

IN THE AUSTRALIAN COMPETITION TRIBUNAL

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 **KM11** now produced and shown to Keith Mentiplay at the time of signing his statement on 29 November 2013.

Annexure KM11
Extract of Bega 2013 Annual Report

Filed on behalf of Murray Goulburn Co-Operative Co Limited
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CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS AND ACTIVITIES (CONTINUED)

CASH FLOWS AND DEBT

We are pleased with our overall cash management and it is noteworthy that the strong business performance together with highly focused cash management has enabled the Group to reduce net debt to \$87 million at 30 June 2013. Good cash flow management also helped strengthen the balance sheet and the increase in net assets by 6% to \$262 million was a solid performance.

The Group achieved a net improvement in its cash flow position. It generated \$62 million net cash inflow from operating activities in FY2013, compared to a net outflow of \$11 million in the prior year. This change largely reflected the completion of building up the maturing cheese inventory for the supply contract with Coles supermarkets. This business is now reaching a steady state of demand that results in a relatively stable requirement for cash invested in cheese inventory.

The other key elements of cash flows in FY2013 include:

- capital spend on property, plant and equipment of \$28 million
- dividends paid to members of \$11 million
- additional purchase of shares in WCB of \$3 million.

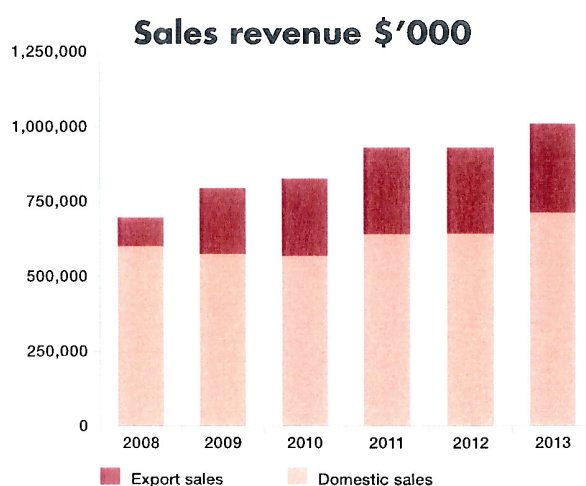
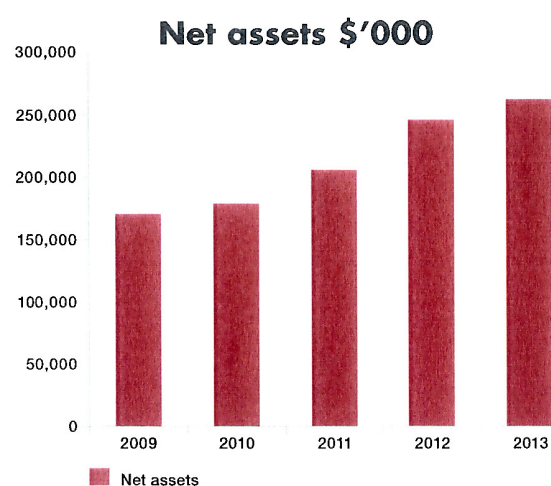
Using a staged approach, the Group has established core debt facilities which enhance the tenor and flexibility of the borrowing structure. The new syndicated facility also provides more favourable commercial terms.

MARKETS AND CUSTOMERS

The Group has been consistent in its focus on our key business platforms which are centred around infant and growing up nutritional dairy products, cream cheese and the cut, pack and processed consumer cheese products. In FY2013 we achieved revenue of \$1,010 million. This increase of approximately \$77 million was generated from growth across all of our key business platforms. We drove solid growth in our contract cut, pack and processing of cheese at the Ridge Street and Strathmerton facilities while new cream cheese capacity at Tatura Milk enabled the Group to meet its growing customer demand for cream cheese into the Asian retail, bakery and industrial sectors.

It is well documented that there is continuing growth in demand for infant and child nutritional dairy products in China, particularly for products manufactured and fully packaged in countries such as Australia. The Group is continuing to experience increasing demand for its infant and growing up nutritionals and has recently announced that it is investing in an infant formula canning facility in Australia to meet the demand for canned nutritional powders. We believe that this investment is a strong endorsement of Australia's reputation for bio-security and innovative food production.

While we are a committed Australian food manufacturer we recognise the difficulties in remaining competitive against producers internationally and work hard to ensure we continue to invest in technical capabilities and plant to remain globally competitive. The Group has always been a proponent of the



nation's strategic capability in food manufacturing and it is well understood that international investors in Australian food resources place a higher value on those resources than is evidenced by the domestic private and public sectors.

SAFETY

Safety always is a core value of the Group. Our aspiration is to operate in a zero harm manner and we believe that the personal safety of our employees is our highest operating priority. While we have made significant progress in safety management systems and processes we recognise that we have some way to go to achieve our target of zero harm. Our focus on safety has resulted in a 32% decline in our Lost Time Injury Frequency Rate since the prior year. We have also implemented a safety observation programme that requires all senior staff to undertake regular safety observations in our operations over the year. This has been successful in raising the awareness and commitment to safety as well as providing strong visibility of managers within the operating units.

OPERATIONS

We continue to operate five production facilities consisting of:

Bulk cheddar, cheese snacks and whey powder
Lagoon Street, Bega NSW

Bulk cheddar and mozzarella
Coburg, Melbourne VIC

Cut, pack and processed cheese
Ridge Street, Bega NSW

Cut, pack and processed cheese
Strathmerton VIC

Infant powders, cream cheese, milk powders, milk protein concentrate, lactoferrin, frozen cream & butter
Tatura VIC

We have continued to invest in production capacities over the year, including expenditure on expanding lactoferrin production, completing the cream cheese expansion, cheddar production efficiencies at Coburg, whey processing capability at Coburg and Tatura Milk and cheese packing upgrades at Strathmerton and Ridge Street. These investments are aligned to our strategies and are core to our commercial ethos of fully utilising all dairy solids contained in the liquid milk stream.

The Group has increased its total production volumes by 3% over the prior year, reaching a record production level of 210,052 tonnes. In FY2013 we experienced high production levels across all sites although there was a softening in the last quarter due to weather conditions causing lower milk production on farm in NSW and VIC/SA over the autumn.

The Ridge Street factory operated effectively throughout FY2013 and recovered strongly from the difficulties experienced in the previous year that related to a change in packaging supply. Strathmerton improved significantly on the back of higher production volumes and a strong focus on performance improvement. Coburg generated record production outputs and further investment has been made to remove bottlenecks from its cheddar process to create further capacity to grow volume. Tatura Milk produced record volumes of nutritional powders and cream cheese following investments in these areas and that business continued to maintain strong operational performance. The Tatura Milk operation is now central to milk balancing across the Group as it is able to produce a range of commodity dairy products including milk powders and butter when global prices are favourable. The Lagoon Street cheese and whey powder operation performed well throughout the year producing table grade cheese largely designated for use in consumer packs.

MILK PRODUCTION

Total milk collected across New South Wales, Victoria and South Australia from the Group's own direct supplier base was 641 million litres. This milk intake was well aligned to our product demand. The Group has chosen to limit the volume of milk purchased externally on contract in order to de-risk the ratio of milk supply to production capacity over the spring peak of on-farm milk production.

