, 8.84 percent of shares were traded, which is a significant increase compared to the month prior to the Announcement Date.

8.6.2 Relative share price performance

The figure below details the trading performance of WCB's shares from 10 October 2011 until 9 October 2013 relative to the S&P All Ordinaries Index. Given that WCB trades in a global commodity market, we have also graphed the trading performance of WCB's shares against the MSCI World Index.

Figure 13: WCB Relative share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

WCB's performance has consistently been tracking below both the S&P/ASX All Ordinaries Index and the MSCI AC World Index. As can be seen above, we note that the market reacted positively to the Proposed Transaction, with a significant increase in WCB's performance relative to both of the indices. The performance has continued to remain higher than the S&P/ASX All Ordinaries and the MSCI AC World Index until 9 October 2013.

9 Overview of Bega

Bega is a vertically integrated Australian dairy company engaged in receiving, processing, manufacturing and distributing dairy and associated products both domestically and overseas. Founded in 1899 as The Bega Co-Operative Creamery Company, Bega conducts its operations across two segments, namely Bega Cheese and Tatura Milk, and operates five dairy manufacturing sites across Victoria and NSW. During FY13, Bega produced 219,052 tonnes of dairy product.

On 21 April 2011, Bega's shareholders voted to change the company's constitution, enabling the company to list on the ASX. Bega's market capitalisation as at 11 September 2013 was $478.38 million[17]. During FY13 Bega generated total operating revenue of approximately $1.01 billion and EBITDA of approximately $64.27 million (reported)[18].

[17] The day prior to announcement of Bega's off-market offer for WCB

[18] Bega 2013 Annual Report

9.1 History

Table 13: Bega's History

Date		Event
1899		The Bega Co-operative Creamery Company formed
1900		Bega original butter factory opened
1907		The Tatura Butter Factory and Farmers Produce Company Ltd formed
1924		Bega butter factory built at Lagoon St
1944		Bega name changed to The Bega Co-operative Society Ltd
1983	1	Bonlac commences marketing Bega branded natural and processed cheese products outside of NSW and the Australian Capital Territory (ACT)
1991		Tatura signed supply contract with Snow Brand
1994		Commenced exporting cheese to a number of countries
1997		Commenced Capitol Chilled Foods (Australia) Pty Ltd joint venture
1998		Commissioned the cheese cutting, packaging and processing facility at Ridge St, Bega
2001		The Bega brand licensed to Fonterra Brands (Australia) for use in Australia on cheese and butter, in conjunction with a long term product supply agreement and a major upgrade of the Ridge St Facility
2005		Tatura forms strategic alliance with Ingredia of France for the manufacture and supply of milk protein
2007		Acquired 70 percent of Tatura Northern Victoria
2008		Corporate structure change from a co-operative to an unlisted public company
2008		Bega acquires Coburg cheese manufacturing site, and establishes a strategic alliance with Mead Johnson of USA for the production of nutritional milk powder
2009		Bega acquires Mondelez Foods' (Kraft) Strathmerton Facility
2010		Acquired 15 percent of WCB
2011		Bega acquires the remaining 30 percent of Tatura
2011		Bega Cheese formally listed on the ASX on 19 August 2011

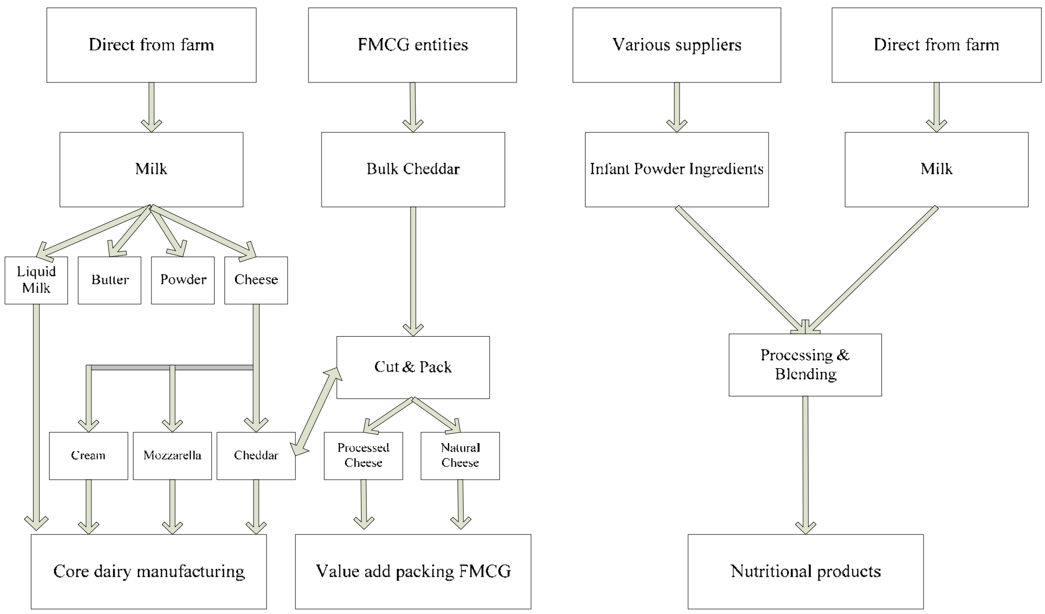
1. In 1983 the Bega cheese brand was licenced to Amalgamated Co-operative Marketers (Australia) Limited (which became Bonlac Foods Limited). Bonlac Foods Limited was subsequently acquired by Fonterra's parent company.
Source: Bega reports

9.2 Overview of Bega's business units

Bega's principal business operations are divided into three main business units, namely, Core Dairy Manufacturing, Value Added Packaging Fast Moving Consumer Goods (FMCG), and Nutritional Products. The figure below outlines the business unit operations of Bega across the value chain.

Appendix 1 – Independent Expert's Report

Figure 14 – Bega's business unit operations



Source: Bega company reports

A brief overview of the business units and associated products are provided in the table below, followed by an overview of each business segment.

Table 14 – Bega's business unit operations

Bega Cheese Limited business unit operations
Core dairy manufacturing
Manufacture and sale of cheddar, cream and mozzarella cheeses, milk and whey powders, butter, frozen cream and milk protein concentrate.
Value Add Packaging FMCG
Cutting, packaging and processing of cheese products into retail packs for customers including Fonterra, Mondelez Foods (Kraft), Coles and ALDI Stores
Receiving a royalty from Fonterra for the exclusive right to use the Bega brand trade marks in Australia on natural and processed cheddar cheese, string cheese and butter products
Direct marketing and sales of Bega products internationally
Nutritional food products
Manufacture and sale of infant formula, growing-up milk powders and lactoferrin

Source: Bega Bidder's Statement

Warrnambool Cheese and Butter Factory Holdings Company Limited
Independent Expert Report
12 October 2013

9.2.1 Milk pricing and policy

Bega sources its product from over 440 farmer suppliers, with the single largest supplier contributing just over 1 percent of milk delivered. Bega has relationships with farmers across the South-East region of Australia and primarily sources its milk from NSW and Victoria.

Milk pricing varies across these two states due to different market demand factors. NSW milk is largely used in the production of domestic milk and dairy products and its price is thus influenced by onshore demand conditions, such as large processing companies. In contrast, Victorian milk prices are a function of opening prices and the magnitude of allowances for deferred 'loyalty' payments announced to farmer suppliers during the year. Prices depend on the operating performance of the business. A significant amount of dairy products manufactured from Victorian milk are exported, representing a different demand climate than that of NSW.

9.2.2 Sales and earnings analysis

The figures below illustrate the size of each business unit having regard to revenue. Additionally we also present the proportion of Bega's products that are destined for domestic and export markets, and grouped by operating segment.

Figure 15 – Revenue by business unit

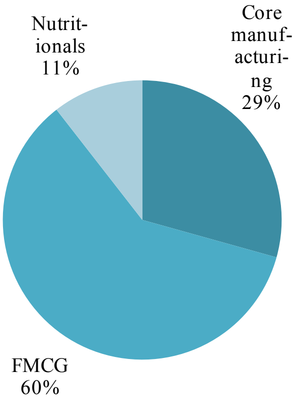
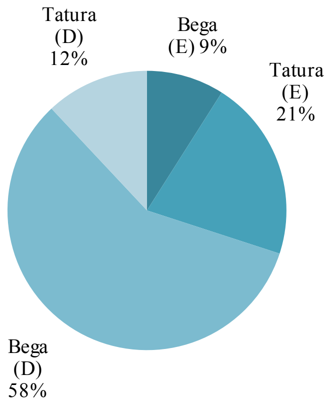


Figure 16 – Revenue by destination[19]



Note: D stands for the domestic market and E stands for export market

Source: Bega Bidder's Statement

[19] '(D)' refers to products sold domestically, whilst '(E)' refers to products sold in export markets.

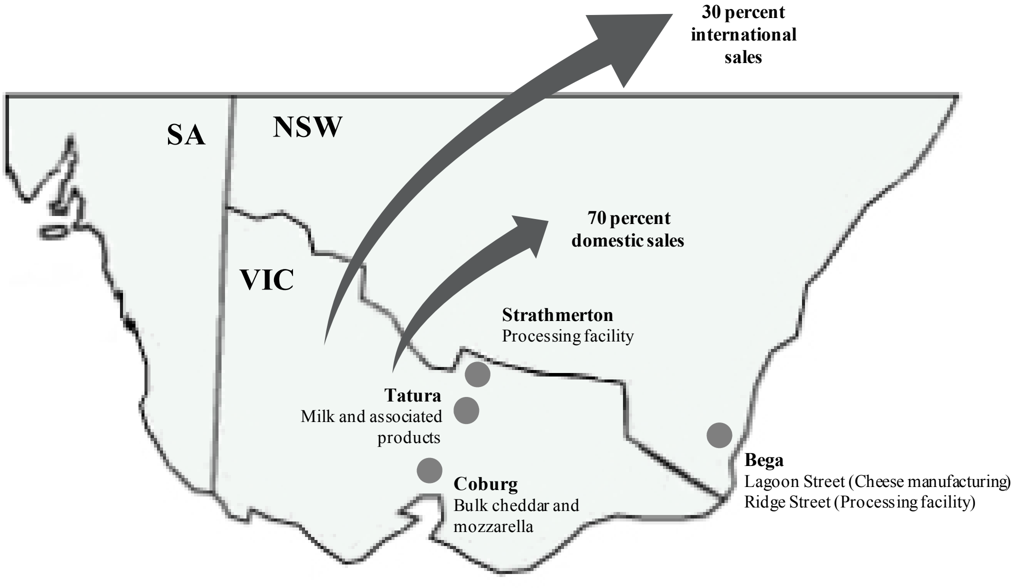
Appendix 1 – Independent Expert's Report

9.3 Overview of Bega Cheese operating segment

Bega Cheese purchases milk from its direct supplier network in the South-East regions of Australia. Milk prices are set on yearly basis at the beginning of the financial year and are determined by a combination of domestic and export demand factors. Bega receives around 700 million litres of milk per annum for processing into dairy products representing approximately 7 percent of total domestic milk production[20]. In FY13 Bega took delivery of 695 million litres of milk.

Milk is primarily utilised to manufacture cheddar cheese, mozzarella cheese, string cheese, butter and whey powder. The group conducts its cheese manufacturing operations out of two facilities, namely the Lagoon Street facility in Bega, NSW and the Coburg manufacturing facility in Melbourne, Victoria. The Lagoon Street facility manufactures the majority of the group's bulk cheddar product, in addition to cheese snacks and whey powder. The Coburg facility focuses on bulk cheddar production, as well as mozzarella production, following on from a capital expenditure program in FY11 which focused on improving facility infrastructure.

Figure 17 – Bega's domestic milk operations



Source: Bega Bidder's Statement, KPMG Corporate Finance analysis

[20] Figure is based on FY12 total Australian milk production of 9,480 million litres. Source: Dairy Australia website

Bega Cheese operates Australia's two largest cheese processing facilities, the Ridge Street and Strathmerton facilities which cut, pack and process dairy product from the two production facilities. Both of these facilities have capacity to manufacture processed cheese as well as pack natural and processed cheese. The Ridge Street Facility, established in 1998, can process approximately 75,000 tonnes per annum (tpa) of dairy product, whilst the Strathmerton Facility is capable of handling 100,000 tpa, depending on product mix.

A significant portion of the operations and revenues associated with this business segment are locked in through supply, packaging and royalty agreements with major customers. A brief overview of the agreements in place with associated dairy companies is provided in Section 9.5.

A list of the manufacturing facilities and their historical production figures are provided below.

Table 15 – Bega's historical annual dairy production

Facility production	12 months to			
tonnes	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13
Lagoon Street	23,349	24,683	29,973	27,731
Coburg	5,799	4,750	8,677	8,151
Ridge Street	61,626	60,528	53,470	56,180
Strathmerton	29,422	33,864	37,276	44,691
Tatura	66,896	62,398	74,382	73,297
Total	**187,092**	**186,223**	**203,778**	**210,050**

Source: Bega Bidder's Statement

9.4 Overview of the Tatura Milk operating segment

Tatura is a wholly owned subsidiary of Bega, following the merger of the dairy food manufacturers in December 2011. Bega initially acquired a 70 percent interest in the milk products company in April 2007. Tatura milk conducts its operations in the wholesale market, supplying dairy products to other food companies, with a strong focus on international markets.

Tatura offers a diverse product mix including, cream cheese, high fat frozen cream, whole milk powder, skim milk powder, milk protein and isolate butter. Tatura operates s sales and marketing division separate from Bega Cheese with a specific focus on international markets and customers. Many of its milk products are used in the manufacturing of dairy food and drink products in Asia.

In addition to dairy products, Tatura produces high nutritional value products such as infant formula, lactoferrin[21] and hyperimmune colostrums[22]. Tatura has supply agreements with companies in Japan, China, Korea and Taiwan for their products.

[21] "Lactoferrin is a freeze-dried protein purified directly from premium quality milk. As well as being necessary for normal growth of intestinal cells, lactoferrin functions as an antioxidant in iron medicated oxidation reactions and as an anti-inflammatory agent.", Source: Bega Prospectus, pp. 44

The Tatura acquisition has significantly increased Bega's product mix and exposure to international markets, contributing approximately 35 percent of overall production capacity in FY13. The Tatura segment generated approximately $27.1 million of EBITDA during FY13.

We present in the figures below the contribution of each operating segment to Bega having regard to revenue and EBITDA.

Figure 18 – Revenue by segment

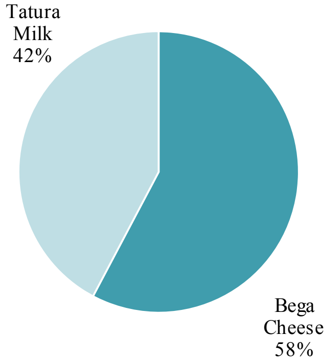
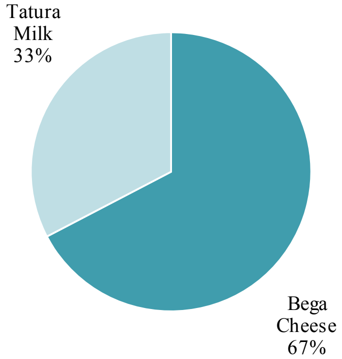


Figure 19 – EBITDA by segment



Source: Bega Bidder's Statement

9.5 Overview of Bega's key customers

Bega has a number of significant contracts and agreements with associated dairy companies for the processing a supply of dairy products. The following table briefly outlines each of these arrangements.

[22] "Hyperimmune colostrums are significant biologic products that bring to food markets unique health and nutritional features of milk. Tatura utilised a patented colostrums collection system to enable near aseptic collection and to segregate the very first milking colostrums following the birth of calves.", Source: Bega Prospectus, pp. 44

Table 16: Bega's significant customer contracts

Customer	Arrangement
Fonterra	In May 2001, Bega granted a long term sole and exclusive trade mark licence to Fonterra. The initial term of the contract is 25 years, allowing Fonterra to sell and market Bega branded products within the Australian market. The associated royalty fee is calculated as a percentage of sales generated from Bega products. In addition to the royalty agreement, Bega has a long term product supply agreement with Fonterra, by which Bega must supply cheese products in accordance with the ordering and planning procedures set out by Fonterra. On 15 November 2012, Bega announced that it had signed a new product supply agreement with Fonterra. Bega stated the terms of the new product supply agreement were materially the same as the prior agreement
Kraft Foods	In March 2009, Bega commenced supplying dairy products to Kraft Foods under a long term product supply agreement. The agreement was entered into in conjunction with the acquisition of the Strathmerton facility. The initial period is 10 years with an option for Kraft to extend the contract for a further 10 years
Mead Johnson	In October 2008, Tatura entered into a long term agreement with Mead Johnson by which Tatura agreed to use and operate one of Mean Johnsons milk driers, used in the production of nutritional milk powder. Under the terms of the agreement Tatura must use the drier to exclusively produce product for Mead Johnson for the period between 2012 and 2018
Ingredia	In July 2004, Tatura entered into an agreement with Ingredia for the manufacture, supply and distribution of milk protein isolate products. The contract was due to expire in September 2013
Coles	On 6 September 2011, Bega announced it had reached an agreement in principle with Coles to supply the entire range of Coles branded cheese products over a 5 year term. Under the terms of agreement, it is anticipated Bega will supply approximately 19,000 tonnes of cheese products per annum. The agreement was formally executed and formalised on the 13 April 2012 via an announcement on the ASX. Other contracts include relationships with Woolworths, Lacto Japan, Snow Brand, ALDI and Morinaga

Source: Bega Bidder's Statement, Bega company announcements

We note that a large proportion of Bega's revenues are associated with long-term manufacturing and supply agreements with large, reputable, multinational corporations.

9.6 Financial performance

Bega's audited consolidated historical income statements for the five years ended 30 June 2013 are set out in the table below. As noted previously, Bega purchased 70 percent of Tatura during FY07 and the remaining 30 percent during FY12. As such, FY09, FY10 and FY11 results incorporate 70 percent of Tatura performance. FY12 contains six months of 70 percent of Tatura performance and six months of 100 percent of Tatura's performance, assuming full ownership. FY13 illustrates full year results of 100 percent ownership of Tatura.

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Table 17: Bega's historical consolidated financial performance

For the	12 months to				
$ million	**30-Jun-09**	**30-Jun-10**	**30-Jun-11**	**30-Jun-12**	**30-Jun-13**
Operating revenue	797.9	829.0	931.7	932.9	1,010.1
Cost of goods sold	(727.3)	(743.8)	(832.2)	(817.5)	(875.0)
Gross profit margin	**70.6**	**85.3**	**99.5**	**115.4**	**135.1**
Other revenue	10.1	7.7	7.1	8.7	8.3
SG&A expenses	(37.5)	(40.8)	(54.4)	(67.3)	(79.2)
EBITDA	**43.3**	**52.1**	**52.2**	**56.8**	**64.3**
Depreciation & amortisation	(16.1)	(20.6)	(21.1)	(20.9)	(20.8)
EBIT	**27.2**	**31.5**	**31.1**	**35.9**	**43.5**
Net interest expense	(8.5)	(9.7)	(9.0)	(8.8)	(8.1)
Other expenses	(6.7)	-	-	-	-
Profit / (loss) before tax	**12.0**	**21.8**	**22.1**	**27.1**	**35.3**
Income tax benefit / (expense)	(1.7)	1.5	(0.4)	(6.7)	(9.9)
Profit / (loss) after tax	**10.3**	**23.3**	**21.7**	**20.4**	**25.4**
Other comprehensive income / (expense)	(3.3)	(3.2)	13.9	(7.9)	0.4
Total comprehensive income for the year	**7.0**	**20.1**	**35.6**	**12.5**	**25.9**
Statistics					
EBITDA margin	*5.4%*	*6.3%*	*5.6%*	*6.1%*	*6.4%*
Revenue growth	*n/a*	*3.9%*	*12.4%*	*0.1%*	*8.3%*

Note: Other revenue includes interest revenue, royalties, rental revenue, dividends, profit on sale of investment (FY09 and FY10 only) and other. Other comprehensive income / (expense) includes cash flow hedges and change in fair value of other financial assets
Source: Bega 2010, 2011, 2013 and 2013 annual reports

In relation to the historical income statement outlined above, we note that:

Results for FY13

- notwithstanding a highly competitive Australian market, lower international dairy commodity prices and a strong AUD, Bega reported revenue of $1.0 billion (representing a yoy growth of 8.3 percent), EBITDA of $64.3 million (representing a yoy growth of 13.2 percent) and EPS of 16.8 cents (representing a yoy growth of 31 percent)
- during the year, Bega revised and extended long-term product supply agreements with Fonterra and Ingredia and renegotiated the infant formula manufacturing agreement Mead Johnson. Additionally, Bega successfully implemented a five year cheese supply agreement with Coles
- according to its 2013 annual financial statements, Bega completed its internal reorganisation subsequent to the full merger with Tatura, which was completed at the end of CY11[23]. The new structure enables the business to invest resources and capital in its key business platforms, including nutritional products, consumer cheese contract processing and packaging, and core dairy ingredients

[23] CY11 refers to the year 1 January 2011 to 31 December 2011

Results for FY12

- challenging trading conditions, such as the strength of the AUD, an impact in FMCG production capacity due to a short-term changeover in major retail customers moving to private label products and a softening in international dairy commodity prices saw a marginal increase in revenue during FY12. Despite this, Bega generated $56.8 million in EBITDA, which represented an increase of 8.8 percent against the previous corresponding period. The increase is largely attributable to the movement in sales mix away from conventional dairy commodities and towards more technically advanced products including infant, growing-up nutritionals (including lactoferrin) and a range of cheese products destined for the Asian food service sector
- the decline in PAT during FY12 arose from an increase in income tax expense driven by a change in tax status of Tatura Milk on completion of the merger with Bega Cheese. The overall tax paid during FY12 amounted to $3.9 million (effective tax rate 11.13 percent) taking into consideration of the benefits of carried forward tax losses

Results for FY11

- despite double digit growth at the revenue line, attributable to increases in volume and selling prices across the contract, bulk commodity and value added components of the business; FY11 EBITDA was in line with FY10. An increase in the overall sales volume and average selling prices were offset in part by an increase in the inputs of milk and transitional costs relating to the recently acquired facilities at Coburg and Strathmerton, as well as one off costs totalling $1.7 million associated with the initial public offering (IPO). Additionally, during FY11, Bega made revisions to the pricing structure associated with contract manufacture sales of the Bega Cheese operating segment which also reduced its margin

Results for FY09 and FY10

- FY10 EBITDA grew in excess of 20 percent as Bega enjoyed its first full year ownership of the Coburg Facility and partial year ownership of the Strathmerton Facility
- FY09 results incorporate other expenses which predominately relate to regional milk price premium of approximately $11 million. Regional milk price premium was subsequently incorporated into COGS in later reporting periods.

9.7 Financial position

Bega's historical audited consolidated balance sheets at 30 June 2009, 2010, 2011, 2012 and 2013 are summarised in the table below:

Table 18: Bega historical consolidated financial position

As at $ million	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13
Assets					
Current assets					
Cash and cash equivalents	22.0	18.2	20.6	6.1	24.2
Trade and other receivables	99.6	89.6	83.3	95.8	104.3
Derivative financial instruments	5.0	0.8	2.5	0.3	0.0
Inventories	104.1	122.5	104.6	162.7	163.3
Non-current assets (held for sale)	0.4	0.0	0.0	0.0	0.0
Total current assets	**231.0**	**231.1**	**211.0**	**264.8**	**291.8**
Non-current assets					
Other financial assets	0.0	0.2	37.0	30.9	39.0
Property, plant and equipment	194.2	193.8	197.9	204.6	209.9
Deferred tax assets	11.0	17.2	14.4	14.1	9.2
Intangible assets	2.2	2.2	1.8	1.6	1.6
Total non-current assets	**207.4**	**213.4**	**251.1**	**251.1**	**259.7**
Total assets	**438.4**	**444.5**	**462.1**	**516.0**	**551.5**
Liabilities					
Current liabilities					
Trade and other payables	88.2	112.5	117.8	130.5	144.9
Borrowings	77.7	64.0	22.0	12.8	0.6
Derivative financial instruments	0.0	0.0	0.0	0.4	7.2
Current tax liabilities	0.7	2.7	1.9	0.2	1.4
Provisions	13.9	16.7	18.9	21.5	22.9
Total current liabilities	**180.5**	**195.9**	**160.5**	**165.3**	**177.0**
Non-current liabilities					
Trade and other payables	0.7	0.7	0.1	0.0	0.0
Deriative financial instruments	0.0	0.0	0.0	0.0	0.0
Borrowing	88.7	68.7	94.3	102.0	110.3
Provisions	1.5	1.6	1.6	2.2	2.2
Total non-current liabilities	**90.9**	**71.0**	**96.1**	**104.2**	**112.5**
Total liabilities	**271.4**	**266.9**	**256.6**	**269.5**	**289.5**
Net assets	**166.9**	**177.6**	**205.5**	**246.4**	**262.0**
Equity					
Contributed equity	24.8	27.2	27.2	101.3	101.9
Reserves	34.2	31.9	46.1	25.5	25.6
Retained profits	76.4	92.9	106.6	119.6	134.5
Capital and reserves (owners of Bega)	**135.4**	**152.0**	**179.9**	**246.4**	**262.0**
Non-controlling interests	31.5	25.7	25.6	0.0	0.0
Total equity	**166.9**	**177.6**	**205.5**	**246.4**	**262.0**
Statistics					
Weighted average shares on issue (million)	*n/a*	*n/a*	*108.7*	*136.9*	*151.8*
Market capitalisation	*n/a*	*n/a*	*n/a*	*242.4*	*391.8*
Return on assets	*2.3%*	*5.2%*	*4.7%*	*4.0%*	*4.6%*

Notes: Figures may not add due to rounding
Source: Bega 2010, 2011, 2013 and 2013 annual reports

In relation to the consolidated balance sheets, we note the following:

- other financial assets comprise of Bega's investment in WCB. The investment was first executed through a share placement which resulted in an ownership of 15 percent in the listed company. Bega subsequently increased its investment in WCB and currently Bega is the largest shareholder in WCB.
- PPE amounted to $210 million as at 30 June 2013 and predominately comprises of land and building, and plant and equipment associated with Bega's five processing facilities
- intangible assets comprise of brands associated with the "Melbourne" brand for packing and distribution of cheese products under this label and water rights, which was acquired as part of the acquisition of the Strathmerton Facility
- strong business performance together with highly focused cash management enabled Bega to reduce net debt to $86.7 million at 30 June 2013
- there were no contingent liabilities, guarantees and warranties as at 30 June 2013
- net assets for Bega amounted to approximately $260 million as at 30 June 2013.

9.7.1 Net Debt

Bega monitors the relative levels of debt to equity by reference to the gearing ratio calculated as net debt divided by total capital, where net debt is total borrowings less cash and cash equivalents and total capital is equity as shown in the balance sheet, plus net debt.

Table 19: Bega's historical net debt

As at $ million	30-Jun-12	30-Jun-13
Net debt	108.8	86.7
Book value of total equity	246.4	262.0
Book value of invested capital	355.2	348.6
Gearing ratio	30.6%	24.9%

Source: Bega's 2012 and 2013 annual reports

Strong business performance together with highly focused cash management enabled Bega to reduce net debt to $87 million at 30 June 2013. Taking into consideration the book value of Bega's total equity as at 30 June 2013, its gearing ratio was approximately 24.9 percent.

9.7.2 Derivatives

Bega holds a number of positions in derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. Bega does not enter into derivative contracts for speculative purposes. Instruments are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As at 30 June 2013 the fair value of derivatives, reported as current liabilities, was $7.19 million.

9.8 Capital structure

Bega's issued capital as at 24 September 2013 comprised 151.87 million common shares, which are listed and traded on the ASX. Bega's issued capital (shown on the table below) does not include 1,417,684 performance rights which have been granted to the CEO, Aidan Coleman, under the Long Term Incentive Plan. Each right entitles the CEO to one Bega share for no monetary consideration. The rights are granted upon certain performance hurdles and vesting conditions being satisfied.

9.8.1 Ordinary shareholders

Bega's top 10 shareholders as at 24 September 2013 are set out in the table below:

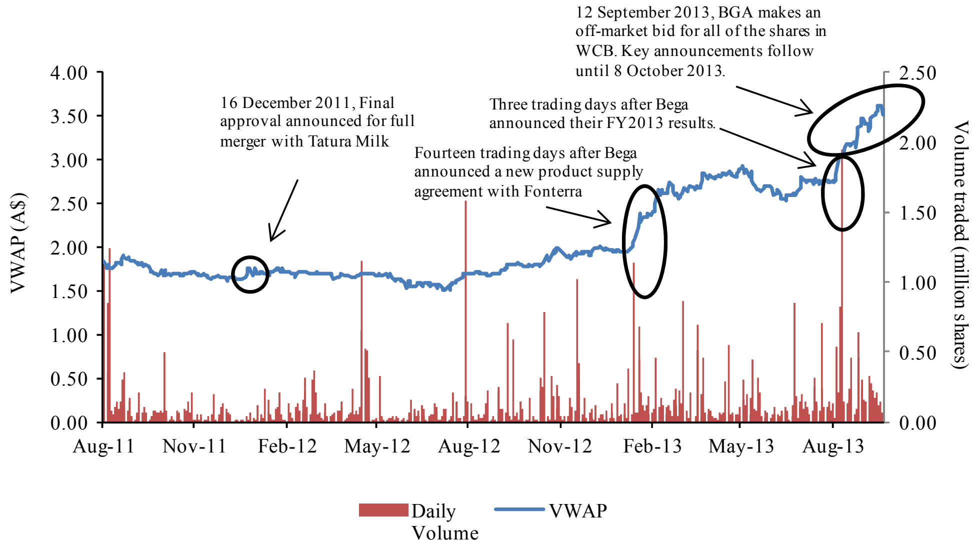
Table 20: Bega's top 10 shareholders

Shareholder	Shares held at 24 Sept 2013	% of issued equity
Karara Capital Holdings	6,272,068	4.13%
Perpetual Ltd	5,725,352	3.77%
Paewai Pty Ltd	4,194,364	2.76%
Platts, Pichard	3,680,247	2.42%
KD & JL Kimber	3,492,919	2.30%
CB & MA Moffitt	3,050,564	2.01%
B Irvin	3,004,984	1.98%
Aljo Pastoral Pty Ltd	3,004,984	1.98%
R & R Apps Pty Ltd	2,823,972	1.86%
R Parbery	2,664,012	1.75%
Total shares held by top 10 shareholders	**37,913,466**	**24.97%**
Other shareholders	113,952,584	75.03%
Total shares on issue	**151,866,050**	**100.00%**

Source: Bloomberg L.L.P, S&P Capital IQ

9.8.2 Share price performance

Figure 20: Daily VWAP and volume of Bega's ordinary shares



Source: S&P Capital IQ, KPMG Corporate Finance analysis

In relation to the above chart, we note that:

- since listing (listing price: $2.00 per share) on 19 August 2011 up to August 2012, the VWAP of Bega traded between a low of $1.50 and a high of $1.90 per share, after August 2012 the VWAP of the shares has exhibited a general upward trend, with an average of approximately 0.12 million shares traded per day since the company's IPO
- over the twelve month period leading up to 9 October 2013, average shares traded per day increased to approximately 0.15 million
- during the twelve month period leading up to the Announcement Date, Bega traded at a low of $1.69 per share and a high of $3.22 per share
- whilst we note that the significant volume spikes which occurred on 3 May 2012, 16 August 2012, 5 December 2012, 30 January 2013 and 27 August 2013 did not appear to coincide with any particular company announcements, there were material events which occurred around these dates and we note the following in this regard:
  - on 13 April 2012, Bega announced a 5 year private label supply agreement with Coles, 13 trading days prior to the volume spike on 3 May 2012 where 1.15 million shares were traded

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- on 26 June 2012, Bega announced their FY13 milk pricing and confirmed FY12 earnings growth, 36 trading days prior to the volume spike on 16 August 2012 where 1.58 million shares were traded
- on 15 November 2012, Bega announced it had signed a new product supply agreement with Fonterra, 14 trading days prior to the volume spike on 5 December 2012 where 1.02 million shares were traded
- on 22 August 2013, Bega announced their FY13 results, 3 days prior to the volume spike on 28 August 2013 where 1.95 million shares were traded. On the 22 August 2013 the share price increased 5.8 percent to close at $2.92 per share. In particular, we note the comment made by Bega on page 5 of their 2013 Annual Report, *"The opportunity for further rationalisation in the Australian dairy industry remains. The Group continues to be well positioned to participate in this rationalisation. Bega Cheese has increased its investment in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB) this year. We continue to believe that WCB remains an important investment for the Group and will continue to consider our strategic options in terms of this investment."*

- other key events since Bega's IPO include:
  - on 16 December 2011, Bega announced to the market that final Supreme Court approvals had been received for the merger between Bega Cheese Limited and Tatura Milk Industries Limited, approximately 0.13 million shares were traded on this day
  - on 12 September 2013, Bega announced to the market an off-market takeover offer for all of the shares in WCB, approximately 0.64 million shares were traded on this day and the share price increased 4.24 percent to close at $3.27 per share

In addition to our share price analysis, we obtained four publically available broker reports analysing Bega's current and target share price prior to the announcement. We note that two of these reports issued a BUY recommendation for Bega, with an average target price of $3.29 per share. The remaining two reports issued a NEUTRAL recommendation.

9.8.3 VWAP and liquidity analysis

We set out in the table below an analysis of the periodic VWAPs and liquidity of Bega's shares for:

- Period 1: the 12-month period prior to and including 11 September 2013 (period before Bega's offer for WCB)
- Period 2: the period from 12 September 2013 to 9 October 2013 (period after Bega's offer for WCB)

Table 21: Bega's VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ million	Cumulative volume million	% of issued capital
Period 1 - pre-offer						
1 day	3.10	3.18	3.14	0.28	0.09	0.06
1 week	3.10	3.24	3.17	2.41	0.76	0.50
1 month	2.72	3.25	3.01	17.84	5.93	3.91
3 months	2.50	3.25	2.85	31.99	11.21	7.38
6 months	2.48	3.25	2.80	56.37	20.11	13.24
12 months	1.69	3.25	2.46	87.86	35.69	23.50
Period 2 - post-offer						
12/09/2013 - 09/10/2013	3.20	3.76	3.43	15.51	4.51	2.97

Notes: Calculations include off and on market trades
Source: S&P Capital IQ, KPMG Corporate Finance analysis

In relation to the table above, we note the following:

- in the 3 months leading up to the Announcement Date, the price of Bega shares traded between $2.50 and $3.25 and had a VWAP of $2.85. During this period 7.38 percent of issued capital was traded
- in the 6 months leading up to the Announcement Date, the price of Bega shares traded between $2.48 and $3.25 and had a VWAP of $2.80. During this period 13.24 percent of issued capital was traded
- in the 12 months leading up to the Announcement Date, the price of Bega shares traded between $1.69 and $3.25 and had a VWAP of $2.46. During this period 23.5 percent of issued capital was traded
- the pre Announcement Date high of $3.25 was recently achieved on 4 September 2013
- the percentage of issued capital traded over the observation period would indicate that Bega's shares are relatively illiquid. In addition, their current liquidity does not qualify them for S&P/ASX200 inclusion, although their market capitalisation is higher than some of the current index constituents at the date of this report
- following the Announcement Date, the market increased its trading activity with approximately 2.97 percent of total shares traded during the period of 12 September 2013 to 9 October 2013. This trading volume is in contrast to the 1 week average daily volume prior to the Announcement Date of 0.50 percent.

9.8.4 Relative share price performance

The figure below details the trading performance of Bega's shares from 10 October 2011 until the 9 October 2013 relative to the S&P/ASX All Ordinaries Index. Given that Bega exports and therefore is exposed to global trading conditions, we have also graphed the trading performance of Bega's shares against the MSCI World Index.

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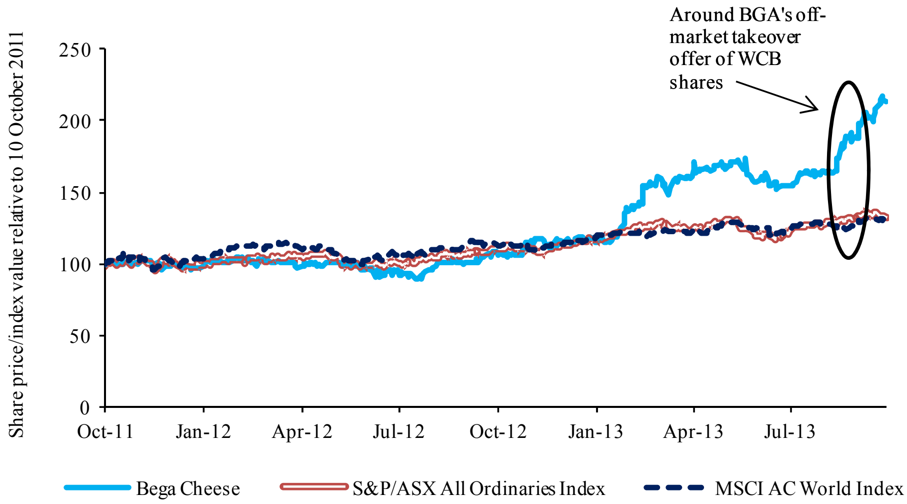
Figure 21: Bega's relative share price performance



Source: S&P Capital IQ

For the second half of FY13, Bega's share performance tracked above the performance of the S&P/ASX All Ordinaries Index and MSCI World Indices, however, between October 2011 and February 2013 Bega tracked around or below both indices. As can be seen above, we note that the market appeared to react positively to the Proposed Transaction.

10 Profile of the Combined Group

Details of the estimated Combined Group's pro-forma balance sheets and income statements are located in Section 4.8 of the Bidder's Statement.

11 Assessment of underlying value of WCB

11.1 General

An important aspect when considering whether the Proposed Transaction is fair to WCB shareholders is to compare the underlying value per WCB share to the value of the consideration being offered to the WCB shareholders under the Proposed Transaction.

This section sets out our assessment of the underlying value of WCB shares inclusive of a premium for control. When assessing the value of 100 percent of WCB, we have considered those synergies and benefits which would generally be available to a broad pool of hypothetical purchasers. We have not included the value of synergies and benefits that may be unique to Bega. Accordingly, our valuation of a share in WCB has been determined regardless of the acquirer.

11.2 Valuation approach

For the purpose of this report, fair value can be defined as the price a hypothetical prudent purchaser, who is willing, knowledgeable, but not anxious to buy, would be prepared to pay to a seller, who is willing, knowledgeable, but not anxious to sell.

RG 111 indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the discounted cash flow method (DCF)
- the capitalisation of future maintainable earnings or cash flows (capitalisation of earnings)
- the amount that would be distributed to security holders in an orderly realisation of assets
- the amount which an alternative acquirer might be prepared to pay and/or
- the most recent quoted price of listed securities

Each of the above methodologies is applicable in different circumstances (except using the most recent quoted price of listed securities). In selecting the appropriate methodology by which to value WCB, we have considered the company's prospects and other available information presented to us. A summary of each of the approaches considered in preparing this report is set out in Appendix 5.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the fair value of WCB to lie.

We have used the capitalisation of earnings method, based on EBITDA, as the primary method . As a cross-check, we have compared the value range obtained from the primary methodology against:

- a high level discounted cash flow analysis
- analysis of long term EBITDA margins and the implied enterprise values
- analysis of recent quoted price of WCB
- implied revenue and price to book ratio multiples.

11.3 Summary of WCB earnings

We have adopted EBITDA as the earnings base for our primary valuation methodology after considering a number of factors specific to the operations of businesses within the dairy industry, including:

- participants have different investments in infrastructure, depending on their level of participation in various segments of the dairy industry value chain. Those companies with significant storage and handling and manufacturing capability will have higher capital expenditure requirements and related depreciation charges, depending on the age and quality of assets, than those primarily involved in cutting, packaging and retail operations. Therefore, depreciation should be excluded to maintain comparability
- industry participants generally have varying levels of gearing depending principally on working capital requirements and seasonality of cash flows. Therefore the interest expense incurred as a result

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of the decision of each participant regarding levels of gearing should be excluded to maintain comparability

It is common to have regard to a maintainable level of earnings in applying the capitalisation of earnings methodology, which is the level of earnings considered to be the level below which, in the absence of unforeseen and exceptional circumstances, the income stream is unlikely to fall. The level of maintainable earnings is influenced by a number of factors, including the trend and consistency of historical performance, the stage of development of the business and the extent to which one-off or non-recurring transactions are reflected in the financial statements.

We have selected a level of maintainable earnings for WCB having regard to the historical financial results and operations for WCB, estimated forecast results for FY14 (based on the WCB forecast relevant to the market for FY14 as at 2 October 2013 and discussions held with management) and strategic plans of WCB. Our assessment of maintainable earnings is summarised below, along with any adjustments for non-recurring items.

Table 22: Summary of maintainable historical and forecast earnings

Normalisation of earnings $ million	(A) FY12	(A) FY13	(F) - Low FY14	(F) - High FY14
EBITDA	35.5	25.5	47.0	49.5
Less:				
Rent income (investment property)	(0.8)	(0.9)	(0.8)	(0.8)
Gain on disposal of PPE	(0.7)	(0.4)	-	-
FV gains on investment properties[2]	-	(0.0)	-	-
Maintainable EBITDA	**34.0**	**24.2**	**46.2**	**48.7**

Notes:
1. (A) – Actual, (F) – Forecast
2. WCB recognised a fair value gain on their investment property portfolio of $32,000 at 30 June 2013
Source: WCB, KPMG Corporate Finance analysis

In relation to the selection of a maintainable EBITDA we note the following:

- the historical financial performance of WCB has been discussed previously in Section 8.3. Volatility in EBITDA growth rates yoy is explained by the exposures that WCB has to global commodity prices, AUD foreign exchange rates, local farm gate milk prices and the seasonality of (and therefore available volume) of milk
- as discussed in Section 8.3, WCB produced similar revenues over the full year FY13 as compared to FY12. However, due to unfavourable movements in export pricing and the continued strength of the AUD over FY13, WCB directed more milk supply to domestic consumer goods and direct milk sales. As a result, the overall margin generated in FY13 softened as did the overall profit result. This result was characterised by the two distinct periods of performance as outlined below:
  - over the first 9 months of FY13 international commodity prices were depressed, high raw milk costs and a strong AUD reduced the domestic price received for exports
  - over the last 3 months of FY13, international commodity prices increased and there was depreciation in the AUD, however, these positive factors were not large enough nor sustained for a long enough period of time to compensate for the poor trading conditions existing over the

majority of FY13. WCB were able to alter their product mix to allocate milk and other resources to products with more attractive margins (as compared to the export market at the time) which resulted in the relatively flat yoy change to total revenue despite the difficult trading conditions

- as per the announcement on the 2 October 2013, management have forecast an EBITDA range of \$47.0 million to \$52.0 million in FY14 (midpoint of \$49.5 million) which represents a significant improvement from FY13. As discussed in Section 8.3, this increase is mainly as a result of:
  - the commencement of lactoferrin production in FY14 and ramp up to full capacity in FY15 is expected to add significantly to forecast profits due to its high gross profit margins. WCB have indicated that they are on track to complete construction of the lactoferrin plant in October 2013 with commissioning of the plant expected in November 2013 and production of lactoferrin to commence in December 2013
  - a recovery in international dairy commodity pricing
  - a forecast depreciation, reflecting continued weakness, of the AUD against the USD which is expected to lead to improved export margins and profits from WCB's interests in the GOI and WCBJ joint ventures

For the reasons mentioned above, we believe that FY14 provides a more appropriate basis for the purposes of valuation since FY13 does not reflect the benefits associated with the lactoferrin plant, nor does it reflect the expected recovery in the market. We have therefore adopted an estimate of the maintainable EBITDA range of \$46.2 million to \$48.7 million for FY14, which exceeds the recent historical performance of WCB. This range has been adjusted to remove the earnings generated by WCB's investment properties which have been accounted for separately.

11.4 Assessment of earnings multiples

In selecting an appropriate range of maintainable EBITDA multiples to apply we have considered the following:

- the trading and transaction multiples of broadly comparable companies and transactions within the Australian and NZ dairy industries
- the market capitalisation and nature of the environment in which the comparable companies and target companies operate
- the expected growth profile of WCB and the relative market positioning of WCB in the dairy industry relative to listed peers
- the risks associated with WCB's growth initiatives

Considering the above we have selected a forward EBITDA multiple of 8.0 times (excluding a control premium) for the purpose of our valuation.

11.4.1 Comparable company trading multiples

We have considered the groups of listed comparable companies, which are set out in Appendix 3 and are summarised below. Whilst the comparable companies have operations similar in nature to that of WCB, we note none of the comparable companies' operations match exactly those of WCB, and therefore are not directly comparable.

Table 23: Summary of comparable companies' trading multiples

Company name	Country	Market capitalisation $ million	2013 Historical EBITDA Multiple times	2014 Forecast EBITDA Multiple times
Warrnambool Cheese And Butter*	Australia	249	12.9x	8.5x
Australia & NZ Dairy				
Bega Cheese Limited	Australia	478	10.1x	7.9x
Fonterra Co-Operative Group Ltd.	New Zealand	9,738	9.4x	9.5x
Synlait Milk Limited	New Zealand	401	17.8x	15.7x
Australia & NZ FMCG				
Coca-Cola Amatil Limited	Australia	9,163	10.4x	9.8x
Farm Pride Foods Limited	Australia	5	5.6x	n/a
Freedom Foods Group Limited^	Australia	272	36.4x	16.7x
Goodman Fielder Ltd.	Australia	1,437	8.5x	6.8x
Patties Foods Limited	Australia	184	7.3x	7.2x
Tassal Group Limited	Australia	464	7.3x	7.7x
Mean (Total Australia & NZ)			**9.6x**	**9.2x**
Median (Total Australia & NZ)			**9.0x**	**7.9x**

Notes:
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier
Source: S&P Capital IQ

In relation to these comparable companies' trading multiples we note the following:

- the multiples reflect market capitalisation as at 11 September 2013 (being the day prior to the Announcement Date) and publicly available information regarding forecast earnings for each company (where available)
- historical multiples are on a LTM (last twelve months) and forecast multiples are on a NTM (next twelve months basis)
- the overall mean and median multiples across the Australian and NZ Dairy and FMCG comparables are 9.6 times and 9.0 times on a historical basis and 9.2 times and 7.9 times on a forecast basis
- given the limited number of directly comparable companies, we have also had regard to a selection of international companies, as reflected in Appendix 3
- the multiples reflect trading of portfolio interests in the companies, and therefore exclude any premium for control, whereas our assessment of value includes a premium for control.

11.4.2 Comparable company transaction multiples

Details of these comparable company transactions are set out in Appendix 4 and are summarised below.

Table 24: Summary of comparable transaction multiples

Date	Target	Target Country	Acquirer	Percent Acquired	Transaction equity value $ million	Transaction enterprise value $ million	Historical EBITDA multiple times
Australian transactions							
Oct-11	Tatura Milk Industries Limited	Australia	Bega Cheese Limited	30.0%	43	153	6.6x
Aug-09	Burra Foods Australia Pty Ltd.	Australia	ITOCHU Coal Resources Australia	45.0%	38	75	6.5x
Nov-08	Dairy Farmers Limited	Australia	National Foods Limited	100.0%	675	910	12.8x
Dec-07	National Foods Limited	Australia	Kirin Holdings Company	100.0%	910	2,800	17.6x
Mean (Australian transactions)							**10.9x**
Median (Australian transactions)							**9.7x**
Other international transactions considered							
Aug-13	Yashili International Holdings Ltd.	China	China Mengniu Dairy Co Ltd.	89.8%	1,588	1,322	13.0x
Mean (Total)							**11.3x**
Median (Total)							**12.8x**

Source: S&P Capital IQ, KPMG Corporate Finance analysis, Company announcements and filings, related articles

In considering the above comparable transactions, we note:

- whilst the targets in the comparable transactions have operations similar in nature to that of WCB, we note none of the targets in the comparable companies' operations match exactly those of WCB, and therefore are not directly comparable
- based on recent Australian transaction data, the range is between 6.5 times and 17.6 times which excludes Bega's acquisition of Tatura Milk Industries in April 2007 as this represented a period of sustained losses and distressed operations due to prolonged drought
- where the transaction resulted in the transfer of control to the acquiring entity, the implied multiples include a premium for control. This premium often reflects the synergistic benefits of the transaction to the acquirer, as well as the payment of a simple control premium. There is insufficient publicly available information to determine the extent to which implied multiples relate to operating synergies as opposed to a simple control premium
- the control premium paid is not explicitly determined; rather it is an outcome of the transaction being completed at a price that is acceptable to the acquirer. Therefore, depending on the nature of the transaction, the circumstances of the acquirer and the business being acquired, the control premium paid in each case is likely to vary over a wide range.

11.5 Summary of assessed value of WCB

Our overall valuation approach in relation to the underlying valuation of WCB has been to estimate the enterprise value of WCB determined using a capitalisation of earnings methodology, to which we added surplus assets and from which the value of net debt is deducted in order to determine the equity value of WCB shares on a non controlling basis. A takeover premium is added to derive the WCB equity value on a controlling basis.

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We have assessed the underlying value of 100 percent of the equity as summarised in the table below and detailed in the remainder of this section. Refer to the relevant sections of this document for further detail on specific items and adjustments.

Table 25: Summary of assessed value of WCB

Valuation $ million	FY14 Low	FY14 High	Reference
Normalised EBITDA	46.2	48.7	Section 11.3
Maintainable EBITDA multiple	8.0	8.0	Section 11.4
Enterprise value	369.2	389.2	
Subtract: Net debt	71.7	71.7	Section 11.6.3
Equity value (non-controlling basis)	297.5	317.5	
Add: Takeover premium (30 %)	89.2	95.2	Section 11.6.2
Equity value (controlling basis)	386.7	412.7	
Add surplus assets:			
Investment property at fair value	10.1	10.1	Section 11.6.4
Equity value (adjusted, controlling basis)	396.9	422.9	
Selected Value	390.0	420.0	Section 11.8
Fully diluted WCB shares outstanding (millions)	56.0	56.0	Section 8.5
Price per share ($)	6.96	7.49	

Note: Figures may not add due to rounding
Source: KPMG Corporate Finance analysis

To assess the reasonableness of our valuation of WCB, we have undertaken the following cross-checks of the assessed value of WCB:

- a high level DCF which utilises historical financial cash flows and forecasts taking into account management's expectations, other growth assumptions and long-term inflation expectations
- analysis of long term EBITDA margins and the implied enterprise values
- analysis of VWAPs over multiple periods of WCB shares to understand both trading levels and volumes as well as market disclosures
- implied revenue and price to book ratios to check if these implied multiples fall within a reasonable range

Assessing the underlying value of WCB is not straight-forward, due to the volatility of earnings (which are dependent on weather patterns, foreign exchange rates and global commodity markets) and recent volatility in the financial markets. While KPMG Corporate Finance acknowledges that improved weather conditions, favourable commodity pricing and foreign exchange movements could significantly increase WCB's earnings, there is continued risk from exposure to such factors. We have sought to balance these issues when valuing WCB.

11.6 Other valuation considerations

11.6.1 Synergies

Management and Bega (as outlined in the Bega Bidder's Statement) anticipate that there are considerable opportunities within any Combined Group to capture significant recurring benefits (or synergies) post any potential merger. Typically, the level of synergies able to be derived from a business combination are dependent on the nature of the respective businesses and their geographical and operational overlap.

If Bega successfully acquire 100 percent of the shares in WCB, synergistic benefits are expected to be realised of the Combined Group with one-off, up-front costs of implementation. Per Section 4.5 of the Bidder's Statement, Bega estimate that within the first year of a successful merger synergies will be available through:

- removing duplication of costs across the operations of the Combined Group, such as head office costs
- removing costs associated with WCB's ASX listing
- leveraging of scale benefits on non-milk supplier services and inputs procurement
- enhanced milk flow management
- improved milk solids management
- better alignment of the production of dairy products to enhance the performance of the manufacturing facilities of Bega, Tatura and WCB
- improved transport management, and
- leveraging best practices processes and systems

Bega estimates that these cost savings approximate $7.5 million per-annum on a pre-tax basis (excluding implementation costs) assuming a 100 percent control scenario. In a scenario where Bega achieves greater than 50 percent relevant interest (but less than the compulsory acquisition threshold of 90 percent) Bega estimates that the potential synergies will be reduced by 50 percent, being $3.75 million (pre-tax excluding implementation costs). If Bega were to achieve less than a 50 percent relevant interest they estimate that there will be no synergy benefits.

WCB management have conducted their own assessment of the potential synergies available to any Combined Group. In line with the above estimated benefits included in the Bidder's Statement, WCB have considered cost savings that would be achievable. Among other things their primary cost saving synergies identified include the removal of duplication of head office costs and rationalisation of the Combined Group's facilities and milk transportation.

WCB management estimate that the synergies available to the Combined Group are in the range of $16.5 to $23.3 million per annum (excluding one-off integration costs). Of this amount, WCB management estimate that the synergies available to other dairy market participants represent approximately $14.4 million per annum (pre-tax), primarily as a result of the removal of head office cost duplication (excluding any one-off integration costs). WCB also estimate that any cost savings would not be available

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until any acquiring company did a full corporate overview and review of duplication, which would take approximately a year to implement.

In terms of the facility and milk transportation rationalisation, WCB believe that these cost savings and potentially any revenue enhancement initiatives estimated will only be available to Bega as a potential acquirer given their operational and geographic overlap with WCB. Primarily, this is a result of the ability of the Combined Group to be able to utilise any unused capacity at more cost effective plants (whilst shutting down less efficient smaller plants) and rationalising the milk flow transportation so as to maximise cost savings. WCB estimate these synergies at approximately $8.9 million per annum (excluding any one-off integration costs). These synergies are, however, primarily only of benefit to Bega given their operational overlap. As such, we have excluded these from the valuation of WCB.

We also note that there is some risk that all the benefits outlined above (including those available to a typical market participant) will not be fully realised, will take longer to realise or cost more than anticipated to implement. Furthermore, it is common practice not to ascribe the full value of the estimated synergies to the target valuation as in a competitive bidding situation a potential purchaser may not pay away all of the potential benefit from merging the two entities in part due to the risk associated with not being able to achieve the full amount estimated.

11.6.2 Takeover premiums

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing WCB we have assumed 100 percent ownership, therefore including a premium for control when assessing the multiples implied by the comparable companies.

Evidence from studies of market data suggests that takeover premiums are generally in the range of 30 to 40 percent for completed takeovers. In transactions where it was estimated that the combined entity would be able to achieve significant synergies the takeover premium was frequently estimated to be in excess of 30 percent. Takeover premiums vary significantly and include:

- synergies such as those discussed in Section 11.6.1 of our report
- pure control premium in respect of the acquirer's ability to utilise their 100 percent control over the cash flows of the target entity
- desire (or anxiety) for the acquirer to complete the transaction

Given the level of synergies potentially available to a buyer of WCB, we have used a takeover premium of 30 percent for the purposes of our valuation.

11.6.3 Net debt

As discussed in Section 8.4.1, net debt is calculated as total borrowings (revolving credit and capital leases) less cash and cash equivalents. We have used the net debt balance of $71.7 million at 30 August 2013, as confirmed by management, as presented below for the purpose of our valuation.

Table 26: WCB's net debt

As at $ million	30-Jun-13	30-Aug-13
Total debt	79.3	73.4
Less: Cash and cash equivalents	3.8	1.7
Net debt	75.5	71.7

Source: WCB

11.6.4 Surplus assets and liabilities

Surplus assets represent those assets or investments that are not required in order for WCB to continue to realise its principal source of earnings. To determine the equity value, surplus assets must be added back to the enterprise value, whilst surplus liabilities, if any, are deducted.

Based on our discussions with WCB, surplus assets consist of investment properties, which refers to an investment property portfolio held by WCB some of which is currently receiving rental income. The portfolio was last fair valued as at 30 June 2013 at $10.1 million by certified practicing valuer C.J Ham & Murray Pty Ltd.

11.7 Valuation cross checks of our assessed value of WCB on a consolidated basis

11.7.1 High level DCF cross check

We have compared the range of values determined using our primary capitalisation of earnings methodology to that derived by our high level DCF methodology. Using high level forecast revenue and earnings projections provided by WCB and long term inflation estimates we have determined an indicative enterprise valuation range that is consistent with our range calculated using the capitalisation of earnings method. This is based on the following:

- WCB's internal FY14[24] and FY15 forecasts
- our understanding of WCB's growth prospects following discussion with management for the period beyond FY15
- estimated working capital and capital expenditure requirements

[24] As of 2 October 2013

- an estimate of the value of synergies as previously discussed. We have discounted the value of the potential synergies available and the one off cost to implement by 50 percent
- a terminal value using a long term growth rate assumption of 2.5 percent
- corporate tax rate of 30 percent over the long term. We have also adjusted for temporary timing differences over the medium term
- post tax weighted average cost of capital (WACC) range of 11.5 percent to 12.5 percent

11.7.2 Market price

We have performed a cross check of our assessed value per share against the VWAP of WCB shares. Set out in the table below is an analysis of the periodic VWAPs and liquidity of WCB's shares for:

- Period 1: the 12-month period prior to and including 11 September 2013 (period before the Announcement Date). For example, '1 day' within Period 1 means one day prior to and including 11 September 2013
- Period 2: the period after the Announcement Date, being 12 September 2013, until and including the 9 October 2013

Table 27: WCB's VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ million	Cumulative volume million	% of issued capital
Period 1 - pre-offer						
1 day	4.51	4.69	4.55	0.05	0.01	0.02
1 week	4.45	4.69	4.52	0.16	0.03	0.06
1 month	4.33	4.69	4.46	1.21	0.27	0.49
3 months	3.80	4.69	4.33	4.48	1.03	1.87
6 months	3.50	4.70	4.31	24.97	5.79	10.48
12 months	3.42	4.70	4.16	31.45	7.56	13.68
Period 2 - post-offer						
12/09/2013 - 09/10/2013	5.65	7.29	6.28	30.78	4.90	8.84

Notes: Calculations include off and on market trades
Source: S&P Capital IQ, KPMG Corporate Finance analysis

We note that historically, WCB has exhibited a relatively low level of liquidity. During Periods 1 and 2 set out above, our assessed underlying value of WCB per share is higher than the VWAP of WCB mainly due to the fact that our value includes the benefits of the future growth prospects of WCB, a control premium and a consideration of synergies.

11.7.3 Market multiples cross check

We have also performed a cross check of our WCB value estimate against various implied multiples. In regards to this we have:

- compared implied revenue, and price to book ratios to listed multiples to determine if these implied multiples fall within a reasonable range
- estimated a long term EBITDA margin of 7.0 percent to 8.0 percent to apply to FY13 revenue to derive an implied EBITDA multiple to cross check against historical multiples

Table 28: Valuation cross-check

Valuation $ million	FY14 Low	 High
WCB equity value (calculated)	396.9	422.9
Add: Net debt	71.7	71.7
Enterprise value	468.6	494.6
Revenue (FY13) (H)	496.5	496.5
Assumed LT EBITDA margin	7.0%	8.0%
Implied EBITDA	34.8	39.7
FY13 implied EBITDA multiple	13.5x	12.5x
Revenue (FY13) (H)	496.5	496.5
Revenue (FY14) (F)	573.0	573.0
FY13 implied Revenue multiple	0.9x	1.0x
FY14 implied Revenue multiple	0.8x	0.9x
Book value (FY13) (H)	161.8	161.8
FY13 implied price to book value multiple	2.5x	2.6x

Notes:
Revenue includes revenue from continuing operations plus other income
Figures may not add due to rounding
Source: KPMG Corporate Finance analysis

With regards to the implied multiples above we note that they include a premium for control and that the observed multiples do not include a premium for control.

EBITDA multiples

- historic Australian and NZ Dairy EBITDA multiples are in the range of 9.4 times to 17.8 times, with a mean and median of 12.4 times and 10.1 times respectively. Historic Australian and NZ FMCG EBITDA multiples are in the range of 5.6 times to 10.4 times, with a mean and median of 7.8 times and 7.3 times respectively
- our implied FY13 EBITDA multiple falls within the ranges above

Revenue multiples

- historical Australian and NZ Dairy revenue multiples are in the range of 0.6 times to 1.7 times, with a mean and median of 1.0 times and 0.8 times respectively. Historical Australian and NZ FMCG revenue multiples are in the range of 0.2 times to 2.2 times, with a mean and median of 1.6 times and 1.5 times respectively
- forecast Australian and NZ Dairy revenue multiples are in the range of 0.5 times to 1.4 times, with a mean and median of 0.9 times and 0.7 times respectively. Forecast Australian and NZ FMCG revenue

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multiples are in the range of 0.8 times to 2.1 times, with a mean and median of 1.6 times and 1.8 times respectively

- our implied revenue multiples fall within the ranges above

Price to book multiples

- historical Australian and NZ Dairy price to book multiples are in the range of 1.5 times to 5.1 times, with a mean and median of 2.8 times and 1.8 times respectively. Historical Australian and NZ FMCG price to book multiples are in the range of 0.2 times to 4.4 times, with a mean and median of 2.1 times and 1.5 times respectively
- our implied price to book multiple falls within the ranges above

With reference to the comparable company multiples in Appendix 3 we note that multiples implied by our valuation are not unreasonable.

11.8 Cross check conclusion

Having regard to the various cross checks performed and set out above, on balance, we have selected an equity value range of $390 million to $420 million, which implies a value per WCB share of $6.96 to $7.49.

12 Assessment of the value of the consideration

In assessing the market value of the consideration offered we have used market evidence of trading prices of Bega shares on the ASX as our primary methodology. To cross-check this method, we have compared Bega's historical (FY13) and forecast (FY14) EBITDA multiple with that of a set of broadly comparable companies.

We note that our valuation approach, in observing the market price of Bega's shares, is relying on the listed market price of Bega as a reference point for the realisable value of the consideration offered.

In this regard, we note the following:

- the listed market price of Bega's shares are likely to represent a reasonable proxy for the amount that a WCB shareholder could expect to realise if they immediately liquidated their shares following the acceptance of the offer
- it is not possible to accurately forecast or reflect any future share price movements and/or performance metrics of a hypothetical merged entity
- whilst there is potential for WCB shareholders to share in special synergistic and control benefits, this is not a scenario that is considered likely in the short term, with most benefits estimated to take place greater than 12 months post the completion of any merger.

12.1 Share price analysis

In considering the appropriateness of the share price as an indicator of market value of Bega shares we have had regard to the following:

The historical share trading price of Bega

- Bega listed in the first quarter of FY12 at $2.00 per share and experienced relatively flat share price performance for the remainder of FY12, closing at $1.60 per share on the 29 June 2012
- as documented in Section 9.8.2 a number of key announcements occurred during the FY13 year, most notably the renewal of the Fonterra product supply agreement, which, although, did not have a directly attributable impact on Bega's share price, contributed to a year of strong market performance for the company. During FY13, Bega's share price traded between $1.50 and $2.91
- Bega's FY13 results were well received by the market. Bega's share price increased by 5.8 percent on 22 August 2013 (the announcement of their FY13 annual results) to close at $2.92 per share

The post announcement share trading price of Bega

- it is not uncommon to focus on the trading price post announcement of the offer, so as to incorporate the market's assessment of the impact of the Proposed Transaction on Bega's business and market rating. In this regard, we note that:
  - Bega's share price increased post the announcement of the Proposed Transaction, illustrating the positive market sentiment of the Combined Group. Bega shares increased from $3.15 to $3.65 (reaching a high of $3.76 on 4 October 2013) between 11 September 2013 and 9 October 2013, representing an increase of 15.9 percent over this period. The average daily volume of Bega shares traded over this period was 220,000, representing an 81.3 percent increase over the average daily volume of shares traded since IPO. The VWAP analysis presented in the figure below illustrates that daily Bega VWAP has consistently been above $3.15 (Bega's share price on 11 September 2013) post the announcement of the Proposed Transaction
  - on 26 September 2013, WCB issued an announcement stating the Board of Directors unanimously rejected the offer and recommended their shareholders take no action
  - on 2 October 2013, WCB released a trading update outlining their view on forecast financial performance for the company in FY14
  - on 8 October 2013, Saputo announced an all cash takeover offer for all of the shares in WCB. We note that from the 12 September 2013 (post announcement) until 9 October 2013 the VWAP of Bega's shares was $3.43 per share

The liquidity of Bega's shares

- in relation to this, we note the following:
  - pursuant to Bega's constitution, individual shareholders are restricted in regard to the amount of issued capital they can acquire under the companies shareholding limit. Specifically, shareholders can hold a maximum of 5 percent of issued capital two years from the listing date and a maximum of 10 percent of issued capital between 2 and 5 years from the listing date. Aside from these shareholding restrictions placed upon Bega's register or prospective shareholders, there are no other significant restrictions on the trading of Bega shares which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price

- whilst the volume of shares traded in Bega as a proportion of total number of shares on issue has been relatively low compared to ASX companies generally historically, we note that over the month prior to the announcement of the Proposed Transaction, volume traded as a percentage of outstanding shares amounted to 3.91 percent and the volume of shares traded three months leading up to the announcement of the Proposed Transaction amounted to 7.38 percent, suggesting a level of liquidity for the Bega shares

- it is estimated that the Combined Group would have a market capitalisation of around \$650 million[25] and may enter the ASX 200 (although the exact assessment is based on a combination of market capitalisation, investable weight factor and liquidity). Entry into the ASX 200 index would likely improve the combined stock's liquidity and bring share price support from index funds

The table below presents the VWAP of Bega's shares at different time periods up to 12 months prior to the Announcement Date. In addition, we also present the VWAP for the period post the Announcement Date, up until 9 October 2013. We also present the VWAP over this latter period in the Figure below.

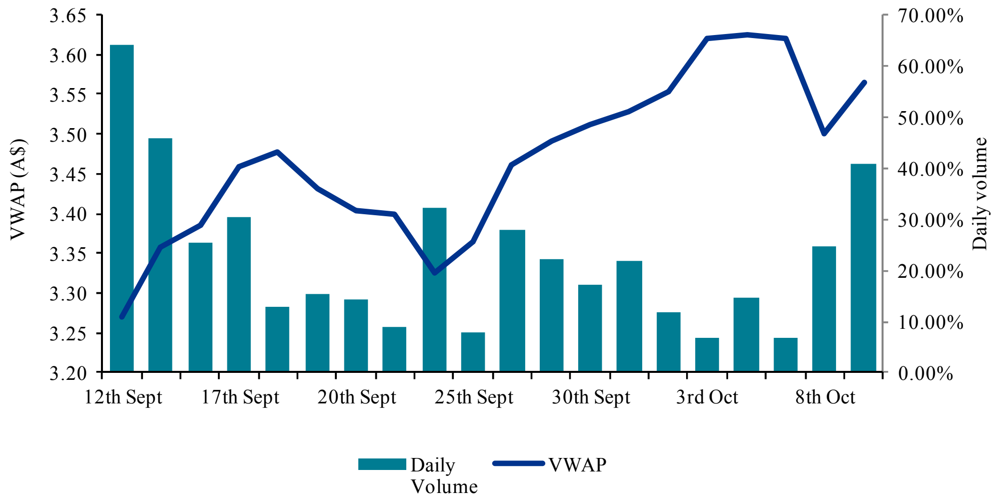
Table 29: Summary of Bega's VWAP pre and post announcement of the Proposed Transaction

Period	Price (low) \$	Price (high) \$	Price VWAP \$
Period 1 - pre-offer			
1 day	3.10	3.18	3.14
1 week	3.10	3.24	3.17
1 month	2.72	3.25	3.01
3 months	2.50	3.25	2.85
6 months	2.48	3.25	2.80
12 months	1.69	3.25	2.46
Period 2 - post-offer			
12/09/2013 - 09/10/2013	3.20	3.76	3.43

Source: S&P Capital IQ

[25] "Based on the Bega Cheese Shares on issue and Bega Cheese Share price of \$3.15 as at close of trading on ASX on 11 September 2013, being the trading day immediately before the Announcement Date plus Bega Cheese Shares that will be issued as Offer Consideration under a Successful Merger." – Bega's Bidder Statement, page 22.

Figure 22: Bega's VWAP and liquidity analysis post announcement



Source: S&P Capital IQ

Market consensus

Although not as widely covered as other listed companies, there is significant information disclosed in relation to Bega's operations in its financial reports and ASX announcements for investors to make an informed investment decision in relation to Bega.

Post the release of Bega's FY13 results, four brokers issued target prices for Bega, ranging between $3.00 and $3.80, with an average of $3.34.

- in considering broker target prices we understand the definition of target price varies between brokers in many respects, including:
  - the target price period can be different, some are for a period of up to 1.5 years
  - differing underlying assumptions relating to the company's operations and the dairy industry more generally
  - the valuation methodologies used to arrive at the target price differs between brokers

Based on the above we have assessed the value of Bega shares offered as consideration at between $3.14 and $3.40[26].

[26] We note that these values exclude a required premium paid for control of a target entity.

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Dilution and synergies

To the extent that Bega is paying a control premium (above the listed market price) for WCB there will be a dilution effect on the value of Bega's shares subsequent to any successful conclusion of the Offer. This is because the listed market price of Bega's shares will reflect a portfolio rather than a controlling interest in the enlarged group. In the absence of synergies this dilution often results in a fall in the share price of the bidder.

However, Bega have indicated that large synergies (relative to the size of both company's standalone earnings) are likely to be realised from combining the two businesses. In particular, Bega has stated the following in its Bidder Statement ASX release dated 12 September 2013:

"Bega Cheese is always keen to build on strengths and invest to ensure its businesses are efficient, competitive and able to deliver value to customers, dairy farmer suppliers and shareholders. When considering the benefits of merging with Warrnambool Cheese & Butter, Bega Cheese has identified a number of potential synergies. If a Successful Merger results, these synergies would be implemented through cost savings in administration, corporate services and procurement, as well as through efficiency gains in the operation and co-ordination of the manufacturing and packaging sites.

Bega Cheese's analysis and review of publicly available information on Warrnambool Cheese & Butter has led it to conclude that, if a Successful Merger is achieved, potential synergies of approximately $7.5 million (pre-tax excluding one-off integration costs) should be realised in the first full year following the Successful Merger."

For further commentary on the synergies expected to be generated by Bega in a combined group scenario, refer to Section 11.6.1.

Given the size of expected synergies relative to the standalone earnings of both WCB and Bega, in our opinion, it is reasonable to conclude that the value of expected synergies would exceed the dilutionary effect discussed above. This view appears consistent with the market reaction to the Offer announcement, as the market price of the shares in Bega has increased since the announcement of the Offer.

12.2 Valuation cross-check

As a reasonableness check to our selected Bega share price range, we have calculated the implied EBITDA multiples of our selected price range and compared these to EBITDA multiples of broadly comparable companies.

Table 30: Bega EBITDA using VWAP

$ million	VWAP low	VWAP high
Share price	3.14	3.40
No. of outstanding shares	151.9	151.9
Market value	476.9	516.3
Net debt	86.7	86.7
Enterprise value	563.5	603.0
Maintainable EBITDA (FY2013) (H)	65.3	65.3
Maintainable EBITDA (FY2014) (F)	71.4	71.4
FY2013 EBITDA multiple	8.6x	9.2x
FY2014 EBITDA multiple	7.9x	8.4x

Notes:
FY13 maintainable EBITDA excludes non operating income and one off expenses
FY14 forecast EBITDA excluding the effects of the Proposed Transaction, based on consensus broker estimates
Source: Bega 2013 annual report, S&P Capital IQ and KPMG Corporate Finance analysis

Table 31: Comparable companies EBITDA Multiples

Company name	Country	Market capitalisation $ million	2013 Historical EBITDA Multiple times	2014 Forecast EBITDA Multiple times
Warrnambool Cheese And Butter*	Australia	249	12.9x	8.5x
Australia & NZ Dairy				
Bega Cheese Limited	Australia	478	10.1x	7.9x
Fonterra Co-Operative Group Ltd.	New Zealand	9,738	9.4x	9.5x
Synlait Milk Limited	New Zealand	401	17.8x	15.7x
Australia & NZ FMCG				
Coca-Cola Amatil Limited	Australia	9,163	10.4x	9.8x
Farm Pride Foods Limited	Australia	5	5.6x	n/a
Freedom Foods Group Limited^	Australia	272	36.4x	16.7x
Goodman Fielder Ltd.	Australia	1,437	8.5x	6.8x
Patties Foods Limited	Australia	184	7.3x	7.2x
Tassal Group Limited	Australia	464	7.3x	7.7x
Mean (Total Australia & NZ)			**9.6x**	**9.2x**
Median (Total Australia & NZ)			**9.0x**	**7.9x**

Notes:
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier
Source: S&P Capital IQ

We consider the EBITDA multiple ranges implied by the comparable companies are not unreasonable, after considering, *inter alia,* Bega's size, EBITDA margin, product mix and geographic coverage against that of the comparable companies. Based on the above table we note that implied EBITDA multiples from our assessed range of values of Bega are broadly consistent with the median of the overall Australian and

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NZ comparables, albeit at the lower end of the range of the multiples of the comparables companies. This is not considered unreasonable.

In assessing the value of Bega's offer, we have not applied a control premium to the market price. This reflects the fact that WCB shareholders are receiving a minority interest in Bega. Additionally, we note that investors with the intention of disposing of their Bega shareholding after accepting the offer may receive a different value for their share consideration, which is dependent upon the sale price they are able to achieve in the market at the date of sale.

12.3 Assessment of considered value

Based on the above analysis, we consider that the market value of a Bega share is between $3.14 and $3.40. The following table presents the assessed value of the Offer consideration comprising of 1.2 Bega shares plus $2.00 cash per WCB share.

Table 32: Offer consideration

The Offer consideration	Low	High
Share price of Bega	$3.14	$3.40
Cash consideration	$2.00	$2.00
Total consideration offered under the Offer[1]	$5.77	$6.08
Total shares outstanding WCB (million)	56.04	56.04
Assessed considered value ($ million)	**$323.23**	**$340.71**

Notes:
1) The Offer comprises 1.2 Bega shares and $2 cash for each WCB share
Figures may not add due to rounding
Source: KPMG Corporate Finance analysis

We note that under a hypothetical merged entity scenario, investors with the intention of selling their Bega shares after they receive them may receive a different value of share consideration, dependent upon the sale price they achieve at the time of selling their Bega shares.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Danie van Aswegen and Ian Jedlin. Danie is a member of the Institute of Chartered Accountants in Australia and a member of the CFA Institute. Ian is a member of the Institute of Chartered Accountants in Australia and a Senior Fellow of the Financial Securities Institute of Australia. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Offer is fair and reasonable to WCB shareholders. KPMG Corporate Finance expressly disclaims any liability to any WCB shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Proposed Transaction or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Target Statement as a whole or other documents prepared in respect of the Proposed Transaction.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation in Australia. Future taxation changes are unable to be reliably determined at this time.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of WCB for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Target Statement to be issued to the shareholders of WCB. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

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Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- Dairy Australia – Dairy 2013 Situation and Outlook (September 2013 Update)
- Dairy Australia – Trade and the Dairy Industry Report 2013
- Dairy Australia – Australian Dairy Exports 2011/2012
- Ibis World – Butter & Dairy Product Manufacturing in Australia – August 2013
- Australian Competition & Consumer Commission – 'Statement of Issues – Murray Goulburn Co-operative Co. Limited – proposed acquisition of Warrnambool Cheese and Butter Factory Company Holdings Ltd' – 22 April 2010
- OECD/FAO Agricultural Outlook 2012-2021
- Global Dairy Trade data
- Rabobank Quarterly – June 2013
- Warrnambool Cheese and Butter Factory Company Holdings Limited company reports (including the Annual Report)
- Bega Cheese Limited company reports
- Bega Cheese Limited Bidder's Statement
- Oxford Economics – Australia – September 2013
- S&P Capital IQ Data
- Bloomberg Data
- Bega Cheese Limited Prospectus and Constitution
- ASIC filed private company data
- Various Annual Reports
- PwC Investigating Accountant's Report
- WCB Target's Statement

Other

- Information obtained from WCB management and their advisers

Appendix 3 – Comparable companies

Comparable companies – financial data

Company name	Country	Last reported financials	Market capitalisation $million [1]	2013 Historical EBITDA Multiple times [2]	2014 Forecast EBITDA Multiple times [3]	2013 Historical EBITDA Margin percent [4]	2014 Forecast EBITDA Margin percent [5]
Warrnambool Cheese And Butter*	Australia	30-Jun-13	249	12.9x	8.5x	5.1%	7.0%
Australia & NZ Dairy							
Bega Cheese Limited	Australia	30-Jun-13	478	10.1x	7.9x	5.6%	6.5%
Fonterra Co-Operative Group Ltd.	New Zealand	31-Jul-12	9,738	9.4x	9.5x	8.8%	7.5%
Synlait Milk Limited	New Zealand	31-Jul-12	401	17.8x	15.7x	9.6%	8.6%
Mean (Australia & NZ Dairy)				**12.4x**	**11.0x**	**8.0%**	**7.5%**
Median (Australia & NZ Dairy)				**10.1x**	**9.5x**	**8.8%**	**7.5%**
Australia & NZ FMCG							
Coca-Cola Amatil Limited	Australia	31-Dec-12	9,163	10.4x	9.8x	21.6%	21.9%
Farm Pride Foods Limited	Australia	30-Jun-13	5	5.6x	n/a	4.1%	n/a
Freedom Foods Group Limited^	Australia	30-Jun-12	272	36.4x	16.7x	9.8%	13.6%
Goodman Fielder Ltd.	Australia	30-Jun-13	1,437	8.5x	6.8x	10.6%	12.6%
Patties Foods Limited	Australia	30-Jun-13	184	7.3x	7.2x	14.2%	14.1%
Tassal Group Limited	Australia	30-Jun-13	464	7.3x	7.7x	26.6%	23.1%
Mean (Australia & NZ FMCG)				**7.8x**	**7.9x**	**15.4%**	**17.9%**
Median (Australia & NZ FMCG)				**7.3x**	**7.5x**	**14.2%**	**18.0%**
Mean (Total Australia & NZ)				**9.6x**	**9.2x**	**12.6%**	**13.5%**
Median (Total Australia & NZ)				**9.0x**	**7.9x**	**10.1%**	**12.6%**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – financial data

Company name	Country	Last reported financials	Market capitalisation $ million [1]	2013 Historical EBITDA Multiple times [2]	2014 Forecast EBITDA Multiple times [3]	2013 Historical EBITDA Margin percent [4]	2014 Forecast EBITDA Margin percent [5]
Warrnambool Cheese And Butter*	Australia	30-Jun-13	249	12.9x	8.5x	5.1%	7.0%
International							
Bongrain SA	France	31-Dec-12	1,037	4.4x	4.5x	6.9%	6.6%
Dairy Crest Group plc	United Kingdom	31-Mar-13	1,146	7.7x	6.9x	7.1%	7.9%
Danone	France	31-Dec-12	46,880	11.0x	11.2x	18.0%	16.9%
Emmi AG	Switzerland	31-Dec-12	1,599	7.5x	7.4x	8.3%	8.2%
Glanbia plc	Ireland	29-Dec-12	3,992	14.3x	14.0x	9.7%	9.5%
Nestlé S.A.	Switzerland	31-Dec-12	226,774	11.6x	12.0x	20.3%	19.1%
Parmalat SpA	Italy	31-Dec-12	6,343	8.4x	7.6x	7.9%	8.6%
Dean Foods Company	United States	31-Dec-12	1,954	4.4x	6.9x	6.0%	4.9%
Mondelez International, Inc.	United States	31-Dec-12	59,837	14.2x	12.5x	14.4%	15.7%
Saputo, Inc.	Canada	31-Mar-13	9,860	12.2x	10.8x	11.8%	11.8%
Mean (International)				**9.6x**	**9.4x**	**11.0%**	**10.9%**
Median (International)				**9.7x**	**9.2x**	**9.0%**	**9.1%**
Summary							
Mean (Total)				**9.6x**	**9.3x**	**11.8%**	**12.0%**
Median (Total)				**9.0x**	**7.9x**	**9.7%**	**9.5%**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – financial data (additional multiples)

Company name	Country	Last reported financials	Market capitalisation $ million [1]	2013 Historical Revenue Multiple times [2]	2014 Forecast Revenue Multiple times [3]	2013 Historical Price/Book Multiple times [4]	2014 Forecast Price/Book Multiple times [5]
Warrnambool Cheese And Butter*	Australia	30/06/2013	249	0.7x	0.6x	1.5x	1.5x
Australia & NZ Dairy							
Bega Cheese Limited	Australia	30/06/2013	478	0.6x	0.5x	1.8x	1.7x
Fonterra Co-Operative Group Ltd.	New Zealand	31/07/2012	9,738	0.8x	0.7x	1.5x	n/a
Synlait Milk Limited	New Zealand	31/07/2012	401	1.7x	1.4x	5.1x	n/a
Mean (Australia & NZ Dairy)				**1.0x**	**0.9x**	**2.8x**	**1.7x**
Median (Australia & NZ Dairy)				**0.8x**	**0.7x**	**1.8x**	**1.7x**
Australia & NZ FMCG							
Coca-Cola Amatil Limited	Australia	31/12/2012	9,163	2.2x	2.1x	4.4x	n/a
Farm Pride Foods Limited	Australia	30/06/2013	5	0.2x	n/a	0.2x	n/a
Freedom Foods Group Limited^	Australia	30/06/2012	272	3.6x	2.3x	4.3x	3.7x
Goodman Fielder Ltd.	Australia	30/06/2013	1,437	0.9x	0.8x	0.9x	0.8x
Patties Foods Limited	Australia	30/06/2013	184	1.0x	1.0x	1.4x	1.3x
Tassal Group Limited	Australia	30/06/2013	464	1.9x	1.8x	1.5x	1.4x
Mean (Australia & NZ FMCG)				**1.6x**	**1.6x**	**2.1x**	**1.8x**
Median (Australia & NZ FMCG)				**1.5x**	**1.8x**	**1.5x**	**1.4x**
Mean (Total Australia & NZ)				**1.4x**	**1.3x**	**2.3x**	**1.8x**
Median (Total Australia & NZ)				**1.0x**	**1.2x**	**1.5x**	**1.4x**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – financial data (additional multiples)

Company name	Country	Last reported financials	Market capitalisation $ million [1]	2013 Historical Revenue Multiple times [2]	2014 Forecast Revenue Multiple times [3]	2013 Historical Price/Book Multiple times [4]	2014 Forecast Price/Book Multiple times [5]
Warrnambool Cheese And Butter*	Australia	30/06/2013	249	0.7x	0.6x	1.5x	1.5x
International							
Bongrain SA	France	31/12/2012	1,037	0.3x	0.3x	0.7x	0.6x
Dairy Crest Group plc	United Kingdom	31/03/2013	1,146	0.5x	0.5x	2.2x	2.3x
Danone	France	31/12/2012	46,880	2.0x	1.9x	2.9x	n/a
Emmi AG	Switzerland	31/12/2012	1,599	0.6x	0.6x	1.4x	n/a
Glanbia plc	Ireland	29/12/2012	3,992	1.4x	1.3x	4.5x	n/a
Nestlé S.A.	Switzerland	31/12/2012	226,774	2.4x	2.3x	3.2x	n/a
Parmalat SpA	Italy	31/12/2012	6,343	0.7x	0.7x	1.5x	n/a
Dean Foods Company	United States	31/12/2012	1,954	0.3x	0.3x	2.8x	n/a
Mondelez International, Inc.	United States	31/12/2012	59,837	2.0x	2.0x	1.8x	n/a
Saputo, Inc.	Canada	31/03/2013	9,860	1.4x	1.3x	3.9x	n/a
Mean (International)				**1.2x**	**1.1x**	**2.5x**	**1.5x**
Median (International)				**1.1x**	**1.0x**	**2.5x**	**1.5x**
Summary							
Total Mean				**1.3x**	**1.2x**	**2.4x**	**1.7x**
Total Median				**1.0x**	**1.2x**	**1.8x**	**1.4x**

Source: S&P Capital IQ (downloaded on 30 September 2013, data as at 11 September 2013), KPMG Corporate Finance Analysis

Comparable companies – notes

Notes:
[1] Represents market capitalisation as at 11 September 2013 (denominated in millions of Australian dollars)
[2] Represents enterprise value divided by historic EBITDA
[3] Represents enterprise value divided by forecast EBITDA
[4] Represents historical EBITDA margin
[5] Represents forecast EBITDA margin
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier

Comparable companies – additional multiple notes

Notes:
[1] Represents market capitalisation as at 11 September 2013 (denominated in millions of Australian dollars)
[2] Represents enterprise value divided by historic Revenue
[3] Represents enterprise value divided by forecast Revenue
[4] Represents market capitalisation divided by historical book value of common equity
[5] Represents market capitalisation divided by forecast book value of common equity
**Warrnambool Cheese and Butter is excluded from our observation set calculations*
^Freedom Foods Group Limited is excluded from our observation set calculations as it is an outlier

Comparable companies - Business description	
Fonterra Co-Operative Group Ltd.	Fonterra Co-operative Group Limited is engaged in the collection, manufacture, and sale of milk and milk derived products in NZ, Europe, Asia, Australia, the United States, and internationally. It provides various ingredient products, including milk powders, casein and caseinates, whey protein concentrates and isolates, milk protein concentrates and isolates, dried milk, butter and cream products, cheese, hydrolysates, dairy complex lipids, probiotics, functional beverages, and other products derived from milk or milksolids. Fonterra Co-operative Group Limited was founded in 2001 and is based in Auckland, NZ.
Synlait Milk Limited	Synlait Milk Limited engages in the manufacture and sale of milk ingredient products, infant formulas, and nutritional products. It provides nutritional products, including infant nutritional powders and adult nutritional powders; ingredients comprising whole milk powders, skim milk powders, and anhydrous milk fat; and specialty products, such as colostrum powders, lipidex phospholipid-rich powders, and night milk skim milk powders. Synlait Milk Limited was founded in 2005 and is based in Rakaia, NZ. Synlait Milk Limited is a subsidiary of Bright Dairy Holding Limited.
Coca-Cola Amatil Limited	Coca-Cola Amatil Limited, together with its subsidiaries, engages in the manufacture, distribution, and marketing of non-alcoholic ready-to-drink beverages primarily in Australia, NZ, Fiji, Indonesia, and Papua New Guinea. The company offers carbonated soft drinks, still and mineral waters, sports and energy drinks, fruit juices, flavoured milk, coffee, and other alcohol-free beverages. It is also involved in the processing and marketing of fruits, vegetables, and other food products; and manufacture and distribution of alcohol ready-to-drink products, spirits, and beers. The company was formerly known as Amatil Limited and changed its name to Coca-Cola Amatil Limited in 1989. Coca-Cola Amatil Limited was founded in 1904 and is based in North Sydney, Australia.
Farm Pride Foods Limited	Farm Pride Foods Limited produces, processes, manufactures, and sells egg and egg products in Australia and Asia. The company offers freshly laid cage eggs, cage free eggs, pink eggs, barn laid eggs, and free range egg varieties. It also offers value added egg products, which include whole eggs, egg white, egg yolk, scrambled eggs, peeled boiled eggs, poached eggs, fried eggs, egg and mayonnaise spreads, omelettes, and crepes. The company was founded in 1937 and is based in Keysborough, Australia.
Freedom Foods Group Limited	Freedom Foods Group Limited, a diversified food company, operates in the health and wellness sector in Australia, NZ, and internationally. It engages in the manufacture, distribution, and marketing of cereals, cookies, snack bars, soy, almond, rice beverages, and other complimentary products. The company also distributes a range of canned seafood comprising sardines, salmon, and specialty sea foods, as well as manufactures and distributes various beverages, including soy, rice, almond and dairy milk beverages, chicken, beef, and vegetable stocks. The company is based in Taren Point, Australia. Freedom Foods Group Limited is a subsidiary of Arrovest Pty Limited.
Goodman Fielder Ltd.	Goodman Fielder Limited engages in the manufacture, marketing, and distribution of food ingredients, as well as consumer branded food, beverage, and related products. It primarily offers packaged bread, biscuits, dairy products, small goods, flour, edible oils, meal components, cheese, meats, margarine, flour, dressings, condiments, mayonnaise, frozen pastry, baked snacks, baking ingredients, cake mix, pies, savouries, chilled and frozen pizzas, desserts, sauces, vinegar, cooking oils. Goodman Fielder Limited is based in North Ryde, Australia.
Patties Foods Limited	Patties Foods Limited, together with its subsidiaries, manufactures and markets frozen food products in Australia. It offers frozen savoury products, including pies, sausage rolls, pasties, and party goods; frozen desserts, which comprise fruit pies, cold desserts, danishes/crumbles, berries, snacks, and cakes; frozen fruits; and gluten free patties. The company offers its products for the supermarket, petrol and convenience, catering, and

	general foodservice channels under the brand names of Four'N Twenty, Herbert Adams, Nanna's, Patties, Creative Gourmet, and Chefs Pride. Patties Foods Limited was founded in 1966 and is based in Mentone, Australia.
Tassal Group Limited	Tassal Group Limited, together with its subsidiaries, engages in hatching, farming, processing, marketing, and selling Atlantic salmon in Australia and internationally. It offers fresh, frozen, smoked, canned, hot smoked, and small goods range of salmon through its shops in Victoria and Tasmania, as well as through fresh fish shops and supermarkets. The company was founded in 1986 and is headquartered in Battery Point, Australia.
Bongrain SA	Bongrain SA produces and distributes cheese and other dairy specialties, and dairy ingredients in France, other countries in Europe, and internationally. It provides various cheese products, such as soft, fresh, pressed, and processed cheeses for use in cheeseboard, cuisine, salads, spreads, sandwiches, snacks, aperitifs, etc. The company is also involved in the production of other dairy products, including creams, technical butters, desserts, whey, powder, and fats, as well as milk-based nutrients and functional ingredients. The company is based in Viroflay, France. Bongrain SA is a subsidiary of Soparind SCA.
Dairy Crest Group plc	Dairy Crest Group plc, a dairy foods company, processes and sells fresh milk and branded dairy products in the United Kingdom and internationally. It offers various cheese products, including cheddar cheese under the Cathedral City, Davidstow, and Chedds brands; and butters and spreads under the Country Life, Clover, Utterly Butterly, Vitalite, and Willow brands. The company was founded in 1933 and is headquartered in Esher, the United Kingdom.
Danone	Danone produces and distributes food and beverage products. The company's Fresh Dairy Products division offers yogurts, fermented dairy products, and other specialty fresh dairy products under the Activia, Actimel, Danonino, Fruchtswerge, Danoninho, Petit Gervais, Danimals, Serenito, Milkuat, Danacol, Densia, Oikos, Danette, Fantasia, Vitalinea, Taillefine, and Ser brands. It also operates Water, Baby Nutrition and Medical Nutrition divisions. The company was formerly known as Groupe Danone and changed its name to Danone in April 2009. Danone was founded in 1899 and is based in Paris, France.
Emmi AG	Emmi AG engages in the development, production, and marketing a range of dairy and fresh products worldwide. The company primarily focuses on fresh products, such as lifestyle, convenience, and health products. Its dairy products comprise milk, cream, butter, yoghurt, milk drinks, curd, and desserts. The company is also involved in production, ageing, and trade of cheese, including hard, semi-hard, and soft cheese; fondue and raclette; fresh cheese and mozzarella; and processed cheese. The company was incorporated in 1993 and is headquartered in Lucerne, Switzerland. Emmi AG is a subsidiary of ZMP Invest AG.
Glanbia plc	Glanbia plc operates as a nutritional solutions and cheese company. The company manufactures and sells cheese, whey protein, dairy consumer products, and other nutritional products; and animal feed products and other farm inputs. It also offers various vitamins, minerals, and other nutrients; and protein based fitness and healthy living products, as well as pre-workout energy, post-workout recovery, and diet and muscle building products. The company was founded in 1964 and is based in Kilkenny, Ireland.
Nestlé S.A.	Nestlé S.A., together with its subsidiaries, provides nutrition, health, and wellness products worldwide. The company offers baby foods, bottled water, cereals, chocolate, confectionery, coffee, dairy products, drinks, healthcare and nutrition products. Nestlé S.A. was founded in 1866 and is headquartered in Vevey, Switzerland.

Parmalat SpA	Parmalat SpA, together with its subsidiaries, produces and distributes milk, dairy products, and fruit beverages. It operates through four divisions: Milk, Vegetables, Fresh, and Other. The Milk division offers pasteurized milk, UHT milk, flavoured milk, condensed milk, milk powder, bulk milk, pasteurized cream, UHT cream, and béchamel. The Vegetables division provides fruit juices, soy drinks, tea (liquid), and concentrated fruit juices. The Fresh division offers yogurt, probiotics, desserts, cheese, butter, margarine, and ice cream ingredients, as well as cream-based white sauces. The Other division provides ice creams, ingredients, and other products. The company was founded in 1961 and is headquartered in Collecchio, Italy. Parmalat SpA is a subsidiary of Sofil S.a.s.
Dean Foods Company	Dean Foods Company, a food and beverage company, processes and distributes milk, other fluid dairy products, and plant-based beverages. The company operates in two segments, Fresh Dairy Direct and WhiteWave. The Fresh Dairy Direct segment manufactures, markets, and distributes various dairy case products, including milk, cultured dairy products, whipping cream, extended shelf life fluids, fruit juices, fruit-flavoured drinks, iced tea, water, ice cream, ice cream mix, ice cream novelties, butter, cheese, eggs, and milkshakes. The WhiteWave segment manufactures, markets, distributes, and sells branded plant-based foods and beverages, such as soy and almond milks, coconut milk, and other plant-based food products; coffee creamers and beverages; and premium dairy products in North America and Europe. The company was founded in 1925 and is headquartered in Dallas, Texas.
Mondelez International, Inc.	Mondelez International, Inc., together with its subsidiaries, manufactures and markets snack food and beverage products worldwide. The company offers biscuits, including cookies, crackers, and salted snacks; confectionery products, such as chocolates, gums, and candies; powdered beverages and coffee; and cheese and grocery products. Its primary brand portfolio includes Oreo, Nabisco, and LU branded biscuits; Milka, Cadbury Dairy Milk, and Cadbury branded chocolates; Trident branded gums; Jacobs branded coffee; and Tang branded powdered beverages. Mondelez International, Inc. was incorporated in 2000 and is headquartered in Deerfield, Illinois.
Saputo, Inc.	Saputo Inc. produces, markets, and distributes dairy and bakery products. It operates in two segments, Dairy Products and Grocery Products. The company offers dairy products, including fluid milk, flavoured milk, evaporated milk, cream, yogurt, butter, sour cream, milk powder, cottage cheese, functional milks, ice cream mixes, and value-added and organic products; and non-dairy products comprising flavoured coffee creamers, juices, and drinks. It also process milk and whey into various by-products and dairy ingredients that consist of non-fat dry milk, whole milk powder, lactose, sweet and deproteinized whey powder, and whey protein concentrates, as well as provides value-added ingredients, including acid casein, whey protein isolates, and functional dairy blends. In addition, the company distributes fine imported cheeses to specialty stores; and produces and distributes cereal bars and fresh bakery products. Saputo Inc. was founded in 1954 and is headquartered in Saint-Leonard, Canada.

Source: S&P Capital IQ

Appendix 4 – Comparable transactions

Comparable transactions – financial data

Date	Target	Target Country	Acquirer	Percent Acquired	Transaction equity value $ million	Transaction enterprise value $ million	Historical EBITDA multiple times
Australian transactions							
Oct-11	Tatura Milk Industries Limited	Australia	Bega Cheese Limited	30.0%	43	153	6.6x
Aug-09	Burra Foods Australia Pty Ltd.	Australia	ITOCHU Coal Resources Australia	45.0%	38	75	6.5x
Nov-08	Dairy Farmers Limited	Australia	National Foods Limited	100.0%	675	910	12.8x
Dec-07	National Foods Limited	Australia	Kirin Holdings Company	100.0%	910	2,800	17.6x
Mean (Australian transactions)							**10.9x**
Median (Australian transactions)							**9.7x**
Other international transactions considered							
Aug-13	Yashili International Holdings Ltd.	China	China Mengniu Dairy Co Ltd.	89.8%	1,588	1,322	13.0x
Mean (Total)							**11.3x**
Median (Total)							**12.8x**

Source: S&P CapitalIQ, KPMG Corporate Finance Analysis, Company announcements and filings, Related articles

Notes:

[1] Represents total transaction equity value as at the transaction close date (denominated in millions of Australian dollars)

[1] Represents total enterprise value as at the transaction close date (denominated in millions of Australian dollars)

[3] Represents enterprise value divided by historical EBITDA

Comparable transactions – Target business description	
Tatura Milk Industries Limited	Tatura Milk Industries Limited produces and markets dairy products in Australia. Its products include cream cheese, cream, butter, milk powders, infant formula, and neutraceuticals. The company exports its products to Japan, Korea, Malaysia, Singapore, Indonesia, China, the Philippines, Thailand, Taiwan, Hong Kong, and Europe. Tatura Milk Industries Limited was founded in 1986 and is based in Tatura, Australia. As of April 2007, Tatura Milk Industries Limited operates as a subsidiary of The Bega Co-Operative Society Limited.
Burra Foods Australia Pty Ltd.	Burra Foods Australia Pty Ltd. manufactures dairy ingredients that provide functional and sensory characteristics of fresh milk to dairy and food manufacturers in Australia, the United States, Japan, Korea, China, Taiwan, Hong Kong, Indonesia, Malaysia, Singapore, Europe, and the parts of the Middle East. It offers natural cheese, fresh milk concentrates, food preparations, fresh dairy products, and blue cow cottage cheese. The company was founded in 1987 and is based in Burnley, Australia.
Dairy Farmers Limited	Dairy Farmers Limited produces dairy products in Australia. The company offers reduced fat, long life, flavoured, permeate free, and kids' breakfast milk; original, lite white, skim, classic chocolate, classic iced coffee, classic vanilla malt, and classic strawberry milk; and buttermilk. It also provides greek style, kids' daily, and thick and creamy yoghurt; coon, cottage, and lite cottage cheeses; thickened, pure, sour, and lite sour creams; and thick, pouring, lite pouring, and kids' daily custards. The company was formerly known as Australian Co-operative Foods Limited and changed its name to Dairy Farmers Limited in May 2009. Dairy Farmers Limited was founded in 1900 and is based in Sydney, Australia.
National Foods Limited	As of October 2009, National Foods Limited was acquired by Lion Pty Ltd. National Foods Limited produces, markets, distributes, and sells food and beverage products in the Asia Pacific and internationally. Its products include fresh dairy foods, fruit juices, soy milk products, cheese, yogurts, fromage frais, dairy desserts, and creams; and full cream, flavoured, and modified fresh and UHT milk. The company was founded in 1960 and is based in Docklands, Australia. It has production facilities and sales offices in Australia, NZ, Singapore, Malaysia, and Indonesia.
Yashili International Holdings Limited	Yashili International Holdings Ltd, an investment holding company, engages in the manufacture and sale of dairy and nourishment products in the People's Republic of China. The company provides pediatric milk formula products and milk formula for pregnant women under the brand names of Yashily and Scient. It also offers nutrition food products, including milk powder for adults and teenagers under the Youyi brand; soymilk powder, rice flour, and cereal products under the Yashily brand name; and cereal series under the Zhengwei brand. The company sells its products to retail outlets, such as supermarkets, department stores, maternal and child specialty stores, large membership chain supermarkets, and grocery stores through regional distributors. In addition, it is involved in the production and sale of packing materials. The company was founded in 1983 and is headquartered in Chaozhou, the People's Republic of China. Yashili International Holdings Ltd is a subsidiary of Zhang International Investment Ltd. As of August 13, 2013, Yashili International Holdings Limited operates as a subsidiary of China Mengniu Dairy Co. Ltd.

Source: S&P Capital IQ

Comparable transactions – description	
Tatura Milk Industries Limited	Bega Cheese Limited completed the acquisition of the remaining 30 percent of Tatura Milk Industries Limited which it did not already own in October 2011. Tatura Milk will continue to operate under its own brand name, as a wholly owned subsidiary of Bega Cheese Limited.
Burra Foods Australia Pty Ltd.	Burra Foods Australia Pty Ltd announced that it has raised $38.25 million in a round of funding on August 3, 2009. The round included participation from new investor Itochu Australia Ltd. The investor acquired 45 percent stake pursuant to the transaction. On August 3, 2009, Burra Foods Australia Pty Ltd closed the transaction.
Dairy Farmers Limited	National Foods Ltd. signed an agreement to acquire Australian Co-operative Foods Limited (Dairy Farmers) for approximately AUD 884 million on August 25, 2008. Under the terms of the deal, National Foods Ltd. will acquire approximately 119.5 million shares of Dairy Farmers on a fully dilutive basis at an offer price of AUD 5.65 per share. This cash consideration of AUD 5.65 per share will include a dividend from Dairy Farmers of up to 59 cents per share. The consideration also includes net assumed liabilities worth AUD 209 million which also includes surplus assets of AUD 26 million. The deal includes a termination fee of AUD 6.75 million. National Foods Ltd. completed the acquisition of Australian Co-operative Foods Limited (Dairy Farmers) on November 27, 2008. National Foods Ltd. and Warrnambool Cheese and Butter Factory Company will continue to formalize the formation of a joint venture to manage and operate Dairy Farmers.
National Foods Limited	Kirin Holdings Co., Ltd., (TSE: 2503) completed the acquisition of National Foods Ltd., from San Miguel Corp. (PSE: SMCB) on December 28, 2007. Kirin Holdings Co., Ltd., (TSE: 2503) signed a definitive agreement to acquire National Foods Ltd., from San Miguel Corp. (PSE: SMCB) for AUD 2.9 billion in cash, on November 8, 2007. The consideration includes assumption of AUD 1.89 billion of interest bearing debt. Kirin Holdings will pay an additional AUD 100 million depending upon National Foods' performance for the year 2007. The consideration for the transaction will be financed through debt. The proceeds from the transaction will be used by San Miguel for future acquisitions.
Yashili International Holdings Limited	China Mengniu Dairy Co. Ltd. (SEHK:2319) completed the acquisition of 89.82 percent stake in Yashili International Holdings Limited (SEHK:1230) for HKD 11.2 billion on August 13, 2013. As of July 16, 2013, it was announced that the transaction was approved at the Extraordinary General Meeting dated June 28, 2013.).

Source: S&P Capital IQ

Appendix 5 – Overview of valuation methodologies

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and net profit after tax (NPAT).

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100 percent) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted to the valuation date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted ('the Discount Rate') should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Warrnambool Cheese and Butter Factory Holdings Company Limited
Independent Expert Report
12 October 2013

PART TWO – FINANCIAL SERVICES GUIDE

Dated 12 October 2013

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Danie van Aswegen as an authorised representative of KPMG Corporate Finance **(Authorised Representative)**, authorised representative number 405337.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.
This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities, and
- superannuation,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products.
The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Warrnambool Cheese and Butter Factory Holdings Company Limited (Client) to provide general financial product advice in the form of a Report to be included in the Target Statement (Document) prepared by the Client in relation to the off-market bid to acquire WCB (Transaction).
You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.
KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.
You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.
You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance approximately $250,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.
KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership).

Appendix 1 – Independent Expert's Report

KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of tax and advisory services to the Client and bidder for which professional fees are received. Over the past two years professional fees of approximately $495,000 and $115,000 have been received from the Client and bidder, respectively. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000

PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Danie van Aswegen
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7000

Appendix 2

Investigating Accountant's Report

Appendix 2 – Investigating Accountant's Report

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

15 October 2013

Dear Directors

Investigating Accountant's Report

Independent Limited Assurance Report on Warrnambool Cheese and Butter Factory Company Holdings Limited forecast financial information and Financial Services Guide

We have been engaged by Warrnambool Cheese and Butter Factory Company Holdings Limited (the Company) to report on the pro forma forecast Statement of Financial Performance (**Pro Forma Forecast**) for the year ending 30 June 2014 of the Company for inclusion in the target's statement dated on or about 15 October 2013 (the **Target's Statement**) in response to the takeover offer for the outstanding shares in the Company by Bega Cheese Limited on 12 September 2013 (the **Bega's Offer**).

Expressions and terms defined in the Target's Statement have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Background

The Target's Statement is to be issued by the Company in response to the bidder's statement lodged by Bega Cheese Limited with the Australian Securities and Investments Commission (ASIC) on 12 September 2013 (the **Bidder's Statement**).

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Appendix 2 – Investigating Accountant's Report

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Scope

You have requested PricewaterhouseCoopers Securities Ltd to review the Pro Forma Forecast Statement of Financial Performance of the Company for the year ending 30 June 2014, described in Section 6 of the Target's Statement. The Pro Forma Forecast has been derived from the Company's forecast, after adjusting for the effects of the pro forma adjustments described in section 6 of the Target's Statement. The stated basis of preparation used in the preparation of the Pro Forma Forecast being the recognition and measurement principles contained in Australian Accounting Standards applied to the forecast and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 6.3 of the Target's Statement, as if those event(s) or transaction(s) had occurred as at 30 June 2014. Due to its nature, the Pro Forma Forecast does not represent the Company's actual prospective financial performance for the year ending 30 June 2014.

The directors' best-estimate assumptions underlying the Pro Forma Forecast are described in Section 6.6 of the Target's Statement. The stated basis of preparation used in the preparation of the Pro Forma Forecast being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

Directors' Responsibility

The directors of the Company are responsible for the preparation of the Pro Forma Forecast for the year ending 30 June 2014, including its basis of preparation and the best-estimate assumptions underlying the Pro Forma Forecast. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of a forecast that is free from material misstatement.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pro Forma Forecast, the best-estimate assumptions underlying the Pro Forma Forecast, and the reasonableness of the Pro Forma Forecast itself, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review reports on any financial information used as a source of the financial information.

Conclusions

Pro Forma Forecast

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

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- the directors' best-estimate assumptions used in the preparation of the Pro Forma Forecast Statement of Financial Performance of the Company for the year ending 30 June 2014 do not provide reasonable grounds for the Pro Forma Forecast; and
- in all material respects, the Pro Forma Forecast:
  - is not prepared on the basis of the directors' best-estimate assumptions as described in Section 6.6 of the Target's Statement; and
  - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies, applied to the Forecast and the pro forma adjustments as if those adjustments had occurred as at the date of the forecast; and
- the Pro Forma Forecast itself is unreasonable.

The Pro Forma Forecast has been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 30 June 2014. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Pro Forma Forecast since anticipated events or transactions frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Pro Forma Forecast are based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the directors' best-estimate assumptions on which the Pro Forma Forecast is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the Company, which are detailed in the Target's Statement, and the inherent uncertainty relating to the Pro Forma Forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section(s) 6.7 and 6.8 of the Target's Statement. The sensitivity analysis described in section 6.7 of the Target's Statement demonstrates the impact on the Pro Forma Forecast of changes in key best-estimate assumptions. We express no opinion as to whether the Pro Forma Forecast will be achieved.

The Pro Forma Forecast has been prepared by the directors for the purpose of inclusion in the Target's Statement. We disclaim any assumption of responsibility for any reliance on this report, or on the Pro Forma Forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Appendix 2 – Investigating Accountant's Report

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Restriction on Use

Without modifying our conclusions, we draw attention to Section 6.2 of the Target's Statement, which describes the purpose of the Pro Forma Forecast, being for inclusion in the Target's Statement. As a result, the Pro Forma Forecast may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this limited assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Target's Statement. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Target's Statement.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Bega's Offer other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

Jock O'Callaghan
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 15 October 2013

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwC Securities**) has been engaged by Warrnambool Cheese and Butter Factory Company Holdings Limited (**WCB**) to provide a report in the form of an Independent Accountant's Report in relation to the Directors' forecast FY14 financial performance (the **Report**) for inclusion in the Target's Statement dated on or about 15 October 2013.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide (**FSG**) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

Appendix 2 – Investigating Accountant's Report

4. **General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. **Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on an hourly basis and as at the date of this Report amount to approximately $475,000.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. **Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PwC Securities has previously provided due diligence services to the Company in connection with the Target's Statement and other strategic opportunities.

7. **Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service (**FOS**), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Jock O'Callaghan
PricewaterhouseCoopers Securities Ltd
Freshwater Place
2 Southbank Boulevard
Southbank VIC 3006

Corporate Directory

Directors

Terry Richardson (Chairman, Non Executive Director)
David Lord (Managing Director, CEO)
Andrew Anderson (Non Executive Director)
Kay Antony (Non Executive Director)
John Gall (Non Executive Director)
Bruce Vallance (Non Executive Director)
Michael Carroll (Independent Director)
Neville Fielke (Independent Director)
Ray Smith (Independent Director)
John McLean (Associate Director)
Bruce Morley (Associate Director)

Secretary

Paul Moloney

Registered Office

5331 Great Ocean Road
Allansford Victoria 3277
Phone: (03) 5565 3100
Website: http://www.wcbf.com.au

Share Registry

Link Market Services Limited
Level 1, 333 Collins Street
Melbourne Victoria 3000

Legal Adviser

Minter Ellison Lawyers
Rialto Towers
Level 16, 525 Collins Street
Melbourne Victoria 3000

Financial Adviser

CIMB Corporate Finance (Australia) Limited
Level 32, 101 Collins Street
Melbourne Victoria 3000

Independent Expert

KPMG Corporate Finance
147 Collins Street
Melbourne Victoria 3000

Investigating Accountant

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