

Scheme booklet

Tatura Milk Industries Limited
ABN 66 006 603 970

**A proposal to merge 100% of Tatura
Milk Industries Limited with Bega
Cheese Limited**

**Your Dairy Farmer Supplier Directors
unanimously recommend that you vote in favour
of the proposed Merger in the absence of a
superior proposal**

**Please read this scheme booklet in its entirety,
consider your decision carefully and cast your
vote**

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Important notices

This scheme booklet encompasses the explanatory statement required to be sent to Tatura Milk RP Shareholders in relation to the Scheme under section 412 of the Corporations Act and is dated 17 November 2011.

On that date a copy of this scheme booklet was lodged with ASIC for registration, and was registered by ASIC for the purpose of section 412(6) of the Corporations Act. ASIC and its officers take no responsibility for the contents of this scheme booklet. However, under section 412(8) of the Corporations Act ASIC must not register a copy of this document unless it appears to comply with the Corporations Act and ASIC is of the opinion that the document does not contain any matter that is false in a material particular or materially misleading in the form or context in which it appears.

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF CORPORATIONS ACT

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting of Tatura Milk RP Shareholders be convened to consider the proposed Scheme and has approved the explanatory statement required to accompany the notices of the meeting (as contained in this scheme booklet), does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how Tatura Milk RP Shareholders should vote (on this matter Tatura Milk RP Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for the content of, the explanatory statement.

Tatura Milk RP Shareholders are encouraged to read this scheme booklet and the accompanying material in its entirety before making a decision on how to vote in relation to the proposed Merger. This scheme booklet does not take into account the individual investment objectives, financial situation and particular needs of each Tatura Milk RP Shareholder. You are encouraged to seek independent legal, financial and taxation advice before making a decision as to whether or not to vote in favour of the proposed Merger and whether Bega Cheese shares are an appropriate investment for you.

A proxy form for the general meeting and a proxy form for the Scheme meeting accompany this scheme booklet.

The forward looking statements contained in this scheme booklet have been based on expectations at the date of preparation of this scheme booklet about future events. They are, therefore, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from the expectations. These factors include matters not yet known to Tatura Milk or Bega Cheese or not currently considered material by Tatura Milk or Bega Cheese. While Tatura Milk or Bega Cheese (as the case may be) believe there is a reasonable basis for making the forward looking statements contained in this scheme booklet, none of Tatura Milk, Bega Cheese, the officers and employees of Tatura Milk or Bega Cheese and the persons engaged by

Tatura Milk or Bega Cheese in the preparation of this scheme booklet, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, except to the extent required by law. You are therefore cautioned not to place undue reliance on any such forward looking statements.

Defined terms

A number of terms used in this scheme booklet are defined in section 10.

Important dates

Event	Date
Latest time for lodgement of the proxy forms for the Tatura Milk general meeting and Scheme meeting.	11:00 am Melbourne time on Monday 12 December 2011
General meeting of Tatura Milk, to be followed immediately by the Scheme meeting, both to be held at the Sir Ian McLennan Centre, Echuca Road, Mooroopna, Victoria to consider the Merger.	11:00 am Melbourne time on Wednesday 14 December 2011
Supreme Court hearing to approve Scheme.	Friday 16 December 2011
Implementation of Scheme and Merger.	Friday 23 December 2011

Tatura Milk reserves the right to change the above dates and times. If Tatura Milk decides to change the date or time for holding the meetings, it will notify shareholders accordingly. Tatura Milk will advertise the date of the Court hearing for approval of the Scheme at least 5 days before the hearing in The Australian and The Age newspapers. If Tatura Milk decides to change the date of the Court hearing, the revised date will be advertised. The date for implementation of the Scheme and Merger may change depending on when the Court approves the Scheme and when an office copy of the Court order approving the Scheme is lodged with ASIC. Implementation must occur on the 4th Business Day after lodgement of the order, although this may be changed by agreement between Tatura Milk and Bega Cheese and with the permission of the Court.

Privacy

The proxy forms that accompany this scheme booklet require you to provide information that may be personal information for the purposes of the Privacy Act 1988 (Cth). This information, and other information you may provide to Tatura Milk, may include your name, contact details and the name of a person appointed to act as your proxy, corporate representative or attorney. Tatura Milk and Bega Cheese may collect, hold and use that personal information in the process of implementing the Merger. The primary purpose of the collection of personal information is to assist Tatura Milk to conduct the general meeting and Scheme meeting and for Tatura Milk and Bega Cheese to implement the Merger and administer any applicable shareholdings for you. Personal information may be disclosed to external advisers, consultants and other service providers, who may assist Tatura Milk with responding to general enquiries about the meetings, the conduct of the meetings and who may undertake the role of returning officer at those meetings. Personal information may also be disclosed to print and mail service providers and personnel of Tatura Milk and other members of the Bega Cheese Group.

You have certain rights to access personal information that has been collected from you. You should contact the Tatura Milk privacy liaison officer, Jason Wells, on (03) 5824 6200 in the first instance if you wish to access your personal information.

If you appoint a named person to act as your proxy, corporate representative or attorney, you should ensure that you inform that person of these matters.

Letter from the deputy chairman

Dear shareholders

On 4 October 2011, I wrote to let you know that Tatura Milk had entered into a Merger Implementation Agreement with Bega Cheese for the acquisition of your Tatura Milk A class redeemable preference shares (**Tatura Milk RP Shares**).

Bega Cheese's offer to buy the 30% (approximately) of Tatura Milk it does not own, allows us as holders of Tatura Milk RP Shares (**Tatura Milk RP Shareholders**) to become shareholders in Bega Cheese which is listed on ASX.

Bega Cheese has offered to acquire all of the Tatura Milk RP Shares pursuant to a Court approved scheme of arrangement for the consideration of 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share.

The Bega Cheese Group already owns approximately 70% of Tatura Milk through its ownership of all of the Tatura Milk Ordinary Shares. The Tatura Milk RP Shares, which represent the remaining 30% (approximately), are all held by Tatura Milk Suppliers.

Bega Cheese acquired its 70% shareholding in 2007 when Tatura Milk was financially vulnerable, the result of a high debt load in the middle of one of Australia's worst droughts. Since then, debt is substantially reduced, profitability is substantially up, and Tatura Milk is well positioned for the future.

The Tatura Milk RP Shareholders are beneficiaries of this turnaround. This is evidenced by Bega Cheese offering Bega Cheese Ordinary Shares with a value of approximately \$40.8 million for the remaining 30% of Tatura Milk (based on a Bega Cheese Ordinary Share price of \$1.70), whereas it paid \$38.8 million for the initial 70% stake. Certainly it has been to Tatura Milk RP Shareholders' benefit to have held the remaining 30% and to now be able to get the reward for the financial turnaround of Tatura Milk.

The Dairy Farmer Supplier Directors believe the consideration offered by Bega Cheese is fair and reasonable. We believe the consideration is consistent with how Bega Cheese and other food companies are valued by the stock market notwithstanding Tatura Milk is not listed on ASX. The Bega Cheese offer price is significantly above the \$1 sum for which each Tatura Milk RP Share may be redeemed. Furthermore, the independent expert, Value Adviser Associates Pty Ltd, who was appointed by Tatura Milk to provide you with an opinion on the Scheme, has concluded that the proposed Scheme is in the best interests of Tatura Milk RP Shareholders and has placed a value on Tatura Milk RP Shares of between \$3.05 and \$3.78. This range should be compared with the offer of 2 Bega Cheese Ordinary Shares, together valued at \$3.40 based on the volume weighted average price of Bega Cheese Ordinary Shares sold on ASX over the period from the date the Merger was announced (4 October 2011) to the day before the date of this scheme booklet.

In addition to the value of the Bega Cheese offer, your Dairy Farmer Supplier Directors support the Merger for the reasons outlined in this scheme booklet, but in particular because:

- (a) The Merger provides Tatura Milk RP Shareholders with an opportunity to realise value for their Tatura Milk RP Shares reflecting the financial turnaround and a premium for control.
- (b) Bega Cheese Ordinary Shares are quoted on ASX and Bega Cheese operates a number of diversified businesses in the dairy industry and food processing industry. In consequence, Bega Cheese Ordinary Shares provide greater liquidity and investment diversification than Tatura Milk RP Shares on their own.
- (c) Bega Cheese has stated that it is committed to the ongoing investment and development of the Tatura Milk site and business.
- (d) Bega Cheese has stated that it is committed to the ongoing maintenance and growth of Tatura Milk's dairy farmer supply base.

While the Dairy Farmer Supplier Directors unanimously endorse the Merger proposal, and the independent expert says it is in your best interests, the final decision on the Merger is in the hands of you and the other Tatura Milk RP Shareholders and the Court.

A general meeting of Tatura Milk and a Scheme meeting of Tatura Milk RP Shareholders have been convened to consider a number of resolutions to implement the Merger. The meetings are to be held at the Sir Ian McLennan Centre, Echuca Road, Mooroopna, Victoria on Wednesday 14 December 2011 starting at 11:00 am.

This scheme booklet contains important information regarding the Scheme, including the report of the independent expert. You are encouraged to read this information carefully and, if required, seek your own investment or other professional advice before voting on the Merger.

Your Dairy Farmer Supplier Directors encourage you to vote at the general meeting and the Scheme meeting, and I look forward to seeing as many of you as possible at those meetings.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Rick Cross', with a stylized flourish at the end.

Rick Cross
Deputy chairman
Tatura Milk Industries Limited

Important questions

Question	Answer
What is the Scheme?	The Scheme, once approved by Tatura Milk RP Shareholders and the Court, will bind all Tatura Milk RP Shareholders on and from the Effective Date, even those who vote against it. If the Scheme is approved and all other conditions of the Scheme and Merger are satisfied or waived, Bega Cheese will acquire all Tatura Milk RP Shares held by you at 9:00am on the Implementation Date.
What will I receive if the Scheme is approved and implemented?	You will receive 2 Bega Cheese Ordinary Shares for every 1 of your Tatura Milk RP Shares.
Who is Bega Cheese?	Bega Cheese is an Australian company that recently listed on ASX. It has an approximate 70% stake in Tatura Milk and operates a number of diversified businesses in the dairy industry and food processing industry.
When will I receive the consideration?	You will be issued the Bega Cheese Ordinary Shares to which you are entitled under the Scheme on the Implementation Date. On the basis of the current proposed timetable for the Scheme, the Implementation Date is expected to be Friday 23 December 2011.
Will I have to pay brokerage fees or stamp duty?	No brokerage fees or stamp duty will be payable on the sale or transfer of your Tatura Milk RP Shares or the issue of Bega Cheese Ordinary Shares in exchange under the Scheme.
When and where will the meetings be held?	The general meeting of Tatura Milk, to be followed immediately by the Scheme meeting, will be held at the Sir Ian McLennan Centre, Echuca Road, Mooroopna, Victoria on Wednesday 14 December 2011 starting at 11:00 am Melbourne time.
Am I entitled to vote?	If you are registered as a Tatura Milk RP Shareholder at 7:00 pm Melbourne time on Monday 12 December 2011 you will be entitled to vote at the meetings. You may vote in person or by duly appointed proxy or attorney, or in the case of a body corporate, corporate representative.
What do the Dairy Farmer Supplier Directors recommend?	The Dairy Farmer Supplier Directors believe that the Scheme is in the best interests of Tatura Milk RP Shareholders and unanimously recommend that Tatura Milk RP Shareholders vote in favour of the Scheme, in the absence of a superior proposal.
How do the Dairy Farmer Supplier Directors intend to vote?	All of the Dairy Farmer Supplier Directors who own Tatura Milk RP Shares either directly or through a controlled entity intend to vote in favour of the Scheme in the absence of a superior proposal.
What is the opinion of the independent expert?	The independent expert has concluded that the proposed Scheme is in the best interests of Tatura Milk RP Shareholders – see the independent expert report starting on page 105.

Question	Answer
What majority is required for implementation of the Merger?	The Scheme must be approved at the Scheme meeting by 2 majorities. The resolution approving the Scheme must be passed by a majority in number of the Tatura Milk RP Shareholders present and voting (either in person or by proxy, attorney or corporate representative) at the meeting <i>and</i> by at least 75% of the votes cast on the resolution. The proposed special resolution modifying the constitution of Tatura Milk must be passed at the earlier general meeting by at least 75% of the votes cast by shareholders present and voting (either in person or by proxy, attorney or corporate representative) at the meeting, including any votes cast by Bega Cheese as holder of all of the Tatura Milk Ordinary Shares.
Should I vote?	You do not have to vote. However, the Dairy Farmer Supplier Directors believe that the Scheme is important to all Tatura Milk RP Shareholders and encourage you to vote or to appoint a proxy to vote on your behalf.
Where do I send my proxy forms?	Just follow the instructions on the proxy forms which accompany this scheme booklet.
What happens if I do nothing or vote against the Scheme?	If the Scheme is approved by the Court and all other conditions of the Scheme and Merger are satisfied or waived, and you are a Tatura Milk RP Shareholder at 9:00 am on the Implementation Date, your Tatura Milk RP Shares will be transferred pursuant to the Scheme and you will be entitled to receive Bega Cheese Ordinary Shares as consideration for your Tatura Milk RP Shares. If the Scheme is not approved, you will remain a Tatura Milk RP Shareholder.
Why is a 100% merger of Tatura Milk with Bega Cheese being proposed?	The Merger will enable Tatura Milk RP Shareholders to convert their Tatura Milk RP Shares into Bega Cheese Ordinary Shares, which can be traded on ASX at a market price. This will put Tatura Milk RP Shareholders into a position where they can make an individual investment decision as to whether to sell or retain their Bega Cheese Ordinary Shares. From a business perspective, the Merger will enable a more complete integration of the businesses of Tatura Milk and Bega Cheese.
How do I assess whether the consideration I will receive is fair?	This scheme booklet is designed to provide you with all relevant information you may need to assess the Merger. Tatura Milk has engaged an independent expert, Value Adviser Associates Pty Ltd, to assess whether the Merger is in the best interests of Tatura Milk RP Shareholders. Part of this task is to assess whether the consideration provided under the Merger is fair. Value Adviser Associates Pty Ltd has concluded that the Merger is fair and reasonable and in the best interests of Tatura Milk RP Shareholders. The independent expert's conclusions are set out in the independent expert report starting on page 105 of this scheme booklet. You should read this report carefully.

Question	Answer
What is an ASX listed share?	The fact that Bega Cheese is listed on ASX means that its shares may be traded on the stock market operated by ASX.
What things will impact on the value of Bega Cheese Ordinary Shares?	The price at which Bega Cheese Ordinary Shares trade at any time on ASX is determined by market forces including the number of buyers and sellers and the price they are willing to pay or receive having regard to, among other things, the risks, financial position and financial performance of the Merged Group as well as external factors such as the domestic and international economy and the industry in which the Merged Group will operate.
How do I trade Bega Cheese Ordinary Shares?	You can trade Bega Cheese Ordinary Shares through a stock broker (brokerage fees will apply). You may already have an account with a stock broker. However, Bega Cheese will also arrange for a stock broker to make its services available to Tatura Milk RP Shareholders – see section 3.8.
Will I be able to participate in the Bega Cheese dividend reinvestment plan?	Once you become a shareholder in Bega Cheese you will be entitled to participate in the dividend reinvestment plan on the same basis as all other shareholders – see section 6.11.
What is the tax effect of the Merger on a Tatura Milk RP Shareholder?	The exchange of Tatura Milk RP Shares for Bega Cheese Ordinary Shares under the Merger may give rise to taxable capital gains or other tax consequences. However, you may qualify for capital gains tax rollover relief and the exchange of shares under the Merger may not result in any immediate taxation liability. Further details of some of the taxation consequences of the Merger are set out in the taxation report beginning on page 178. You should seek your own tax advice as to the tax effect of the Merger on your individual circumstances.
What will be my ongoing relationship with Tatura Milk?	It is Bega Cheese's stated intention that Tatura Milk RP Shareholders will continue to be able to sell their milk to Tatura Milk in accordance with the same arrangements that currently exist. There will be a seamless continuity in the present milk supply practices and policies, except that Tatura Milk shareholders who are Dairy Farmer Suppliers will cease to be entitled to dividends based on their milk supplies to Tatura Milk.
How will the Merger affect my current and future milk price?	Bega Cheese recognises that Tatura Milk requires a substantial and reliable supply of milk in its business and, accordingly, is committed to maintaining a base of dairy farmer milk suppliers to Tatura Milk in Northern Victoria. In order to ensure that this milk supply base remains in place, Bega Cheese recognises that Tatura Milk will need to continue to pay a leading manufacturing price for milk supplied to it by farmer suppliers.
Will I need to hold Bega Cheese Ordinary Shares in order to supply milk to Tatura Milk?	No. The decision as to whether you retain or sell the Bega Cheese Ordinary Shares you receive upon implementation of the Merger is an investment decision for you to make personally.

Question	Answer
What impact will the Merger have on Tatura Milk's operations?	Bega Cheese has stated that it intends to continue to conduct the key business operations of Tatura Milk from the company's facilities at Tatura, Victoria.
What representation will Dairy Farmer Suppliers have on the Bega Cheese board of directors?	The Bega Cheese constitution provides that 2 positions on the Bega Cheese board of directors will be made available for Tatura Milk Dairy Farmer Suppliers for a period of 2 years after the implementation of the Merger. The 2 initial directors to be appointed to these positions will be selected from the existing Dairy Farmer Supplier Directors by Tatura Milk RP Shareholders in conjunction with their approval of the Merger. The Bega Cheese constitution also provides for the board to include a minimum of 4 Bega Cheese Dairy Farmer Suppliers, and all Tatura Milk Dairy Farmer Suppliers will qualify for election to these positions. Accordingly, even after the conclusion of the 2 year period following the implementation of the Merger, there will be scope for ongoing participation by Tatura Milk Dairy Farmer Suppliers as Bega Cheese directors.
How does Bega Cheese intend to maintain the relationship with Dairy Farmer Suppliers?	The Bega Cheese Group, including Tatura Milk, understands the need to retain a reliable supply of milk for the production of its dairy products. The listing of Bega Cheese on ASX has not altered this and Bega Cheese recognises that the combination of leading regional manufacturing milk prices and innovative farm extension programs are the key to attracting and retaining milk suppliers.

Detailed information

1. Introduction

1.1 Purpose of this scheme booklet

The purpose of this scheme booklet is to explain to Tatura Milk RP Shareholders the proposal to merge Tatura Milk with Bega Cheese and for Tatura Milk RP Shareholders to become shareholders of Bega Cheese.

This scheme booklet explains the process involved to effect the Merger and provides information to Tatura Milk RP Shareholders to help them decide whether or not to approve the Merger.

This scheme booklet is being sent through the post to Tatura Milk RP Shareholders and includes notices of a general meeting and Scheme meeting to be held on Wednesday 14 December 2011 where Tatura Milk RP Shareholders will be requested to vote on the Merger and the Scheme. Information about Bega Cheese is provided in section 6 of this scheme booklet.

The booklet is also being sent to Bega Cheese as holder of all of the Tatura Milk Ordinary Shares, for the purpose of convening the general meeting.

1.2 Overview of the proposed Merger

If the Merger with Bega Cheese is implemented, Bega Cheese will acquire all of your Tatura Milk RP Shares.

The consideration for this acquisition is 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share that you hold.

Bega Cheese was admitted to the official list of ASX on 16 August 2011 and Bega Cheese Ordinary Shares commenced trading on ASX on 19 August 2011. The volume weighted average price of Bega Cheese Ordinary Shares sold on ASX over the period from the date the Merger was announced (4 October 2011) to the day before the date of this scheme booklet was \$1.70.

Based on this volume weighted average price, the consideration for each of your Tatura Milk RP Shares represents approximately \$3.40 (though of course no guarantee can be given as to the market price of Bega Cheese Ordinary Shares at the time of implementation of the Scheme or any time in the future).

The Merger is proposed to be effected by a scheme of arrangement between Tatura Milk and the Tatura Milk RP Shareholders. A scheme of arrangement involves both Court approval and approval by resolution of Tatura Milk RP Shareholders voting at a meeting convened by the Court to consider the Scheme. The resolution must be passed by both a majority in number of the Tatura Milk RP Shareholders voting at the Scheme meeting and also by at least 75% of the votes cast on the resolution. The Scheme meeting is a separate class meeting of Tatura Milk RP Shareholders only. No member of the Bega Cheese Group will be permitted to vote at this meeting.

In addition, because the constitution of Tatura Milk contains a 5% limit on the ownership of Tatura Milk RP Shares and prohibits the transfer of Tatura Milk RP Shares to anyone other than a Supplier, a special resolution modifying the constitution is also required to remove these restrictions and to make other consequential changes so that Bega Cheese can acquire all of the Tatura Milk RP Shares as proposed. This special resolution is to be considered at a general meeting of Tatura Milk convened by the board of directors of Tatura Milk. The general meeting is to be held on the same day as, and before, the Scheme meeting. The special resolution must be passed at the general meeting by at least 75% of the votes cast by shareholders entitled to vote on the resolution. All shareholders of Tatura Milk, including Bega Cheese as holder of the Tatura Milk Ordinary Shares, who would normally be entitled to attend and vote at a general meeting of Tatura Milk, will be entitled to attend the general meeting and vote on the special resolution. Bega Cheese is obliged under the terms of the Merger Implementation Agreement to vote in favour of the special resolution to modify the constitution.

In simple terms, the Merger would result from the completion of the following remaining steps:

- (a) Tatura Milk shareholders voting to modify the constitution of Tatura Milk at the general meeting;
- (b) Tatura Milk RP Shareholders voting to approve the Scheme at the Scheme meeting;
- (c) the Court approving the Scheme and a copy of the Court's order being lodged with ASIC; and
- (d) with effect on the Implementation Date, pursuant to the terms of the Scheme of Arrangement Deed:
 - (1) all Tatura Milk RP Shares held by Tatura Milk RP Shareholders being transferred to Bega Cheese;
 - (2) Bega Cheese issuing to each Tatura Milk RP Shareholder 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share held by the Tatura Milk RP Shareholder at 9:00 am on the Implementation Date; and
 - (3) thereby, Tatura Milk becoming a wholly-owned subsidiary of Bega Cheese and Tatura Milk RP Shareholders becoming the holders of approximately 24 million Bega Cheese Ordinary Shares which immediately after the issue of those shares would represent approximately 15.9% of the expanded share capital (and rights convertible in share capital) of Bega Cheese (assuming no other Bega Cheese securities are issued after the date of this scheme booklet).

1.3 Reason for Merger

The Merger represents the fulfilment of the relationship between Bega Cheese and Tatura Milk, which began with Bega Cheese's investment in Tatura Milk in 2007. At that time, Tatura Milk found itself facing challenging issues such as high debt levels, pressure on earnings, decreased milk supply due to drought and the rationalisation of other dairy industry participants. In response to these difficult circumstances, the directors and shareholders of Tatura Milk endorsed the acquisition by Bega Cheese of a 70%

shareholding in the company, on the basis that Bega Cheese's investment would enable Tatura Milk:

- (a) to make substantial distributions to Tatura Milk RP Shareholders;
- (b) to access the financial and dairy industry expertise of Bega Cheese as the company's new majority shareholder; and
- (c) to develop synergies from working with Bega Cheese, including benefits flowing from increased management depth and business development opportunities.

Since the commencement of their relationship in 2007, the businesses of both Tatura Milk and Bega Cheese have strengthened and developed. Tatura Milk has regained its reputation as a significant and respected participant in the dairy industry. This has been achieved through the establishment of a sound strategic plan, which has resulted in improved customer engagement, more stable revenues and margins and a strengthened management team. Bega Cheese has grown substantially during that same period, culminating with its ASX listing in August 2011, to become Australia's largest ASX listed dairy company.

The Merger will enable Tatura Milk RP Shareholders to convert their A class redeemable preference shares in Tatura Milk to ordinary shares in Bega Cheese, which will be tradable on ASX. This will allow the Tatura Milk RP Shareholders to participate in the growth and dividends of the Bega Cheese Group and provide them with the individual opportunity either to sell or hold their Bega Cheese shares or to buy more shares in Bega Cheese, depending on their personal investment goals. As milk suppliers, Tatura Milk RP Shareholders will continue to be able to sell their milk to Tatura Milk, and Bega Cheese has stated that it will continue to support Tatura Milk, endeavouring to pay a leading manufacturing price for milk in order to maintain a sustainable and reliable supply of milk from dairy farmers in Northern Victoria.

From a business perspective, the Merger will enable a more complete integration of the businesses of Tatura Milk and Bega Cheese. This will allow a fuller combination of the strengths of both companies, to produce an even stronger consolidated Bega Cheese Group.

1.4 Dividends

No further dividends may be paid in respect of your Tatura Milk RP Shares before the Implementation Date without the approval of Bega Cheese (which is not expected).

If the Merger is effected before 31 January 2012 as planned, as the holder of Bega Cheese Ordinary Shares issued to you under the Scheme, you will be entitled to participate in any dividend on the Bega Cheese Ordinary Shares that is declared or paid after that date in respect of the financial performance of Bega Cheese for the second half of 2011.

However, if implementation of the Merger is delayed until after 31 January 2012, and the Bega Cheese Ordinary Shares under the Scheme are not issued to you until after the record date for a Bega Cheese dividend, you will have no right to participate in the dividend.

1.5 Independent expert report

Tatura Milk has engaged an independent expert, Value Adviser Associates Pty Ltd, to prepare a report on the proposed Scheme. A copy of the report is set out in this scheme booklet starting at page 105. The independent expert has concluded that the proposed Scheme is in the best interests of Tatura Milk RP Shareholders.

It is worth noting that the independent expert has valued a Tatura Milk RP Share at between \$3.05 and \$3.78 and 2 Bega Cheese Ordinary Shares at between \$3.40 and \$3.58. Accordingly, the consideration under the proposed Scheme of 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share is within this valuation range.

1.6 Directors' recommendations

Your Dairy Farmer Supplier Directors

Having considered the terms of the Scheme and the other aspects of the Merger, and having considered the limited alternatives to the proposal (see section 2.3 of this scheme booklet), each of your Dairy Farmer Supplier Directors desires to make and considers himself justified in making a recommendation in relation to the Merger.

Each of your Dairy Farmer Supplier Directors:

- (a) considers that the Merger is in the best interests of the Tatura Milk RP Shareholders;
- (b) recommends acceptance of the Scheme; and
- (c) recommends that Tatura Milk RP Shareholders vote in favour of all resolutions to approve the Scheme or otherwise to facilitate the Merger;

in the absence of a superior proposal.

The reasons of your Dairy Farmer Supplier Directors for so recommending are set out in this scheme booklet – in particular see the letter from the deputy chairman starting on page 4 and section 1.3 for more details.

Bega Cheese Nominees

Each other director of Tatura Milk is a Bega Cheese Nominee and was appointed by Bega Cheese in accordance with the constitution of Tatura Milk. Each Bega Cheese Nominee is also a director or senior executive of Bega Cheese. In view of this conflict of interest, each Bega Cheese Nominee does not consider it appropriate for him to make a recommendation in relation to acceptance of the Merger and does not do so.

Personal voting intentions

The interests of the directors of Tatura Milk in relation to the Merger are set out in section 9.3 of this scheme booklet.

All of your Tatura Milk directors who own or otherwise have a relevant interest in Tatura Milk RP Shares themselves, intend to vote, or procure the relevant Tatura Milk RP Shareholder to vote, in favour of the Scheme, in the absence of a superior proposal.

2. Advantages, disadvantages and alternatives

2.1 Advantages of the Merger

The following are reasons why you may choose to vote in favour of the Merger.

- (a) Your Dairy Farmer Supplier Directors and the independent expert believe that the Merger is in the best interests of Tatura Milk RP Shareholders

The Merger consideration of 2 Bega Cheese Ordinary Shares for 1 Tatura Milk RP Share is considered to reflect a premium for control.

The volume weighted average price of Bega Cheese Ordinary Shares sold on ASX over the period from the date the Merger was announced (4 October 2011) to the day before the date of this scheme booklet was \$1.70. Based on this volume weighted average price, the Scheme consideration of 2 Bega Cheese Ordinary Shares for 1 Tatura Milk RP Share values the Tatura Milk RP Shares at \$3.40 each. This is a significant uplift on the amount that would be payable were the shares redeemed, namely \$1 for each share, and is around the middle of the independent expert's valuation range for a Tatura Milk RP Share of \$3.05 to \$3.78 – see the independent expert report starting on page 105.

- (b) The Merger provides Tatura Milk RP Shareholders with an opportunity to realise market value for their Tatura Milk RP Shares.

The Bega Cheese Ordinary Shares that Tatura Milk RP Shareholders will receive under the Merger will be quoted on ASX and therefore tradeable (subject to demand and supply) with an established market value, and will be generally free of any restrictions on sale. In contrast, it is difficult for Tatura Milk RP Shareholders to access the market value of their Tatura Milk RP Shares under the present capital structure of Tatura Milk, given that Tatura Milk RP Shares are not quoted on any stock exchange, they may only be sold to other Suppliers and they may be redeemed for the amount paid up on the shares (i.e. \$1 each) if the holder ceases to supply milk to Tatura Milk. Accordingly, Bega Cheese Ordinary Shares should provide a more liquid investment than your Tatura Milk RP Shares by being more readily saleable at a price reflecting market value.

If you become a shareholder in Bega Cheese, you will be able to identify the market value of your investment in the Bega Cheese Group. You will also be in a position to make your own individual decisions as to whether to retain your Bega Cheese Ordinary Shares, utilise them as security for borrowings, sell some or all of them or buy additional shares.

- (c) Investment in the broader Bega Cheese Group

Bega Cheese is a substantial Australian dairy company and an investment in Bega Cheese Ordinary Shares will allow you to participate in the future growth of the broader Bega Cheese Group. Your Dairy Farmer Supplier Directors believe that further consolidation and corporate activity is likely to occur in the Australian dairy industry and that Bega Cheese appears to be well placed to take advantage of any appropriate investment or rationalisation opportunities that arise.

(d) Continuation of milk supply arrangements

The Merger will not interrupt the relationship between Tatura Milk and Tatura Milk RP Shareholders as milk suppliers to Tatura Milk. There will be a seamless continuity of the current practices and policies in relation to milk acquisition and farm services.

(e) Milk pricing

The Bega Cheese Group relies on ongoing milk supply from its farmer suppliers. The price paid to farmer suppliers for their milk is a key factor in being able to attract and retain supply. Bega Cheese recognises that the Tatura Milk business requires a substantial and reliable supply of milk and accordingly, has stated that it is committed to maintaining a base of dairy milk farmer suppliers to Tatura Milk in Northern Victoria. In order to ensure that the milk supply base remains in place, Bega Cheese recognises that Tatura Milk will need to continue to pay a leading manufacturing price for milk supplied to it by farmer suppliers in accordance with the Bega Cheese Group milk price policy – see page 48.

Following the Merger, Tatura Milk RP Shareholders will cease to be entitled to any dividends based on their milk supplies to Tatura Milk. However, it is expected that the total price paid for Dairy Farmer Suppliers' milk supplied to Tatura Milk under their milk supply arrangements will take account of any milk supply dividend that they would otherwise have received as Tatura Milk RP Shareholders.

(f) No redemption if you cease to be a Supplier

Tatura Milk RP Shareholders will no longer need to remain a Supplier in order to retain their investment. Currently, only Suppliers can hold Tatura Milk RP Shares and the Tatura Milk board has the right to redeem your Tatura Milk RP Shares for \$1 each if you cease to be a Supplier. However whether you remain a Supplier will not impact your ability to hold Bega Cheese Ordinary Shares. This may give some Tatura Milk RP Shareholders more flexibility in their dairy farm succession planning.

(g) Tatura Milk RP Shareholders aggregate holding in Bega Cheese

Upon the successful implementation of the Merger, Tatura Milk RP Shareholders will be issued with Bega Cheese Ordinary Shares representing approximately 15.9% in aggregate of the expanded share capital (and rights convertible into share capital) of Bega Cheese. Therefore, at least initially, Tatura Milk RP Shareholders will have a significant, aggregate holding in Bega Cheese.

(h) Impact of the consolidated Bega Cheese Group

An investment in Tatura Milk RP Shares is limited to the rights and benefits that result from Tatura Milk's operations. An investment in Bega Cheese allows for greater diversification into the dairy and food processing industries. This could have a positive impact on the return on your investment if the non-Tatura Milk business of the Bega Cheese Group outperforms the Tatura Milk business.

- (i) Commitment to maintain Tatura Milk operations in Tatura

Bega Cheese has stated that it intends to continue to conduct the key business operations of Tatura Milk from the facilities at Tatura and to support and foster the success of the Tatura Milk business and the use of the Tatura brand in that business.

- (j) Tatura Milk supplier representation on Bega Cheese board

Under the terms of the Bega Cheese constitution, for the first 2 years after the Merger, the board of directors of Bega Cheese must include 2 representatives of Tatura Milk Dairy Farmer Suppliers. To initially meet this requirement, Bega Cheese has agreed to appoint 2 of the Dairy Farmer Supplier Directors to the Bega Cheese board upon implementation of the Merger – refer to sections 3.7 and 7.7.

In addition, even after the first 2 years following the Merger, dairy farmers who supply milk to Tatura Milk will be eligible for election to the 4 positions on the Bega Cheese board reserved for Bega Cheese Dairy Farmer Suppliers.

- (k) Additional synergies to the Bega Cheese Group

Although a number of strategy, personnel and corporate activities have already been integrated between Tatura Milk and Bega Cheese since Bega Cheese acquired its controlling stake in Tatura Milk in 2007, the Merger is likely to result in full integration of the Tatura Milk operations with that of Bega Cheese and accordingly, should result in additional synergy benefits to the Bega Cheese Group, thereby benefiting all shareholders of Bega Cheese.

2.2 Disadvantages of the Merger

The following are reasons why you may choose to vote against the Merger.

- (a) Not all Bega Cheese shareholders are milk suppliers

Ownership of Bega Cheese Ordinary Shares is not limited to milk suppliers. You may consider that this move away from the co-operative style business, as was the historical position for both Bega Cheese and Tatura Milk, could result in a focus on shareholder returns to the detriment of the interests of Dairy Farmer Suppliers and/or Industrial Suppliers.

- (b) Impact on milk pricing and regional focus

As there will be no change in contractual milk supply arrangements between Tatura Milk and its Suppliers in consequence of the Merger (including the way in which Tatura Milk sets its milk pricing), the Merger does not, in itself, represent an opportunity for Suppliers to obtain a higher price for their milk supply.

On the other hand, despite the stated intention of Bega Cheese to continue to pay leading regional milk prices to its milk suppliers and to maintain a base in Tatura, the Merger may have the impact of diluting the influence of Tatura Suppliers on the Tatura Milk business (even though Dairy Farmer Suppliers will have continued representation rights at the Bega Cheese board level for some time following the

Merger) and may result in a reduced focus by the Bega Cheese Group on regional issues specific to Northern Victoria.

It is also possible that new or changed circumstances could occur in the future that result in Bega Cheese changing its stated intentions in relation to milk pricing or continuing the conduct of the key business operations at Tatura Milk to the detriment of Dairy Farmer Suppliers and/or Industrial Suppliers.

(c) The share price of Bega Cheese Ordinary Shares is subject to market factors

Under the Merger you will receive Bega Cheese Ordinary Shares. Those shares are not redeemable and your ability to realise the market value of Bega Cheese Ordinary Shares is largely dependent on the price at which these shares are traded on ASX. As with all investments in securities, there is no guarantee as to the future performance of Bega Cheese or the Bega Cheese Ordinary Shares.

Further, although Bega Cheese Ordinary Shares are quoted on ASX and are generally free of any restrictions on sale, under Bega Cheese's constitution there is a shareholding limit of 5% for the first 2 years from the date Bega Cheese listed on ASX, increasing to 10% for the following 3 years. The shareholding limit may also be renewed for another 5 years at 15% – see section 8.7 for more details. The existence of a shareholding limit is unusual for a listed company and may adversely affect the value ascribed to Bega Cheese Ordinary Shares. The full value of the Bega Cheese Group may also not be reflected in the prevailing market price of Bega Cheese Ordinary Shares due to other external market factors.

In addition, Bega Cheese Ordinary Shares have had limited trading history on ASX. Although to date there has been some trading volumes, it is possible that over the long term, the value of a Bega Cheese Ordinary Share may decline due to insufficient volumes of shares traded on ASX.

(d) You will no longer be a Tatura Milk RP Shareholder

You will no longer have a direct investment in Tatura Milk or have a right to vote at meetings of shareholders of Tatura Milk. Tatura Milk RP Shareholders will therefore cease to have the degree of direct influence over the affairs of Tatura Milk that they currently have as holders of Tatura Milk RP Shares, and will no longer be able to have their Tatura Milk RP Shares redeemed for \$1 each.

Further, as a holder of Bega Cheese Ordinary Shares, you will no longer have the special milk supply dividend right and other entitlements that attach to your Tatura Milk RP Shares – see section 3.2 for more details.

(e) Impact of the consolidated Bega Cheese Group

As your investment will be in the broader Bega Cheese Group, your investment is more diversified across the Bega Cheese Group businesses. This could have a negative impact on the return on your investment if the non-Tatura Milk business of the Bega Cheese Group underperforms as compared to the Tatura Milk business and this may impact future dividends.

(f) Change to the Bega Cheese constitution

Although the Bega Cheese constitution currently provides for Tatura Milk Dairy Farmer Supplier representation on the Bega Cheese board for 2 years after the Merger and that dairy farmers who supply milk to Tatura Milk will be eligible for election to the 4 positions on the Bega Cheese board reserved for Bega Cheese Dairy Farmer Suppliers, it is possible that the Bega Cheese constitution may be modified (by special resolution passed by Bega Cheese shareholders) to remove this representation right.

2.3 Alternative courses of action for Tatura Milk

Your Dairy Farmer Supplier Directors consider that as far as the interests of Tatura Milk RP Shareholders are concerned, the proposed Merger is superior to any other possible alternatives that Tatura Milk could pursue:

(a) Alternative merger proposals

The Merger Implementation Agreement between Bega Cheese and Tatura Milk does not prevent a third party from making an alternative proposal or Tatura Milk sourcing other options or offers. However the proposed Merger has been widely publicised since the issue of the Bega Cheese Prospectus in July 2011 and no alternative proposal has emerged.

Given the time period that has elapsed since Bega Cheese publicised its intention to seek the Merger in the Bega Cheese Prospectus and the fact that Bega Cheese currently holds approximately 70% of Tatura Milk shares, it is the view of the Dairy Farmer Supplier Directors that an alternative proposal is unlikely to emerge or be feasible.

(b) Continue the present business operations of Tatura Milk

The Dairy Farmer Supplier Directors consider that maintaining the status quo remains in the short term a viable option. However, as the business needs grow and in particular, funding of major capital expenditure requirements comes up for consideration, it is likely that there will be a need for a mixture of debt and equity. Accordingly, over the long term it is the Dairy Farmer Supplier Directors' opinion that these capital expenditure demands will necessitate a strategy for fund raising in the future. Accordingly, it is unlikely that the current ownership structure of Tatura Milk will be viable in the long term.

(c) Other corporate activity

Given that Bega Cheese already owns approximately 70% of Tatura Milk and the level of contribution that Tatura Milk makes to the Bega Cheese Group profits, a listing, sale or winding up of Tatura Milk is considered to be a highly unlikely option.

3. What the Merger means for Tatura Milk RP Shareholders

3.1 Consideration

If the Merger is implemented, you will receive 2 Bega Cheese Ordinary Shares for every 1 of your Tatura Milk RP Shares that you hold at 9:00 am on the Implementation Date.

The Merger consideration and all other terms of the Merger were negotiated with Bega Cheese by your Dairy Farmer Supplier Directors on behalf of Tatura Milk with the benefit of financial and legal advice.

The independent expert has also made an assessment of the Merger consideration, and the respective value of a Tatura Milk RP Share and Bega Cheese Ordinary Share for this purpose, and has concluded that the exchange ratio of 2 Bega Cheese Ordinary Shares for 1 Tatura Milk RP Share is fair and reasonable from the perspective of Tatura Milk RP Shareholders – see the independent expert report starting on page 105.

3.2 Becoming a Bega Cheese shareholder

If the Merger is implemented, Tatura Milk RP Shareholders would cease to be shareholders of Tatura Milk and would become shareholders of Bega Cheese. As a consequence, Tatura Milk RP Shareholders would cease to enjoy their current rights as such shareholders which include:

- (a) the right to attend, speak and vote at general meetings of Tatura Milk and thereby have a say in the appointment of Dairy Farmer Supplier Directors and other governance arrangements concerning Tatura Milk;
- (b) the right to dividends from Tatura Milk either according to the number of Tatura Milk RP Shares held or the quantity of milk supplied to Tatura Milk;
- (c) the right to have their Tatura Milk RP Shares redeemed; and
- (d) in the case of Dairy Farmer Suppliers, the right to subscribe for additional Tatura Milk RP Shares under the Tatura Milk subscription scheme based on their milk supplies to Tatura Milk.

See section 5.7 of this scheme booklet for further details of these benefits.

By becoming a shareholder of Bega Cheese, Tatura Milk RP Shareholders would acquire rights as the holders of Bega Cheese Ordinary Shares with respect to Bega Cheese under its constitution. They would not, however, be entitled to receive dividends or to subscribe for additional Bega Cheese shares based on their milk supplies or to have their shares redeemed. Further details regarding the rights of holders of Bega Cheese Ordinary Shares under Bega Cheese's constitution are set out in section 8.

3.3 Contractual and other supply arrangements

There would be no change to the contractual arrangements between Tatura Milk RP Shareholders and Tatura Milk for the supply of milk and other dairy commodities, in consequence of the Merger.

In fact, subject to regulatory requirements and good business practice, Bega Cheese does not expect any material changes to occur regarding how Tatura Milk RP Shareholders as suppliers currently interact with Tatura Milk and how they would interact with Tatura Milk as a wholly-owned subsidiary of Bega Cheese after the Merger.

3.4 Milk pricing

Bega Cheese recognises that the Tatura Milk business requires a substantial and reliable supply of milk and, accordingly, is committed to maintaining a base of dairy farmer milk suppliers to Tatura Milk in Northern Victoria. Bega Cheese recognises that, in order to ensure that this milk supply base remains in place following the Merger, Tatura Milk will have to continue to pay a leading manufacturing price for milk supplied to it by dairy farmers in Northern Victoria.

3.5 Location of Tatura Milk business

Following the Merger, Bega Cheese intends to continue the key business operations of Tatura Milk from the company's facilities at Tatura, Victoria. Bega Cheese also intends to continue to support and foster the success of the Tatura Milk business and the use of the Tatura brand in that business.

3.6 Dairy Farmer Supplier Directors will cease to hold office

If the Merger is implemented, all of your Dairy Farmer Supplier Directors will cease as directors of Tatura Milk. As a consequence, the Tatura Milk board would be comprised of the Bega Cheese Nominees (and/or any other directors appointed by Bega Cheese, who are expected to be from the directors and executives of the Bega Cheese Group).

3.7 Representation on the Bega Cheese board

Bega Cheese has agreed that it will use its best endeavours to ensure that 2 individuals who are, or represent bodies corporate that are, Tatura Milk Dairy Farmer Suppliers are on the Bega Cheese board for 2 years from the Implementation Date. In accordance with this commitment, Bega Cheese intends to appoint 2 of your Dairy Farmer Supplier Directors as directors of Bega Cheese by the Implementation Date.

All 4 of the Dairy Farmer Supplier Directors have nominated for these 2 board positions, and have agreed to have a ballot for the selection of 2 of them to be voted on by Tatura Milk RP Shareholders only. This ballot is planned to be conducted at the general meeting of Tatura Milk to be held on the same day as the Scheme meeting.

3.8 Sale facility for Bega Cheese Ordinary Shares

Bega Cheese has agreed to use its best endeavours to establish an arrangement with a stock broker to enable Tatura Milk RP Shareholders to trade in the Bega Cheese Ordinary Shares issued to them under the Scheme on market at prevailing market prices within a period of 3 months following the Implementation Date. Once the Merger is implemented, Bega Cheese will write to each Tatura Milk RP Shareholder who acquires Bega Cheese Ordinary Shares under the Scheme with further details of this arrangement.

3.9 Otherwise business as usual

As Tatura Milk has been operating as a 70% controlled subsidiary of Bega Cheese since 2007, the companies have already combined those functions involved in setting overall planning and control of their respective businesses and operations, with a view to eliminating duplication of tasks, and reducing cost. Both companies' structures and operations have also been regularly reviewed with a view to identifying the business units which may be combined, improved, further developed or disposed of, and where appropriate, operations have been rationalised or other review outcomes have been implemented.

In the circumstances, other than set out in this section 3, it is the present intention of the directors of Bega Cheese and those Tatura Milk directors who would continue as directors of Tatura Milk or become a director of Bega Cheese:

- (a) to continue, grow and improve the business of Tatura Milk;
- (b) not to make any major change to the nature of the business of Tatura Milk, including any redeployment of the fixed assets of Tatura Milk; and
- (c) to continue the employment of the present employees of Tatura Milk.

All directors of Tatura Milk support these intentions.

4. Industry developments

4.1 Overview

This section 4 has been prepared by Bega Cheese by reference to its own information as well as to information and statistics provided by Dairy Australia in its publications, specifically 'Dairy 2011 (September) – Situation and Outlook' and 'Australian Dairy Industry In Focus 2010'. Extracts that have been drawn from Dairy Australia publications relate to the Australian dairy industry as a whole and not specifically to the Bega Cheese Group. Tatura Milk, which operates in the same industry as Bega Cheese, agrees with Bega Cheese's comments and observations on the industry as outlined in this section 4. This section should be read in conjunction with sections 5.11 and 6.17, which include various industry and company specific risk factors relevant to Tatura Milk and Bega Cheese respectively.

The dairy industry encompasses businesses ranging from dairy farms through to food manufacturers. Cow's milk consists of solids (milk fat, protein, lactose and minerals) in water, with water making up about 87% of the volume.

Milk produced by farmers is processed into products including fresh milk, cheese, butter, cream, yoghurts, custards and milk powders. In addition, certain products comprise the nutritional components of milk such as lactoferrin and colostrum or by-products such as whey and permeate.

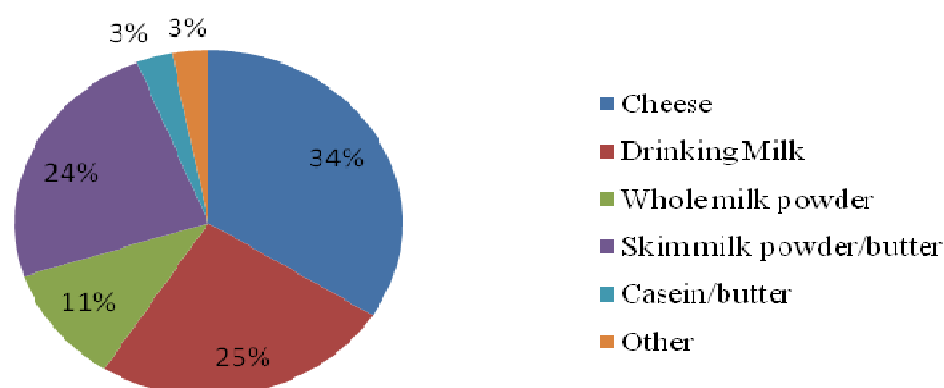
In general, the industry tends to be categorised into two sectors. The first is the 'market' or 'liquid' milk sector that produces fresh drinking milk for immediate domestic consumption. The second is the 'manufacturing' milk sector which further processes the milk into various dairy commodities and value-added products including cheese, butter, yoghurt and milk powders. The importance of this distinction is that the price paid for market milk, particularly in NSW and Queensland, is based on local demand for drinking milk on a year round basis, while the price paid for manufacturing milk tends to be based on returns from international dairy commodity prices (translated into Australian dollars). This reflects the fact that products such as cheese, milk powders and butter are global commodity items and prices received are based on international prices.

Bega Cheese and Tatura Milk are primarily manufacturing milk entities, although Bega Cheese has a minor involvement in the liquid milk market through its 25% interest in Capitol Chilled Foods (Australia) Pty Limited.

Australia

The overall product output of the Australian dairy industry is as follows:

Australian dairy industry product output



Australia's dairy industry is one of its three most important domestic rural industries ranking behind the beef and wheat industries. The estimated farm gate value of the dairy industry in 2009/10 was \$3.4 billion.

Features of the Australian dairy industry include the following:

- (a) In FY2011, 1.6 million cows on just over 7,500 farms produced 9.1 billion litres of milk, an increase of around 1% on milk production in FY2010.
- (b) Recent low volumes and intense competition at both the supply and retail level has resulted in ongoing rationalisation in the number of dairy processors and manufacturers.
- (c) 64% of Australia's milk is produced in Victoria.
- (d) 45% of milk production is now converted into products that are exported overseas as opposed to 31% in 1990. Australia's major export destinations by value in 2009/2010 included Japan (19%), China (10%), Singapore (9%) and Indonesia (6%).
- (e) The Australian dairy manufacturing sector is diverse including farmer-owned co-operatives as well as public, private and multinational companies. Industry estimates are that six major milk buyers acquire circa 90% of all milk production. The Bega Cheese Group's total milk intake in FY2011 was 591.3 million litres which equates to approximately 6% of the total Australian milk production.
- (f) Per capita consumption of dairy products has remained relatively stable over the past decade.

The Bega Cheese Group's business model is focused on both conversion of milk into value added dairy products and the value adding of dairy ingredients. While the Bega Cheese group manages a relatively small percentage of Australia's raw milk, it is a significant packager and value adder of cheese and other dairy products in Australia.

Global

The international dairy trade is of considerable importance to the Australian dairy industry. Dairy product exports account for nearly half of total milk production. The price of milk received by farmers in the domestic market is linked to export returns and the relative value of the Australian dollar to the US dollar.

Features of the global dairy industry include:

- (a) Most countries in the world have a local milk production capacity. In many countries, including large Australian dairy export destinations such as the Middle East and Asia, dairy production falls significantly short of demand. These countries supplement their local production with imported dairy products.
- (b) The European Union and USA account for 26% and 16% respectively of world cows' milk output, compared to Australia which produces 2%.
- (c) Most dairy products are consumed in the country in which they are produced, with less than 8% of global production traded on international markets.
- (d) Global dairy exports are dominated by New Zealand (35% of all export sales), the European Union (32% of all export sales) and Australia (10% of all export sales).
- (e) Significant trade barriers exist in many countries.
- (f) Milk production has been relatively stable in Western countries but has increased steadily in Asia and Central and South America.
- (g) Consumption of dairy products in Western countries is relatively stable while dairy consumption in Asia and Central and South America is increasing rapidly. Infant formula is an important part of this demand.

4.2 Government regulation of the dairy industry

Australia

Major changes to the structure of the dairy industry occurred in July 2000 with the removal of all production and sale quantity price regulation, including official distinctions between market milk and manufacturing milk. As a result, Australian dairy farmers now operate in a deregulated and open market with the main government involvement being the administration of food standards and food safety assurance systems. Deregulation has resulted in intense competition between processors in the market milk sector.

Domestic and international market circumstances combined with regional milk supply availability are now the only drivers for the price received by farmers for their milk. Manufacturers and processors of dairy foods now derive their earnings from revenue generated by the sale of their products without any government support or payments.

Global

The international trade in dairy produce is distorted by tariff and non-tariff protection by the major producing and consuming countries including the USA, Japan and countries within the European Union.

Some significant trade barriers include:

- (a) USA – direct bilateral quota arrangements restrict Australian imports
- (b) European Union – direct bilateral quota arrangements restrict Australian imports
- (c) Japan – quotas on Australian cheese and skim milk powder
- (d) China – tariffs exist but there are no quotas

Australia does apply some tariffs on imports of dairy products.

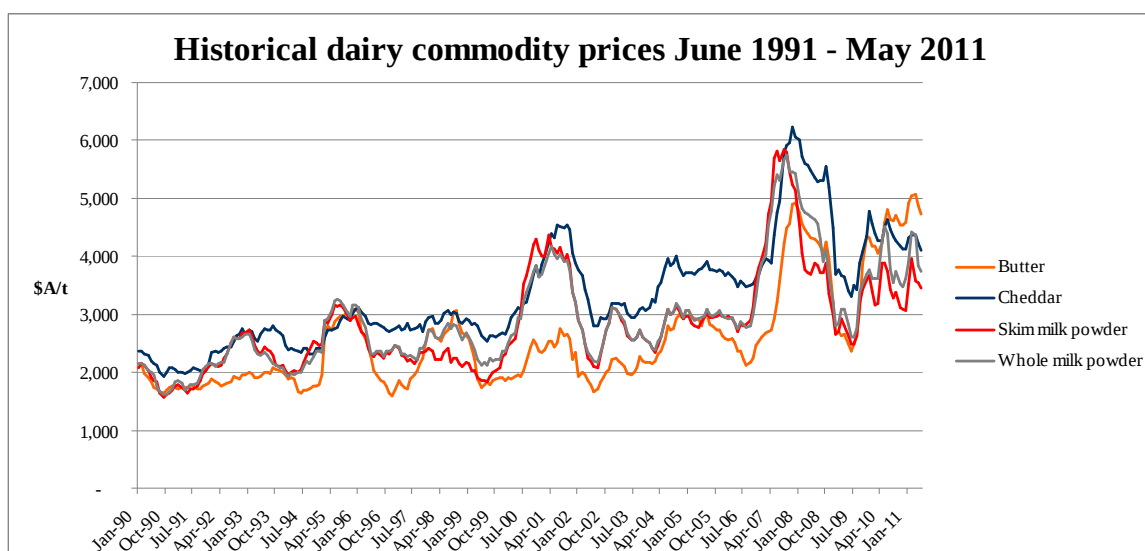
4.3 Current market conditions

The decade commencing January 2000 has been heavily influenced by drought conditions throughout Australia which has resulted in lower cattle numbers and a reduction in milk supply.

In FY2008, market conditions (especially prices for commodity products) improved dramatically as a result of strong global demand. However, FY2009 was impacted by the world wide downturn associated with the global financial crisis. FY2010 saw a significantly improved turn around in operating conditions for the Australian dairy industry. Strengthening global economic conditions following the global financial crisis underpinned demand growth in key markets, while reduced international supplies saw dairy commodity prices rise in US dollar terms throughout 2010 and into early 2011. More recently, international dairy commodity prices have softened with increasing supplies from Latin America and New Zealand and production growth in the United States and the European Union. This downward trend may continue if the current global economic instability resulting from Eurozone sovereign debt issues deteriorates further.

On-farm milk production in late 2010 and early 2011 was impacted by wet conditions and in some regions substantial floods. While this had a short term impact on milk production, generally the improved water supplies facilitated a reasonable finish to the FY2011 milk season especially in the south-eastern regions. Milk production in the first quarter of FY2012 has started slowly due to very wet conditions in Southern Victoria, farms continuing to recover from floods in Queensland and continued drought in Western Australia. Production is anticipated to increase throughout the year as a result of solid home-grown feedbases and guaranteed access to water.

The high Australian dollar continues to constrain returns to exporters but strong global demand for dairy products continues, particularly from China, Asia and the Middle East. China's total volume of dairy product imported in 2010 was estimated at US\$30 billion, up 61% from the prior year.



Domestically the recent action by major retailers to cut the retail selling price of private label milk, butter and cream as part of a wider strategic market play has received substantial media attention and resulted in an enquiry by the Australian Parliament. There is no immediate material impact on Bega Cheese (or Tatura Milk) or farmer suppliers as a result of this action. The medium to long term implications however are still not clear.

4.4 Industry outlook

Industry fundamentals remain sound at present, with advantageous climatic conditions, particularly in Southern Australia, leading to a favourable seasonal outlook. However, downside risks exist particularly around continued instability in the global economy. Longer term, there are a number of unknowns which may affect the industry, including:

- (a) short term currency volatility
- (b) impact of food price inflation in China and India
- (c) political unrest in the Middle East
- (d) USA Farm Bill that provides assistance to US farmers is due for renewal in 2012
- (e) recovery of regional areas from the impact of recent droughts and floods

Milk production is expected to increase approximately 1.5% to around 9.25 billion litres in 2012 and global demand is predicted to remain strong, underpinned by the Chinese economy continuing to grow rapidly. Global dairy commodity prices are stabilising after recently falling from their peaks.

The late 2008 acquisition of Dairy Farmers by Lion Nathan National Foods a member of the Kirin Group, was the most recent significant corporate consolidation in the Australian dairy sector. In November 2010, Bega Cheese acquired a 15% interest in WCB. Fonterra sold its Brownes business to a private equity company in early 2011. Lion Nathan National Foods has also announced a rationalisation of its Australian cheese making facilities.

5. Information on Tatura Milk

5.1 Overview

Tatura Milk conducts a successful dairy products business with a long history of operating in Victoria's Goulburn Valley.

The company is located at Tatura, Victoria and manufactures dairy products such as milk powder and cream cheese and nutritional food products such as infant formula. The products are sold locally and exported internationally.

Tatura Milk is currently supplied with milk from approximately 270 professional dairy farms. The majority of these dairy farms are located within a 60 kilometre radius of the Tatura factory. Tatura Milk currently processes approximately 350 to 400 million litres of milk each year that produces approximately 62,000 to 72,000 tonnes of manufactured products each year.

5.2 History

Tatura Milk traces its origins to Tatura Butter Factory and Farmers Produce Company Ltd which was established in 1907. Significant events in the history of the company are noted below:

Year	Milestone
1907	Tatura Butter Factory and Farmers Produce Company Ltd is founded
1952	Merchandise store opens to cater for rural supply needs
1980	Tatura Cheese Industries Pty Ltd established to produce 2,000 tonnes of cream cheese per annum for the domestic and export markets
1986	Corporate reorganisation resulting in Tatura Milk owning and controlling all of the group's operations
1991	Technology exchange contract signed with Snow Brand Australia
1993	Snow Brand Australia, a customer of Tatura Milk, builds a \$25 million infant formula canning plant adjacent to the company's factory
1996	\$20 million plant expansion, including the installation of a new dryer and evaporator capable of producing 5 tonnes of powder per hour as well as a new 12 tonne per hour packer
2001	New drying plant commissioned at a cost of \$34 million with the capacity to produce 30,000 metric tonnes (mt) each year of fortified and high fat powders
2003	New lactoferrin plant built at a cost of \$8.5 million with the capacity to produce 12 mt of lactoferrin each year.

Year	Milestone
2005	Construction of milk protein concentrate plant in conjunction with Ingredia
2007	Bega Cheese acquires a 70% shareholding in Tatura Milk

5.3 Current operations

Tatura Milk principally conducts its business from its manufacturing facility at Tatura, Victoria. The business has two divisions – core dairy products manufacturing and nutritional food products manufacturing.

Core dairy products manufacturing

Tatura Milk is a business-to-business dairy food manufacturer, that is, it supplies dairy products to other food companies on a wholesale basis. Milk is converted into a range of core dairy products, including cream cheese, high fat frozen cream, whole milk powder, skim milk powder, milk protein isolate and butter. Tatura Milk conducts a sales and marketing operation separate from Bega Cheese and has been active for many years in the Asian markets.

The cream cheese and high fat dairy products produced at Tatura Milk are used in the production of cheesecakes and other food and drink products in Asia. Some of Tatura Milk's customers are major international food, dairy product and trading companies. Over 65% of Tatura Milk FY2011 revenue was from exports, primarily to Asian markets.

Milk protein isolate is produced as a spray-dried powder containing 85% milk protein and is used as a dairy ingredient in desserts, baked goods, toppings, low-fat spreads, dairy based mixes, beverages and processed cheese products. It is produced by Tatura Milk in one of its driers which incorporates plant and know-how provided under lease and licence arrangements by a French company, Ingredia SA. Ingredia SA is also Tatura Milk's largest customer for milk protein isolate and its relationship with Tatura Milk is documented in a series of agreements relating to the manufacture, supply and sale of milk protein isolate products.

In addition, Tatura Milk produces approximately 20,000 tonnes a year of commodity type milk powders. The majority of this production is exported to Asian markets.

Nutritional food products manufacturing

Infant formula

Tatura Milk produces high value nutritional products such as formula for infants and children, and lactoferrin. While milk is sourced locally, the production of infant and other formula products is not substantially dependent on local milk supply.

Tatura Milk has been manufacturing infant and other formula products for customers since 1993 and has developed supply arrangements with companies in Australia, Japan, China, Korea and Taiwan. Some of the formulations that have been developed in

conjunction with these companies are complex and manufactured to very tight quality specifications.

Tatura Milk operates within a strict quality environment monitoring and evaluating the quality of product from the farm through to the final product delivered to customers. Raw materials are sourced from a number of suppliers and blended to exacting specifications. Australian product has a high reputation in the Asian markets for its quality and safe use for infants.

Products currently manufactured include:

- (a) infant formula – stage 1 for 0-6 month old infants
- (b) follow-on formula – stage 2 for 6-12 month old infants
- (c) growing-up milk powder – stage 3 for 12-24 month old toddlers

Tatura Milk's current production capability comprises wet-mix dry ingredient addition and two multi-stage driers. In FY2010, Tatura Milk produced nearly 20,000 tonnes of infant and other formula product. Tatura Milk supplies these products in bags ranging from 25kg up to bulk bags of approximately 800kg. Tatura Milk can also arrange for formula products to be supplied in retail-ready cans through third party canning service providers.

An important part of Tatura Milk's production of nutritional formula products takes place under a long term agreement with Mead Johnson, a global leader in infant and children's nutrition. Under this agreement, Tatura Milk allocates one of its two multi-stage driers and provides the staff and site services required to enable Mead Johnson to produce nutritional powder.

Lactoferrin

Lactoferrin is a significant milk biologic product that brings to food markets unique health and nutritional features of milk.

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 mediated oxidation reactions and as an anti-inflammatory agent. Tatura Milk uses advanced ion-exchange technology producing lactoferrin that is of the highest purity. Lactoferrin is used in a range of applications including infant formulas, adult nutritional powders and drinks, yoghurts and sports formulations.

5.4 Board of directors

As at the date of this scheme booklet, the Tatura Milk board comprises:

Name	Status
Barry Irvin AM	Chairman and Bega Cheese Nominee
Richard Parbery	Bega Cheese Nominee

Name	Status
Colin Griffin	Bega Cheese Nominee
Aidan Coleman	Bega Cheese Nominee
Rick Cross	Deputy chairman and Dairy Farmer Supplier Director
Ken Wood	Dairy Farmer Supplier Director
Fred De Cicco	Dairy Farmer Supplier Director
Jeff Odgers	Dairy Farmer Supplier Director

The constitution of Tatura Milk specifies that there are to be up to 4 directors appointed by Bega Cheese, 2 Dairy Farmer Supplier Directors and up to 2 other directors as determined by the board. Currently, there are 4 Dairy Farmer Supplier Directors with the additional 2 positions having been allocated to Dairy Farmer Supplier Directors. All of the Dairy Farmer Supplier Directors are elected by the shareholders.

If the Merger is implemented, all of your Dairy Farmer Supplier Directors will cease as directors of Tatura Milk. As a consequence, the Tatura Milk board would be comprised of the Bega Cheese Nominees (and/or any other directors appointed by Bega Cheese, who are expected to be from the directors and executives of the Bega Cheese Group). All of the Bega Cheese Nominees are currently directors or senior executives of Bega Cheese and their profiles are set out in sections 6.5 and 6.6.

A summary of the relevant experience of your Dairy Farmer Supplier Directors is set out below.

Rick Cross, B.Ag Sci (Hon), AAICD **Deputy chairman**

Mr Cross has been a director of Tatura Milk since 2003, having spent the previous 2 years as an associate director.

Mr Cross is currently the deputy chairman of Tatura Milk and previously held that position from 2005 to 2007. During that earlier period he was heavily involved in negotiating the subscription by Bega Cheese of its 70% shareholding in Tatura Milk.

Mr Cross has represented dairy farmers at various levels within the United Dairyfarmers of Victoria and also sits on the Innovation Selection Committee for the Gardiner Foundation. In 2002, he completed the residential program run by the Australian Institute of Company Directors.

Mr Cross is an active dairy farmer and his current responsibilities at Tatura Milk include:

- (a) Director of Tatura Milk since 2003;
 - (b) Deputy chairman from 2005 to 2007, and from 2009 onwards;
-

-
- (c) Member of the Tatura Milk finance committee
-

Ken Wood

Mr Wood has been a shareholder-supplier of Tatura Milk since 1972. He has been heavily involved in water issues in northern Victoria since 2004.

He is an active dairy farmer and his involvement in the dairy industry includes:

- (d) Director of Tatura Milk since 2005;
- (e) Former UDV District Councillor;
- (f) Inaugural member of Northern Victorian Irrigators;
- (g) Former member of Goulburn-Murray Water Services Committee;
- (h) Current member of Northern Victorian Irrigation Renewal Project Modernisation Committee;
- (i) Tatura Milk's representative on National Irrigators Council.

Mr Wood has served in various community organisations and is a member and past-president of the Rotary Club of Tatura.

Fred De Cicco

Mr De Cicco has been a director of Tatura Milk since 27 October 2005. Prior to this appointment, he was an associate director from 1 August 2003 for a 12 month period. In addition to the above, he has served as a member of Tatura Milk's finance committee since January 2008.

Since 1981, Mr De Cicco has been farming and is also a stud breeder. Holstein Australia awarded him Master Breeder of the Year for 2010.

Jeff Odgers, B Bus (Ag Mgt)

Mr Odgers has been strongly involved in dairy industry roles for the past 12 years, and actively managing farming businesses for over 20 years.

Mr Odgers served as chairman of Bonlac Foods Tasmanian Supplier Representative Scheme from 1999 to 2001, developing a broad understanding of dairy supply chain dynamics.

Following a relocation of business interests to Victoria, Mr Odgers became involved in local irrigator representation as a member of Central Goulburn Water Services Committee from 2004 to 2007. Currently Mr Odgers is a member of the Australian Dairy Industry Council's 'Water Taskforce' which seeks to achieve balanced outcomes from the Murray Darling Basin Plan.

In 2006, Mr Odgers was appointed a director of Murray Dairy Inc and has been board chairman since August 2008. Murray Dairy works closely with numerous organisations

on research, extension and industry development that is regionally focused.

Since November 2009 Mr Odgers has served as a director of Tatura Milk.

Mr Odgers' formal qualifications include an Associate Diploma of Farm Management (1987) and a Bachelor of Business (2005). In 2008 he completed the residential program run by the Australian Institute of Company Directors.

5.5 Management

Tatura Milk's business is supervised by the board which has delegated day to day management to an experienced team based at its production facility at Tatura, Victoria. The team is led by Tatura Milk's Executive General Manager, Paul van Heerwaarden, and supported by the senior executives. This executive team reports to the board of directors of Tatura Milk. A summary of the experience and capabilities of Tatura Milk's management team is provided below.

Paul van Heerwaarden, CPA, MBA, BBus (Acct) (Tatura Milk Executive General Manager)

In May 2011 Paul was appointed Tatura Milk Executive General Manager after two years as Chief Financial Officer. Previously Paul worked in senior financial and management positions with a number of Australian and international agribusinesses.

He has an MBA from the Melbourne Business School, a Bachelor of Business (Accounting), RMIT and is a CPA.

Tony Kilmartin (Tatura Milk General Manager Sales)

Tony commenced employment at Tatura Milk in December 1975. He was sponsored by Tatura Milk to undertake tertiary study in dairy manufacture technology at Gilbert Chandler Institute in 1977-78. After graduating, Tony's roles have included Laboratory Manager and R&D Manager before becoming Cream Cheese Manager and then Planning & Logistics Manager. He moved to his current role of General Manager Sales in 2003.

Frank Baldi, Dip App Science (Dairy) (Tatura Milk General Manager Operations)

Frank has been with Tatura Milk for 15 years and he has held several managerial roles during that period. Frank's current responsibility is the overall operations at Tatura Milk. He completed a Diploma of Applied Science in dairy at Gilbert Chandler College in 1999/2000.

Stuart Brown, B. Agr Science (Hons)
(Tatura Milk General Manager Milk Supplier Services)

Stuart joined Tatura Milk in April 2004 following some 25 years' experience in Northern Victoria as a private farm management consultant (Farmanco Pty Ltd), Goulburn Broken catchment salinity program coordinator and dairy extension officer with the Department of Agriculture. Stuart manages field services and the farmer production/shareholder interface with Tatura Milk and brings a wealth of experience to his role.

Jason Wells, CPA, BBus (Acct)
(Tatura Milk Financial Controller/Company Secretary)

Jason joined Tatura Milk in March 2000 after three years as financial accountant at Goulburn Valley Water and previous accounting experience with SPC/Ardmona. With 11 years' experience, Jason leads the finance team and is responsible for company secretarial duties for Tatura Milk.

He has a Bachelor of Business (Accounting) from Charles Sturt University and is a CPA.

5.6 Corporate governance

Tatura Milk operates under its own corporate governance arrangements that are appropriate for its operation as a 70% owned subsidiary of Bega Cheese. These include its own board committees and management structure. Where appropriate, code of conduct type policies have been made consistent with Bega Cheese policies. Appropriate rationalisation of policies will occur following the completion of the Merger.

5.7 Share capital structure

Tatura Milk has two classes of shares on issue, Tatura Milk Ordinary Shares and Tatura Milk RP Shares.

Tatura Milk Ordinary Shares

At the date of this scheme booklet, there are 28,413,511 Tatura Milk Ordinary Shares on issue, all of which are held by Bega Cheese, and represent approximately 70% of the total number of issued Tatura Milk shares.

Under Tatura Milk's constitution, 35 million shares is the maximum number of Tatura Milk Ordinary Shares that may be held at any time by or on behalf of one person.

Tatura Milk RP Shares

At the date of this scheme booklet, there are 12,009,408 Tatura Milk RP Shares on issue.

The Tatura Milk RP Shares are widely held by Suppliers i.e. people who supply milk and other dairy commodities to Tatura Milk. The Suppliers comprise Dairy Farmer Suppliers (dairy farmers who supply commercial quantities of milk to Tatura Milk on a regular basis) and Industrial Suppliers (organisations and others who trade in milk or other dairy commodities and supply significant quantities to Tatura Milk).

At the date of this scheme booklet, there are 313 Dairy Farmer Suppliers and 5 Industrial Suppliers holding all of the issued Tatura Milk RP Shares.

The rights and restrictions applying to the Tatura Milk RP Shares under Tatura Milk's constitution are substantially the same as those applying to the Tatura Milk Ordinary Shares, except in the following key respects:

- (a) The maximum number of Tatura Milk RP Shares that may be held at any time by or on behalf of one person is 5% of the issued Tatura Milk RP Shares.
- (b) Tatura Milk RP Shares may only be issued to Suppliers.
- (c) Unless the Tatura Milk directors determine otherwise, the number of Tatura Milk RP Shares that may be issued to a new Supplier is 100.
- (d) Tatura Milk RP Shares are redeemable at the option of Tatura Milk if the holder ceases to be a Supplier or requests redemption.
- (e) The amount payable on redemption is the amount paid up on the share together with any dividend declared but not paid.
- (f) Tatura Milk RP Shares may only be transferred to another Supplier.
- (g) Tatura Milk RP Shareholders are entitled to dividends according to the quantity of milk supplied by shareholders to Tatura Milk over a period determined by the Tatura Milk directors, as well as according to the number of Tatura Milk RP Shares held at the same rate per share as that payable on the Tatura Milk Ordinary Shares.

In addition, the Tatura Milk board has, in the past, established and implemented a share subscription scheme under which Tatura Milk RP Shareholders who are Dairy Farmer Suppliers have been given the opportunity to subscribe for additional Tatura Milk RP Shares each year on a basis determined by the directors. The scheme has provided a means by which the total number of Tatura Milk RP Shares on issue can represent 30% (or close to 30%) of the total number of issued Tatura Milk shares. Tatura Milk RP Shareholders who are Industrial Suppliers do not participate in the scheme.

Tatura Milk RP Shareholders who are Industrial Suppliers also have not participated in dividends paid according to milk supplied because they do not supply milk on a daily basis, which is the basis on which those dividends have been determined. However, they do participate in dividends paid according to the number of shares held, on the same basis as all other shareholders.

At the date of this scheme booklet the aggregate number of Tatura Milk RP Shares represents 29.71% of the total number of issued shares in Tatura Milk. There is no intention to offer further Tatura Milk RP Shares under the share subscription scheme prior to the implementation of the Merger.

5.8 Dividend policy and payment history

Shares

All Tatura Milk shareholders are entitled to dividends based on cents per share. The timing and the amount of dividends paid depends upon the profits of Tatura Milk, its financial and taxation position, funds retained for capital expenditure and the Tatura Milk directors' views of the appropriate payout ratio at the time. In respect of FY2011, the directors of Tatura Milk declared a dividend of 4 cents per share (totalling \$1,545,693.24). This dividend was paid in December 2010.

Milk

Tatura Milk RP Shareholders are also entitled to dividends based on milk supply. Tatura Milk is committed to delivering an attractive return to its Dairy Farmer Suppliers who hold Tatura Milk RP Shares and has a number of ways it can use to pay Dairy Farmer Suppliers who hold Tatura Milk RP Shares for their milk supply. For example, in the past Tatura Milk has paid dividends to Dairy Farmer Suppliers based on premium and choice milk solids supplied during particular periods. The total dividend determined to be paid to Dairy Farmer Suppliers holding Tatura Milk RP Shares based on milk supplied during FY2011 was \$2,711,544.74. Following implementation of the Merger, Tatura Milk RP Shareholders will cease to be entitled to be paid dividends by Tatura Milk based on milk supply.

5.9 Historical financial performance

The historical financial information below has been extracted from Tatura Milk's audited financial statements for FY2011. The information relates to Tatura Milk only and therefore does not reflect the impact of the Scheme.

The information is a summary only and does not contain the disclosures provided in annual financial reports in accordance with the Corporations Act.

Tatura Milk's 2011 annual report was mailed to Tatura Milk RP Shareholders on 25 October 2011. Tatura Milk RP Shareholders can request an additional copy of this report by contacting Tatura Milk's registered office on (03) 5824 6200.

Consolidated statement of financial position

\$'000	Actual 2011	Actual 2010
Current assets		
Cash and cash equivalents	1,780	8,915
Trade and other receivables	41,071	41,369
Derivatives	1,854	-
Inventories	33,118	54,646
Total current assets	77,824	104,929
Non-current assets		
Other financial assets	153	153
Property, plant and equipment	69,903	65,303
Deferred tax assets	14,847	14,280
Intangible assets	190	376
Total non-current assets	85,092	80,111
Total assets	162,916	185,040
Current liabilities		
Trade and other payables	40,379	55,340
Derivatives	-	2,222
Borrowings	12,726	26,873
Provisions	6,059	5,293
Total current liabilities	59,163	89,728
Non-current liabilities		
Trade and other payables	-	150
Borrowings	-	6,659
Provisions	330	421
Total non-current liabilities	330	7,230
Total liabilities	59,493	96,958
Net assets	103,423	88,082
Equity		
Contributed equity	48,846	47,020
Reserves	17,952	15,808
Retained profits	36,625	25,254
Total equity	103,423	88,082

Consolidated income statement

\$'000	Actual 2011	Actual 2010
Revenue	312,316	271,241
Changes in inventories of finished goods and work in progress	(21,527)	19,183
Raw materials and consumables used	(211,237)	(209,447)
Employee benefits expense	(35,648)	(32,490)
Depreciation and amortisation expense	(7,174)	(7,149)
Other expenses	(13,557)	(15,284)
Warehousing and distribution expenses	(7,271)	(10,296)
Finance costs	(2,064)	(3,034)
Profit before income tax	13,838	12,724
Income tax (expense)/benefit	1,790	4,088
Profit for the year	15,628	16,812
Profit attributable to Equity holders of Tatura Milk	15,628	16,812

5.10 Material changes to financial position since balance date

To the knowledge of the directors of Tatura Milk, there has been no material change to the financial position of Tatura Milk since 30 June 2011.

5.11 Risks

This section 5.11 identifies what Tatura Milk regards as the key risks which could adversely impact Tatura Milk's financial performance and cause that performance to differ from statements of forecast performance contained in this scheme booklet. It also identifies the key risk factors associated with an investment in Tatura Milk RP Shares. You should read the whole of this scheme booklet in order to fully appreciate those risks.

These risks have been identified having regard to the likelihood of them occurring, their potential impact on Tatura Milk and their relevance to Tatura Milk RP Shareholders. They ought not to be taken as an exhaustive statement of the risks faced by Tatura Milk or investors in Tatura Milk. Those risk factors, and others not specifically referred to below, may in the future materially affect the financial performance of Tatura Milk and the value of Tatura Milk RP Shares.

Business specific risks

Business specific risks that may impact significantly on Tatura Milk, its performance and price of Tatura Milk RP Shares include the risks described below.

International dairy commodity prices and foreign exchange risk

Dairy commodity prices fluctuate in accordance with global supply and demand. The market value of core products of Tatura Milk such as milk powders are all affected by the global commodities market to some extent, even those products not exported but traded within the domestic market are similarly affected. There is a risk that a decline in commodity prices may reduce the prices at which Tatura Milk is able to sell its products,

thereby adversely impacting its earnings unless input prices for raw materials, including milk, can be adjusted to reflect this change.

Where dairy commodities are sold into export markets the main currency is the US dollar. Fluctuations in the Australian dollar as compared to foreign currencies have the potential to adversely impact the revenue and returns of Tatura Milk.

Reliance on major customers and exports

Tatura Milk's business relies on its ongoing commercial relationships with the major customers for which it manufactures and supplies products, such as Mead Johnson and Ingredia. However, while these major customer relationships represent a strength, the loss of a major customer could result in significant adverse financial consequences, as it is likely to take some time to replace a major customer.

As about 65% of the Tatura Milk sales are exports, any imposition of trade barriers, regulatory requirements or other matters that would affect world trade may impact Tatura Milk Group's business.

Environmental risk

Tatura Milk, as with other dairy food manufacturers, generates noise, odour, waste and air emissions in the course of food production. These emissions are regulated by statute, licence and agreement that Tatura Milk has to comply with.

Liquid waste at the Tatura facility is disposed of through facilities operated by Victorian water authorities. In this respect, Tatura Milk has an agreement with Goulburn Valley Regional Water Corporation for the disposal of waste water from the Tatura Milk facility. This agreement requires the control of chemical and physical qualities as well as the volume of waste water discharged into the water authority's systems.

Tatura Milk has formulated a program of improvements to its facilities to address its management of waste water and ensure that Tatura Milk is able to comply with all aspects of its agreement with Goulburn Valley Regional Water Corporation. The anticipated costs associated with these proposed improvements total \$3 million, which is budgeted to be spent in FY2012 and FY2013.

In addition to liquid waste, Tatura Milk has to ensure that air emissions from its powder facilities, storm water run-off and noise from general factory operations are controlled in a manner consistent with its environmental licences. Tatura Milk has a number of ongoing projects directed to environmental compliance.

Supply of nutritional formula products

Tatura Milk has a number of major customers who are required to provide nutritional formula raw materials for processing. If for any reason major customers were unable to source adequate quantities of raw materials, this may impact the returns to Tatura Milk from its nutritional operations. It should be noted that these customers are either major manufacturers of dairy products or have global procurement networks to ensure supply.

Commercial, operational and product risk

Tatura Milk may be subject to general commercial and operational risks including product defects, changes to market competition and events that interrupt production. Such events could adversely affect Tatura Milk's financial performance. Tatura Milk depends on the ongoing and efficient operation of its business systems, infrastructure and supply chain. It faces inherent risks including failure of machinery, energy suppliers and computer equipment, industrial action and natural disasters. It maintains appropriate insurance policies in respect of most insurable risks in accordance with normal commercial practices.

Tatura Milk's ability to remain productive, profitable, competitive and to effect its planned growth initiatives depends on its ability to attract and retain workers. Tightening of the labour market in key regions due to a shortage of suitably skilled workers may inhibit the Tatura Milk Group's ability to hire and retain employees. Tatura Milk is also subject to occupational health and safety regulations. If it is not able to maintain its working conditions to meet those regulations, this may impact its operations and ability to attract and retain workers and also result in contravention of those regulations, which may give rise to potential criminal and civil liability and also damage Tatura Milk's reputation.

As with all dairy food processors, Tatura Milk is exposed to the risk of product contamination and product recalls. It manages this risk by:

- (a) testing and monitoring milk intake continually during and on completion of the production process;
- (b) quality review procedures during manufacturing;
- (c) external audit of operations systems by Dairy Food Safety Victoria, Australian Quarantine and Inspection Service, SAI Global and some customers; and
- (d) maintaining insurance cover against any third party claim where appropriate and cost effective to do so.

Interest paying debt

Tatura Milk has debt facilities with Westpac Banking Corporation of up to circa \$45 million. Equitable mortgages and floating charges over all the assets and undertakings of Tatura Milk have been provided as security for the facilities. A condition of these facilities is to comply with various covenants in respect of the financial position and performance of Tatura Milk.

Based on current cash flows, Tatura Milk has sufficient facilities to finance its operations. Where debt facilities are drawn down, the term and use of the loans is taken into account in deciding what proportion of the loan, if any, should be protected from interest rate movements. The underlying interest rate payable on borrowings is driven largely by factors outside the control of the group. All borrowings are denominated in Australian dollars.

The working capital facility is generally negotiated with 12 to 18 month terms and renewed towards the end of each term or otherwise as required. Currently all facilities are due to expire in December 2012. Tatura Milk currently complies with all the financial covenants associated with its facilities. While Tatura Milk has no reason to expect that it

will not be able to renew its facilities there is a risk of non-renewal or that terms and conditions of renewal may be less favourable than they are currently.

General risks

General risks that may impact significantly on Tatura Milk, its performance and the price or value of Tatura Milk RP Shares include the following.

General economic conditions

The operating and financial performance of Tatura Milk is influenced by a variety of general domestic and world economic and business conditions, inflation, interest rates, exchange rates, access to debt and equity capital markets, and government fiscal, monetary and regulatory policies. A prolonged deterioration in any of the above factors may have a material adverse effect on the financial performance, financial position, cash flows, distributions and growth prospects of Tatura Milk.

Force majeure events

Events such as acts of terrorism, an outbreak of international hostilities or natural disasters may occur within or outside Australia and may have an impact on the Tatura Milk business. Any such force majeure events may have a negative impact on the value of an investment in Tatura Milk.

6. Information on Bega Cheese

6.1 Overview

Bega Cheese has a long history as a successful supplier co-operative business. The Bega brand is Australia's number one cheese brand with 60 million Bega branded products sold throughout the country each year.

The Bega Cheese Group undertakes dairy manufacturing, processing, cutting and packing operations through 5 specialised facilities, 2 in New South Wales (NSW) and 3 in Victoria (including the Tatura Milk facilities).

The growth of Bega Cheese from its origins as the Bega Co-operative Creamery Company has occurred both organically and through acquisitions, resulting in an expanded business with a diversified product mix and increased production volumes. A landmark acquisition occurred in April 2007, when Bega Cheese acquired its 70% controlling interest in Tatura Milk.

Although it changed its structure in 2008 from a co-operative to an unlisted public company, and on 16 August 2011 was admitted to the official list of ASX, its constitution retains a number of features reflecting the co-operative background of Bega Cheese, namely the requirement that the board will include at least 4 directors who are or represent Bega Cheese Dairy Farmer Suppliers and maximum limits on individual shareholdings in Bega Cheese for a defined period.

Key business drivers for Bega Cheese include ensuring that investment and capital expenditure decisions generate appropriate returns for shareholders, commercial and strategic activities reflect the competitive environment the business operates in and milk pricing secures reliable milk supply from farmers.

6.2 History

Bega Cheese started business over 110 years ago as The Bega Co-operative Creamery Company. Its major milestones are as follows:

Year	Milestone
1899	The Bega Co-operative Creamery Company formed
1900	Original butter factory opened
1924	Butter factory built on present Lagoon Street site
1944	Name changed to The Bega Co-operative Society Ltd
1983	Bonlac ¹ commences marketing Bega branded natural and processed

¹ In 1983 the Bega Cheese brand was licensed to Amalgamated Co-operative Marketers (Australia) Limited (which became Bonlac Foods Limited). Bonlac Foods Limited was subsequently acquired by Fonterra Brands (Australia) Pty Limited's parent company.

Year	Milestone
	cheese products outside NSW and the ACT
1994	Commenced exporting cheese to a number of countries
1997	Commenced Capitol Chilled Foods (Australia) joint venture
1998	Commissioned the cheese cutting, packaging and processing facility at Ridge Street, Bega
2001	The Bega brand licensed to Fonterra for use in Australia on cheese and butter, in conjunction with a long term product supply agreement and a major upgrade of the Ridge Street facility
2007	Acquired 70% of Tatura Milk
2008	Corporate structure changed from a co-operative to an unlisted public company
2008	Acquired Coburg cheese plant
2009	Acquired Kraft Foods' Strathmerton packaging and cheese plant
2010	Acquired 15% of WCB
2011	Listed on ASX

6.3 Current operations

The Bega Cheese Group operates 5 dairy manufacturing sites across NSW and Victoria (including the Tatura Milk facilities), manufacturing and value adding approximately 186,000 tonnes of dairy products in FY2011. Bulk cheddar cheese, string cheese and whey powder are produced at Lagoon Street, Bega and bulk cheddar and mozzarella cheese at Coburg, Victoria. Milk powders, cream cheese and nutritionals are produced at Tatura. The Ridge Street, Bega and Strathmerton, Victoria facilities are dedicated to the cutting, packaging and processing of bulk cheese products into retail and food service packs.

The Bega Cheese Group's business can be categorised as follows:

Core dairy products manufacturing (which include Tatura Milk's operations)

- (a) cheddar, cream and mozzarella cheeses, milk powders, butter and cream
-

Fast Moving Consumer Goods (FMCG) business focused on cheese packaging and processing, including products under the Bega brand

- (a) cutting, packaging and processing of cheese products into retail packs for customers including Fonterra, Kraft Foods and ALDI Stores
- (b) 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

(c) direct marketing and sales of Bega products internationally

Nutritional food products manufacturing (principally undertaken by Tatura Milk)

(a) infant formula

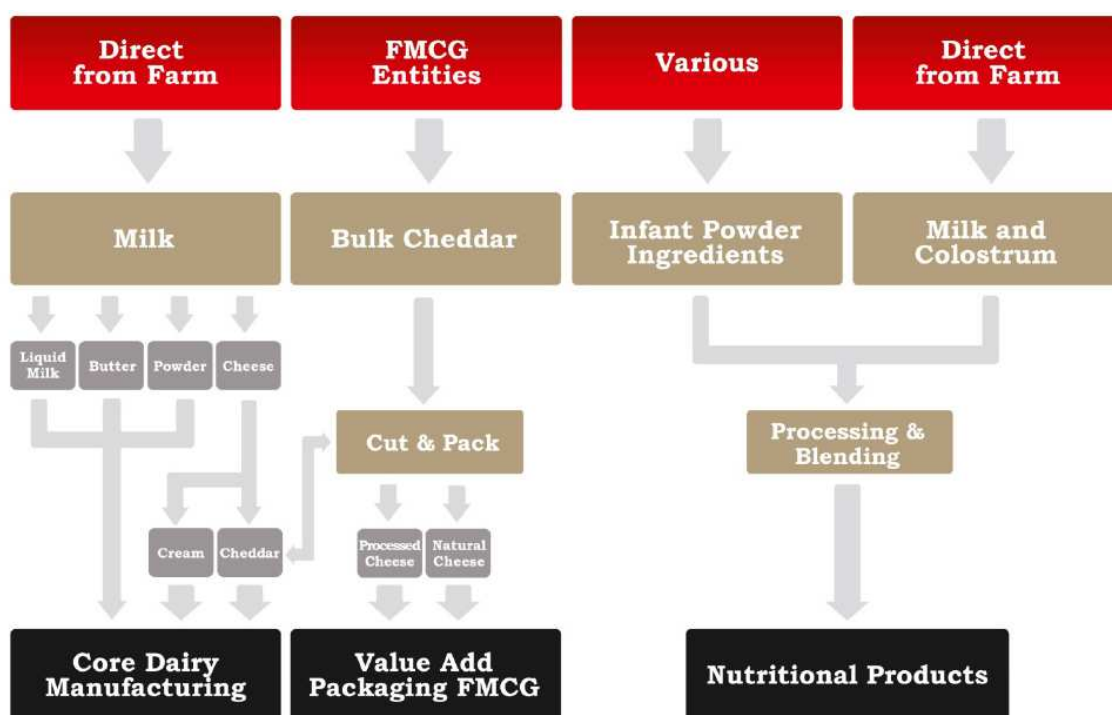
(b) milk biologics such as lactoferrin and colostrum

Bega Cheese also has several assets and interests that could be defined as strategic investments outside of its core manufacturing businesses. These assets and interests include an investment of approximately 16.5% in WCB and 25% interest in Capitol Chilled Foods (Australia).

The following table summarises the recent production levels and the Bega Cheese Group's assessment of reasonable capacity levels in tonnes per annum (assuming traditional product mix). One of the potential growth areas is the Bega Cheese Group's investment in capacity and the ability to benefit from higher utilisation of its existing facilities.

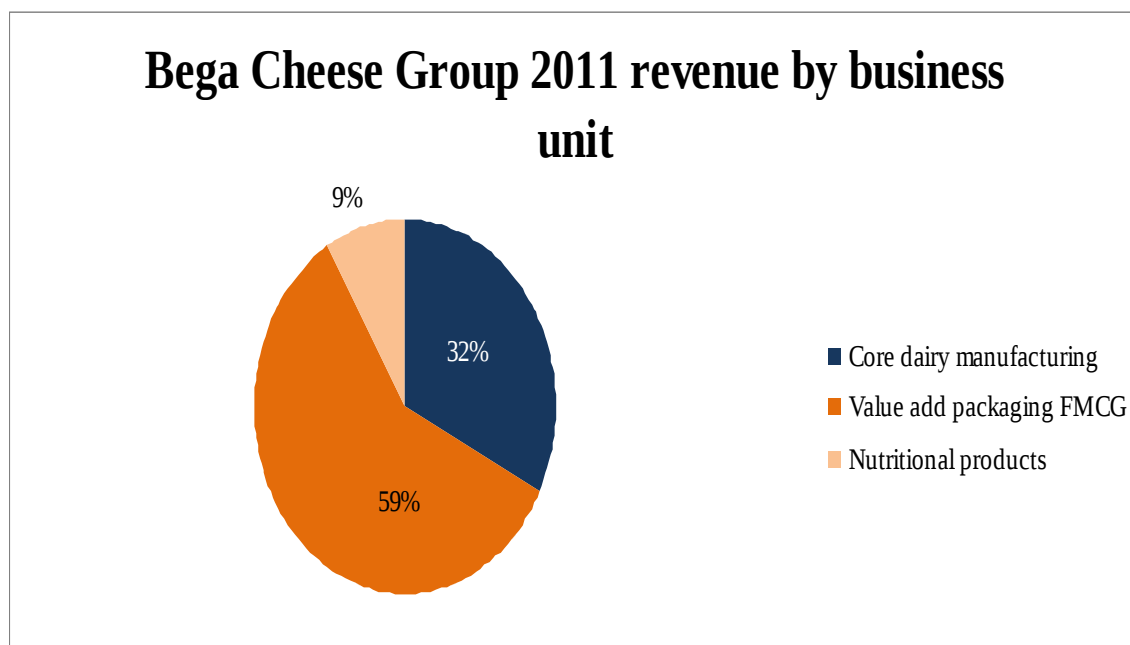
Facility	Production FY2010 Tonnes	Production FY2011 Tonnes	Capacity Tonnes
Lagoon St	23,349	24,683	42,000
Coburg	5,799	4,750	10,000
Ridge St	61,626	60,528	75,000
Strathmerton	29,422	33,864	100,000
Tatura	66,896	62,398	94,000
Total	187,092	186,223	321,000

The following table provides a schematic overview from the receipt of milk and other raw materials and the processing by the Bega Cheese business.



The size of boxes and arrows in the above chart does not reflect the relative size of each business.

Based on FY2011 numbers, the split of revenue by business units and by destination is as depicted in the following pie charts.



Bega Cheese Group 2011 revenue by destination



6.4 Milk supply and pricing

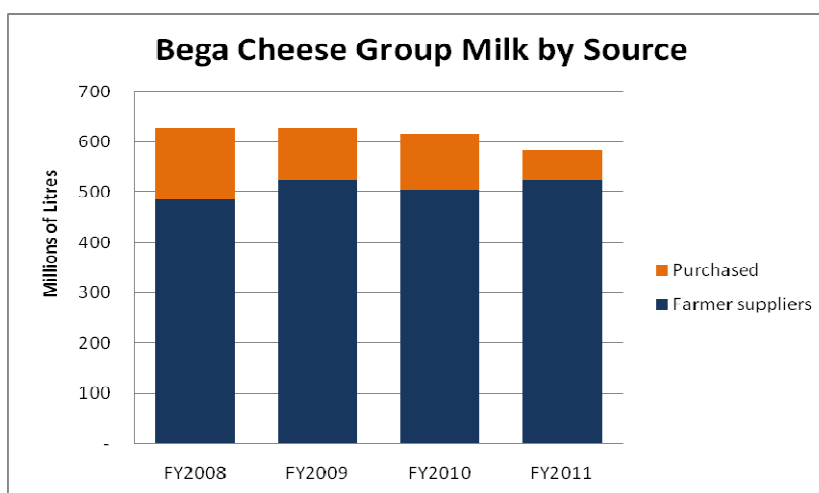
The annual milk intake by the Bega Cheese Group is approximately 600 million litres, which is about 6% of total Australian milk production.

The Bega Cheese Group receives milk from about 500 farmer suppliers (including the Tatura Milk suppliers). The largest single farmer supplier represents just over 1% of milk delivered. Traditionally, farmer suppliers do not have written, long term contracts relating to the supply of their milk, but effectively commit to a buyer on an annual basis.

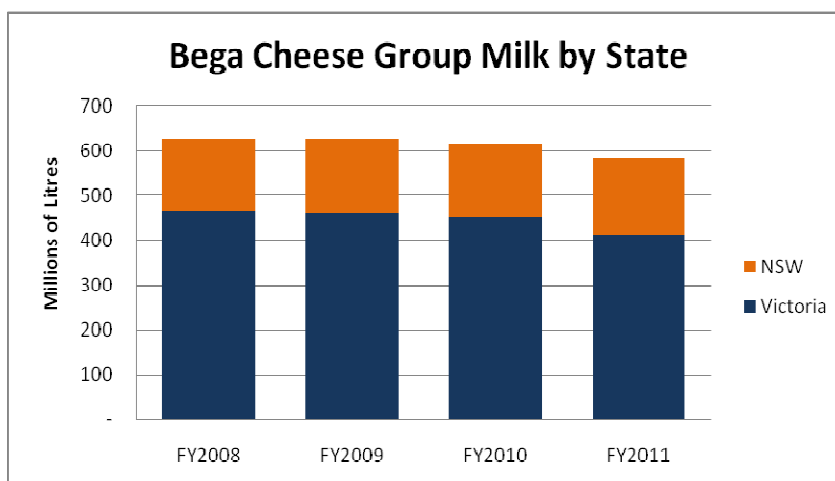
The Bega Cheese Group also acquires milk from third party suppliers as and when required and available.

Milk pricing is traditionally set on a July to June financial year or 'season' basis.

Milk pay rates applying to NSW dairy farmers are influenced by domestic drinking milk demands as the majority of NSW milk goes into that market. Therefore pay rates are set by processing companies at the commencement of the year and they only change in exceptional circumstances. This system provides these dairy farmers with certainty as to what price they will receive for their milk and provides an incentive for them to continue to produce milk throughout the year.



Milk pay rates applying to Victorian dairy farmers consist of opening pay rates together with deferred 'loyalty' payments announced to farmer suppliers during the year. The loyalty payments depend on the operating performance of the business. This pricing system enables Victorian based manufacturers to manage the risk of setting the pay rates too high at the beginning of the year, without knowing all of the variables that will affect the selling price of the products to be manufactured during the year. This is because a significant amount of Victorian milk is processed and exported and returns are dependent on a range of factors that can vary during the year.



In both Victoria and NSW, the milk pay rates for the Bega Cheese Group's farmer suppliers (those dairy farmers who actively supply milk to a member of the Bega Cheese Group) vary by season. Generally higher pay rates are paid in the winter months when costs to the farmers to produce milk are higher and lower pay rates are paid in spring when costs to the farmers to produce milk are lower. These seasonal milk pay rates are designed to incentivise year-round milk production, and smooth out the seasonal milk production peak.

Milk prices are also adjusted to reflect the quality of the milk received at the factory and are set based on the composition of milk solids supplied (i.e. butterfat and protein).

Milk prices are set in a highly competitive environment. In NSW the major competitors for milk are dairy companies selling milk to satisfy demand in the liquid milk market. In Victoria the competitors for milk are mostly entities processing milk into cheese and other dairy products primarily for export markets. Prices therefore reflect global commodity prices and competition for product. Bega Cheese intends to continue its history of paying leading manufacturing milk prices. This is important to ensure security of supply in an environment where in recent years the number of dairy farms and herd numbers has contracted and milk pools have reduced.

Currently milk price decisions are made by the respective Bega Cheese and Tatura Milk boards based on recommendations by management. Bega Cheese believes that it is in the interests of shareholders that all Bega Cheese board members (including those who are farmer suppliers) are involved in milk pricing decisions due to its critical importance.

To ensure that the milk price paid by the Bega Cheese Group is appropriate, the Bega Cheese board has adopted a new milk price policy effective from 1 July 2011. Under the new milk pricing policy, farmer suppliers who actively supply milk to a member of the

Bega Cheese Group will receive a price determined in accordance with that policy, and will only participate in future distributions of profit if they are a shareholder of Bega Cheese (and on the same basis as all shareholders).

Bega Cheese Group Milk Price Policy – effective 1 July 2011

1. Introduction

A cornerstone of the development of the Bega Cheese business has been the organisation's understanding of, and focus on, retaining and growing milk supply.

The careful management and recognition of the changing environment dairy farmers operate in has seen Bega Cheese develop a close association with its suppliers. The organisation's capacity to respond to supplier concerns, deliver appropriate market signals and provide support on key issues will remain a core competency for Bega Cheese.

A long term, sustainable supply of milk ensures Bega Cheese's manufacturing facilities operate efficiently and competitively to meet the short and long term needs of its customers.

2. Milk Price Policy and Milk Prices in Various Regions

Bega Cheese will consider the following issues in relation to the milk prices set for the various supply regions:

- (a) place of origin – the significance of the place of origin of the milk used in manufacture of particular dairy products (for example, milk used in the manufacture of Bega branded cheese);
- (b) financial returns from dairy products – the financial return expected to be earned from dairy products manufactured using milk supplied by the relevant farmers;
- (c) sustainability of supply base – Bega Cheese will endeavour to ensure the long term sustainability of dairy farming in the relevant region;
- (d) competitive circumstances – the competitive farm gate milk prices in each region.

3. Company of Choice

Bega Cheese endeavours to be the preferred company choice of dairy farmers in South Eastern Australia for the sale of their milk. The combination of a leading manufacturing milk price and innovative farm extension programs will be the key to attracting and retaining milk supply and keeping our farmer suppliers viable.

6.5 Board of directors

The board of Bega Cheese brings relevant experience and skills including relating to fast moving consumer goods, financial management and corporate governance. As at the date of this scheme booklet, the Bega Cheese board comprises:

Name	Status
Barry Irvin AM	Executive chairman who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Max Roberts	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier

Name	Status
Richard Parbery	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Tom D’Arcy	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Richard Platts	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Peter Margin	Independent non-executive director
Joy Linton	Independent non-executive director

If the Merger is implemented as proposed, Bega Cheese has agreed for two of the Tatura Milk Dairy Farmer Supplier Directors, as voted on by you, to join the Bega Cheese board. These directors would be, or represent, Tatura Milk Dairy Farmer Suppliers, and would be in addition to the above directors.

A summary of the relevant experience of the directors of Bega Cheese is set out below.

Barry Irvin, AM
Executive chairman

Mr Irvin has been chairman of Bega Cheese since 2000 and executive chairman since 2008. Mr Irvin has led the Bega Cheese executive teams in the implementation of strategies, initiatives and acquisitions that have driven Bega Cheese’s success and growth.

Mr Irvin is recognised globally for his extensive knowledge of the Australian dairy industry and speaks regularly at international conferences. He was recently awarded the Rabobank 2011 Leadership Award for his outstanding contribution to the food and agribusiness industries and was the NAB Agribusiness leader of the year in 2009. He was appointed a Member of the Order of Australia for service to the dairy industry and to children with disabilities and their families in 2008. Mr Irvin continues to have involvement in his family’s dairy farming business and, as such, has a thorough knowledge of the dairy industry supply chain from production, through to manufacture and sales.

Following Aidan Coleman’s May 2011 appointment as CEO of Bega Cheese, Mr Irvin has continued as executive chairman providing direction for the CEO and the Bega Cheese Group to ensure that it meets its long term strategies including financial, organisational and cultural goals. The executive chairman will be pivotal in leading key strategic business activities centred on the evolving Bega Cheese Group structure, public and stakeholder relations and stewarding major customer and alliance relationships.

Mr Irvin is also:

- (a) director and deputy chairman of Capitol Chilled Foods (Australia);
 - (b) director and chairman of Tatura Milk;
 - (c) director of WCB;
 - (d) director of the Gardiner Foundation, a Victorian dairy industry group that invests in projects that have positive impact on the dairy industry and the wider community;
 - (e) director and chairman of Giant Steps Sydney Limited, an educational and therapy centre for children with autism.
-

Max Roberts

Mr Roberts has been involved in the dairy industry for many years, including agripolitical, board representation and direct dairy farming activities. Moving from an initial career in journalism, Mr Roberts was a director of Milk Marketing NSW Pty Ltd, chairman of NSW Farmers Inc dairy section and vice president of Australian Dairy Farmers Federation. Mr Roberts is currently chairman of Dairy Australia Limited.

Mr Roberts is an active dairy farmer and his responsibilities in serving Bega Cheese include:

- (a) director since 1983;
 - (b) deputy chairman from 2000 to 2011.
-

Richard Parbery, FCPA

Mr Parbery is a managing partner of a successful regional accounting practice, is a fellow of the Australian Society of Certified Practising Accountants, a registered company auditor, registered tax agent and a justice of the peace NSW. Mr Parbery is experienced in servicing many agricultural and general business clients.

Mr Parbery is also heavily involved in a number of family businesses and investments, including a major dairying business. His responsibilities in serving Bega Cheese include:

- (a) director since 1988;
- (b) deputy chairman from 2000 to 2011;
- (c) member of the Audit and Risk Committee.

Mr Parbery is also:

- (a) director of Tatura Milk since April 2007;
 - (b) chairman of the Tatura Milk Finance Committee.
-

Tom D’Arcy, Dip. App. Sc (Dairy Tech), Dip Ag, GAICD

Mr D’Arcy has a Diploma in Dairy Technology and Agriculture and is a member of the Australian Institute of Company Directors. Following graduation Mr D’Arcy worked in quality control at Bega Cheese and ultimately became responsible for management of quality systems until he left in 1977. Mr D’Arcy extended his knowledge of international dairy practices by working for the International Agricultural Exchange in Alberta, Canada before returning to Australia to manage his family’s farming business.

Mr D’Arcy has actively represented farmers on many state and federal committees designed to address key and emerging issues in the Australian dairy industry.

Mr D’Arcy is an active dairy farmer and his responsibilities in serving Bega Cheese include:

- (a) director since 1998;
- (b) member of the Audit and Risk Committee.

Richard Platts, Adv Dip Agr; GAICD

Mr Platts has been representing farmers for over twenty years, through various roles in the NSW Dairy Farmers Association, Dairy Industry Development Corporation and Dairy Farmers Co-operative.

Mr Platts has a background in agriculture, has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors.

Mr Platts is an active dairy farmer and has been a director of Bega Cheese since 2000.

Peter Margin, BSc (Hons), MBA

Mr Margin joined the Bega Cheese board on 27 June 2011. He has many years of leadership experience in major Australian and international food companies.

His most recent position was the CEO of ASX-listed food group Goodman Fielder Ltd from 2005 until April 2011.

Prior to that appointment he was the CEO and Chief Operating Officer of National Foods Ltd and has had prior experience at Heinz, Birds Eye Foods and Plumrose.

Mr Margin is also a non-executive director of ASX-listed Nufarm Limited.

Joy Linton, BComm, Grad Dip AFI, GAICD

Ms Linton is currently Chief Financial Officer at Bupa Australia, one of Australia’s leading healthcare companies. Ms Linton has 20 years of experience in strategic and financial roles with companies such as Ford Motor Company, Pacific Dunlop Food Group and National Foods Limited. She held the role of CFO of National Foods from 2007 to 2010 and prior to that was General Manager Commercial for the Dairy Foods Group.

Over recent years, Ms Linton has been instrumental in the acquisition and integration of the Dairy Farmers, Lactos, Berri and King Island businesses respectively into National Foods, and was a key member of the National Foods business takeover defence team in 2004 when National Foods was listed on the ASX.

Ms Linton has a Bachelor of Commerce from the University of Melbourne, a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia, and is a Graduate of the Australian Institute of Company Directors.

6.6 Senior management

Bega Cheese has an experienced team of executives leading the business. A summary of the experience and capabilities of the CEO and members of the senior executive team are provided below.

Aidan Coleman, BA, BBS, GAICD (Chief Executive Officer)

Aidan was appointed CEO effective 10 May 2011. He has 27 years of experience in the international marketing and manufacturing of consumer dairy products and dairy ingredients primarily in Australia, New Zealand, China, Japan, South East Asia, Latin America and the Indian sub-continent.

Aidan has held positions including Manager Director–Fonterra Brands Australia, CEO of Bonland Dairies-Australia, and Managing Director of New Zealand Milk in Sri Lanka and was General Manager of the Consumer Foods business of Tatura Dairy Cooperative in New Zealand. In 2008 he was appointed CEO of Tatura Milk and has been part of the Bega Cheese executive group since that time.

He holds a Bachelor of Arts in economics and psychology from Auckland University and a Business Degree in marketing from Massey University in New Zealand, as well as being a graduate of the Australian Institute of Company Directors. Since 2009, Aidan has been a director of Dairy Innovation Australia Limited, an industry funded research/innovation organisation.

Maurice Van Ryn, B.Bus. (Acc.) (General Manager – Sales and Marketing)

Maurice joined the Bega Cheese Group in 1986 initially as group accountant and company secretary and has 25 years of experience with the company. He was the CEO from 1990 to 2005. He then took responsibility for sales and marketing including the export activities of Bega Cheese and apart from a brief secondment to be CEO of Tatura Milk between 2007 – 2008 has continued in that role.

At present, he is the longest serving senior executive within the Bega Cheese Group and has a wide ranging experience across all facets of the Bega business.

Maurice holds non-executive board positions in two small listed ASX companies. However, his time is substantially dedicated to his role at Bega Cheese.

Colin Griffin, CA, BA in Accounting
(Chief Financial Officer/Company Secretary/Bega Brand Franchise Manager)

Born in Bega, Colin completed a BA (Accounting) in 1985 and obtained his Chartered Accountant membership in 1988. With a background in auditing and corporate advisory at KPMG, Colin joined the Bega Cheese team as Finance Manager and Company Secretary in 1993.

With 18 years experience, Colin has led the finance team and is responsible for corporate development, mergers and acquisitions and legal affairs for both Bega and Tatura Milk. He is a director of Tatura Milk and Capitol Chilled Foods (Australia).

In addition he is responsible for the stewardship of the Bega brand franchise agreement and is the relationship manager for Fonterra.

Sean Moran, Dip. App. Sc. (Dairy)
(General Manager – Processing and Packaging)

Sean started his career in the dairy industry in New Zealand in 1984. He moved to Australia where he joined Tatura Milk in 1988 and had several senior management roles in manufacturing and logistics.

Sean joined Bega Cheese in July 2005. His current role is the responsibility for the operations at the process and packaging facilities at both the Ridge St and Strathmerton sites.

Grattan Smith, B.Bus.
(General Manager – Supply Chain)

Grattan joined Bega Cheese in December 1997. He has over 25 years of industry experience in logistics and supply chain including retail, manufacturing and contract warehousing and distribution. Grattan's various roles have encompassed all aspects of the supply chain including inventory management, purchasing, planning, import/export/transport and warehouse management.

He is currently responsible for all supply chain (non-milk) activities across the Bega company sites.

Matthew Fanning, B Ec
(General Manager – Human Resources)

Matt joined Bega Cheese in January 2000. He currently holds responsibility for all human resources activities at Bega, Strathmerton and Coburg. Prior to joining the company he worked with a number of large organisations in human resources and industrial relations roles.

He has a Bachelor of Economics from Monash University and has undertaken post-graduate studies in human resources related areas.

John Hicks, GAICD
(General Manager – Manufacturing and New Business Development)

John joined Bega Cheese in January 2001 as a Project Manager, after five years experience with a major UK dairy company. In 2002 he became the Site Manager Dairy Products Unit and in 2008 was appointed as GM Operations Tatura Milk Industries.

He was appointed to his current position in 2009 and currently has responsibility for the Lagoon St and Coburg Facilities, in addition to ongoing development of new business opportunities. John is a graduate of the Australian Institute of Company Directors.

Michael Hampson, CA, BBus (Acct)
(General Manager – Commercial)

Michael joined Bega Cheese in April 2003 as Manager, PPU Finance. He assumed the Commercial Procurement function in December 2005 as Manager, Commercial Finance. He was seconded to Tatura Milk in April 2007 as CFO/General Manager – Commercial assuming all finance, IT, procurement, supply chain and major commercial negotiations responsibilities. He returned to Bega Cheese in May 2009 as General Manager – Commercial.

Michael's current activities are financial management of the FMCG business, including financial responsibility of the Strathmerton Facility, procurement across the Group, and relationship manager to Kraft Foods.

He has a Bachelor of Business (Accounting), Charles Sturt University and is a Chartered Accountant.

Paul van Heerwaarden, CPA, MBA, BBus (Acct)
(Tatura Milk Executive General Manager)

See section 5.5.

6.7 Corporate governance

The board of Bega Cheese is committed to maximising performance, generating appropriate levels of shareholder value and financial return and sustaining the growth and success of the Bega Cheese business and the Bega brand.

In conducting business with these objectives, the board will ensure that Bega Cheese is properly managed to protect and enhance shareholder interest, and that Bega Cheese, its directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the board has adopted corporate governance policies and practices designed to promote the responsible management of Bega Cheese.

Through the Bega Cheese initial public offering, new investors who are not Bega Cheese Dairy Farmer Suppliers became shareholders. The Bega Cheese board will act in accordance with its board charter and the Corporations Act to enhance value for all shareholders. The board also recognises that maintaining a secure supply of milk is important for the company, therefore it will continue to endeavour to pay a leading manufacturing price for its milk in accordance with its milk pricing policy.

ASX Corporate Governance Council's Corporate Governance Principles and Recommendations defines an 'independent director' as a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or be perceived to materially interfere with – the independence of their judgment. Although some directors are also suppliers of milk to Bega Cheese, they do so on the same terms as all other milk suppliers in the same region and the company's procedures and systems ensure that milk prices are set according to the commercial interests and needs of the company. Nonetheless, the Bega Cheese board recognises that there may be a perception that the milk supply relationship between directors who are or represent Bega Cheese Dairy Farmer Suppliers and Bega Cheese may influence the decision making of those directors. Accordingly, those supplier directors have not been characterised as independent within the terms of ASX Corporate Governance Principles and Recommendations.

This means that the board of Bega Cheese does not comply with ASX Corporate Governance Recommendation 2.1, which provides that a majority of the board should be independent directors, or ASX Corporate Governance Recommendation 2.2, which provides that the chairperson of the board should be an independent director. The board appointed one new external, independent director, Peter Margin, prior to listing and recently appointed a second external, independent director, Joy Linton. With these additions, the Bega Cheese board believes it will be well placed to oversee the Bega Cheese Group's business and its future development. The board believes that Barry Irvin is the right person to continue to perform the role of chairperson, even though he is not classified as independent according to ASX Corporate Governance Principles and Recommendations. As the constitution of Bega Cheese provides for a board of up to 8 directors with a minimum of 4 who are or represent Bega Cheese Dairy Farmer Suppliers, the shareholders will be in a position to determine the composition of the Bega Cheese board in the future.

Details of Bega Cheese's key policies and practices and the charters for the Bega Cheese board and each of its committees are available at www.begacheese.com.au.

6.8 Share capital structure

Bega Cheese has one class of shares on issue, Bega Cheese Ordinary Shares. At the date of the scheme booklet, there are 126,709,903 issued Bega Cheese Ordinary Shares.

Bega Cheese has established employee share plans under which Bega Cheese shares, or rights to receive Bega Cheese shares, may be issued to employees of the Bega Cheese Group. At the time Bega Cheese was listed on ASX, a number of shares and rights were issued to employees of Bega Cheese for no monetary payment. At the date of this scheme booklet, 362,500 Bega Cheese Employee Rights have been granted to senior executives of the Bega Cheese Group, each of which entitles the holder to one Bega Cheese Ordinary Share for no monetary payment upon certain conditions being satisfied.

If the Merger is implemented Bega Cheese intends to offer Bega Cheese shares or rights on a similar basis to employees of Tatura Milk. While the details of participation by the Tatura Milk employees in the employee share plans are yet to be finalised by the Bega Cheese board, it is anticipated that no amount will be payable by the employees for the shares or rights and that the maximum number of shares or rights will not exceed

\$500,000 in value (based on the market value of the shares or underlying shares that are issued or agreed to be issued).

The Bega Cheese Ordinary Shares to be issued as consideration for your Tatura Milk RP Shares will be of the same class and will rank equally with the existing Bega Cheese Ordinary Shares on issue.

The principal rights attaching to Bega Cheese Ordinary Shares are summarised in section 8.

6.9 Top 20 shareholders

As at 17 October 2011 the top 20 holders of Bega Cheese Ordinary Shares were as follows:

Name	Number of shares	Percentage of total shares on issue
KD & JL Kimber	5,014,984	3.96
RBC Dexia Investor Services Australia Nominees Pty Ltd (Pipooled a/c)	4,916,781	3.88
Paewai Pty Ltd	4,194,364	3.31
Richard Ellwyn Platts	3,537,956	2.79
Aljo Pastoral Pty Ltd	3,004,984	2.37
CB & MA Moffitt	2,850,564	2.25
R & R Apps Pty Ltd	2,823,972	2.23
Jerang Pty Ltd	2,664,012	2.10
Telstar Holsteins Pty Ltd	2,442,564	1.93
BR Game and MC & CL Beresford	2,179,288	1.72
WF RN & BJ Taylor	1,925,136	1.52
NG & NG Pearce	1,876,388	1.48
G & NE Lucas	1,779,996	1.42
Peter Shearer	1,781,408	1.41
Jelgowry Pty Ltd	1,692,852	1.34
Max & Sue Roberts	1,675,000	1.32

Name	Number of shares	Percentage of total shares on issue
BJ & CA Cochrane	1,652,264	1.30
RBC Dexia Investor Services Australia Nominees Pty Ltd (bkcust a/c)	1,620,163	1.28
Stephen & Mary Guthrey	1,612,156	1.27
Kameruka Estates Limited	1,584,200	1.25
Total	50,849,032	40.13

6.10 Dividend policy and payment history

Subject to available profits and the financial position of the Bega Cheese Group, it is the intention of the directors of Bega Cheese to pay up to 50% of the net profit after tax applicable to the members of Bega Cheese as a dividend for FY2012.

No guarantee can be given about future dividends, or the level of franking or imputation of such dividends, as these matters will depend upon the future profits of the Bega Cheese Group, its financial and taxation position, the need to retain funds for capital expenditure and the directors' views of the appropriate payout ratio at the time.

In respect of the financial year ended 30 June 2011, the directors of Bega Cheese declared a fully franked dividend for shareholders on the register as at 9 June 2011 of 1.25 cents per share. This dividend was paid on 15 June 2011.

Sections 6.12 and 6.13 provide more detail on the financial position of the Bega Cheese Group.

6.11 Dividend reinvestment plan

Bega Cheese has adopted a dividend reinvestment plan (**DRP**) which will provide its shareholders with the choice of reinvesting dividends paid by Bega Cheese by applying all or part of those dividends to acquire additional shares, rather than receiving the dividends in cash.

Participation in the DRP is optional and open to all Bega Cheese shareholders holding fully paid Bega Cheese Ordinary Shares, other than those whose registered addresses are in jurisdictions outside of Australia. Shareholders can elect to participate in the DRP by completing and returning the application form provided by the Bega Cheese share registry in respect of all or some of their shares. No action is required by a shareholder who wishes to receive cash dividends.

The rules of the DRP are typical of a dividend reinvestment plan operated by an ASX listed company, including the ability for the Bega Cheese board to vary, suspend or terminate the plan at any time, and can be found on the Bega Cheese website at www.begacheese.com.au.

6.12 Historical financial performance

The historical financial information below has been extracted from Bega Cheese's audited financial statements for the financial year ended 30 June 2011. The information relates to the consolidated Bega Cheese Group and does not reflect the impact of the Scheme.

The information is a summary only and does not contain the disclosures provided in annual financial reports in accordance with the Corporations Act.

Bega Cheese's 2011 annual report was lodged with ASX on 28 September 2011. A copy of this report, which includes notes to the accounts, can be downloaded from the Bega Cheese website at www.begacheese.com.au or from the ASX website at www.asx.com.au. A hard copy can be requested by contacting Bega Cheese (see section 6.19).

Consolidated statement of financial position

\$'000	Actual 2011	Actual 2010
Current assets		
Cash and cash equivalents	20,587	18,169
Trade and other receivables	83,341	89,580
Other financial assets	2,489	819
Inventories	104,595	122,531
Assets held for sale	9	27
Total current assets	211,021	231,126
Non-current assets		
Other financial assets	37,010	199
Property, plant and equipment	197,866	193,796
Deferred tax assets	14,400	17,212
Intangible assets	1,788	2,170
Total non-current assets	251,064	213,377
Total Assets	462,085	444,503
Current liabilities		
Trade and other payables	117,764	112,465
Borrowings	22,006	63,953
Current tax liabilities	1,904	2,717
Provisions	18,872	16,745
Total current liabilities	160,546	195,880
Non-current liabilities		
Trade and other payables	148	704
Borrowings	94,300	68,659
Provisions	1,616	1,644
Total non-current liabilities	96,064	71,007
Total Liabilities	256,610	266,887
Net Assets	205,475	177,616
Equity		
Contributed equity	27,169	27,163
Reserves	46,057	31,907
Retained earnings	106,633	92,888
Capital and reserves attributable to owners of Bega Cheese Limited	179,859	151,958
Non-controlling interests	25,616	25,658
Total equity	205,475	177,616

Consolidated statement of income

Revenue	931,690	829,029
Cost of sales	(837,145)	(743,750)
Gross profit	94,545	85,279
Other income	7,533	8,106
Distribution expense	(25,343)	(24,016)
Marketing Expense	(10,765)	(8,085)
Occupancy expense	(2,634)	(2,358)
Administration expense	(31,741)	(27,007)
Finance costs	(9,505)	(10,120)
Profit before income tax	22,090	21,799
Income tax (expense)/benefit	(397)	1,468
Profit for the year	21,693	23,267
Other comprehensive income:		
Cash flow hedges	3,442	(3,300)
Change in the fair value of other financial assets	10,474	98
Total other comprehensive income	13,916	(3,202)
Total comprehensive income for the year	35,609	20,065
Profit attributable to		
Equity holders of Bega Cheese Limited	17,005	18,223
Non-controlling interests	4,688	5,044
	21,693	23,267
Total Comprehensive income for the year is attributable to:		
Equity holders of Bega Cheese Limited	30,065	15,909
Non-controlling interests	5,544	4,156
	35,609	20,065

Consolidated statement of cash flows

\$'000	Actual 2011	Actual 2010
Cash flows from operating activities		
Receipts from customers inclusive of goods and services tax	980,246	863,366
Payments to suppliers and employees inclusive of goods and services tax	(893,851)	(797,736)
Interest and other costs of financing paid	(8,934)	(11,000)
Income taxes paid	(3,582)	(1,412)
Net cash inflow from operating activities	73,879	53,218
Cash flows from investing activities		
Interest received	456	438
Dividend received	327	-
Payments for property, plant and equipment	(24,817)	(20,741)
Payments for shares in listed companies	(22,235)	(1,211)
Proceeds from sale of property, plant and equipment	42	622
Proceeds from sale of shares in listed companies	-	1,423
Proceeds from sale of shares in unlisted companies	-	112
Net cash (outflow) from investing activities	(46,227)	(19,357)
Cash flows from financing activities		
Proceeds from borrowings	20,000	-
Repayment of borrowings	(35,000)	(33,367)
Repayment of leases	(1,394)	(514)
Loans made to non-controlling interests	(2,753)	(3,228)
Share capital subscribed by members	8	2,353
Share capital purchased back from members	(2)	-
Share capital subscribed by non-controlling interests	2,058	1,340
Share capital purchased back from non-controlling interests	(232)	(1,194)
Dividends paid to members	(3,260)	(1,737)
Dividends paid to non-controlling interests	(4,659)	(1,308)
Net cash (outflow) from financing activities	(25,234)	(37,655)
Net increase/(decrease) in cash and cash equivalents	2,418	(3,794)
Cash and cash equivalents at the beginning of the year	18,169	21,963
Cash and cash equivalents at the end of the year	20,587	18,169

6.13 Material changes to financial position since balance date

To the knowledge of the directors of Bega Cheese, there has been no material change to the financial position of Bega Cheese or to the consolidated financial position of the Bega Cheese Group since 30 June 2011 except as noted below:

Bega Cheese initial public offering

On 18 July 2011, as part of its IPO, Bega Cheese issued the Bega Cheese Prospectus inviting certain categories of the public (including Tatura Milk RP Shareholders) and employees of Bega Cheese to subscribe for new Bega Cheese Ordinary Shares. Under the offer 17,500,000 Bega Cheese Ordinary Shares were issued at an issue price of \$2.00 each. In addition, 532,975 Bega Cheese Ordinary Shares were issued to staff of Bega Cheese under the Bega Cheese employee loyalty offer for no consideration. In total, 18,032,975 Bega Cheese Ordinary Shares were issued for consideration totalling \$35,000,000, with the Bega Cheese Ordinary Shares being issued and the cash proceeds from the issue of Bega Cheese Ordinary Shares being received in August 2011. A further 362,500 Bega Cheese Ordinary Shares are to be issued in August 2012 under the retention award portion of the Bega Cheese employee loyalty offer.

Pro-forma consolidated statement of financial position

The table below sets out the historical consolidated statement of financial position of the Bega Cheese Group as at 30 June 2011 as well as normalisation adjustments to reflect the impact of the IPO and Bega Cheese operating as a listed entity. The adjustments assume the IPO was completed and the Bega Cheese Group had been operating as a listed entity for the full year ending 30 June 2011.

\$'000	Actual 30 June 2011	Pro-forma adjustments Impact of IPO	Pro-forma 30 June 2011 IPO
Current assets			
Cash and cash equivalents	20,587	4,729	25,316
Trade and other receivables	83,341	(2,152)	81,189
Other financial assets	2,489	-	2,489
Inventories	104,595	-	104,595
Assets held for sale	9	-	9
Total current assets	211,021	2,577	213,598
Non-current assets			
Other financial assets	37,010	-	37,010
Property, plant and equipment	197,866	-	197,866
Deferred tax assets	14,400	-	14,400
Intangible assets	1,788	-	1,788
Total non-current assets	251,064	-	251,064
Total Assets	462,085	2,577	464,662
Current liabilities			
Trade and other payables	117,764	(1,175)	116,589
Borrowings	22,006	-	22,006
Current tax liabilities	1,904	90	1,994
Provisions	18,872	-	18,872
Total current liabilities	160,546	(1,085)	159,461
Non-current liabilities			
Trade and other payables	148	-	148
Borrowings	94,300	(31,500)	62,800
Provisions	1,616	-	1,616
Total non-current liabilities	96,064	(31,500)	64,564
Total Liabilities	256,610	(32,585)	224,025
Net Assets	205,475	35,162	240,637
Equity			
Contributed equity	27,169	33,441	60,610
Reserves	46,057	(1,080)	44,977
Retained earnings	106,633	2,801	109,434
Capital and reserves attributable to owners of Bega Cheese Limited	179,859	35,162	215,021
Non-controlling interests	25,616	-	25,616
Total equity	205,475	35,162	240,637

The FY2011 consolidated statement of financial position shown in the table above has been extracted from the Bega Cheese Group 2011 financial statements as reviewed by the

company's auditors and adjusted to reflect the assumptions set out below and in more detail in section 6.16:

- (a) Balance sheet effect of one-off items and other normalisation adjustments associated with the IPO as detailed in the reconciliation to statutory financial statements below.
- (b) 17.5 million Bega Cheese Ordinary Shares were issued as part of the IPO for gross proceeds of \$35 million.
- (c) \$31.5 million of the gross proceeds was used to repay existing debt facilities.
- (d) Residual \$3.5 million of gross proceeds was used to fund the fees and expenses of the IPO of which \$2.6 million was offset against share capital raised and \$0.875 million was expensed in 2011.
- (e) 532,975 Bega Cheese Ordinary Shares were issued to existing employees for nil consideration under the employee share scheme. This was accounted for in the consolidated 30 June 2011 Bega Cheese Group financial statements as a cost during the year and credited to the share based payment reserve. The value of the issued Bega Cheese Ordinary Shares was then transferred to share capital on issue.

Reconciliation to statutory financial statements

In the table below the statutory profit before tax has been extracted from Bega Cheese's audited 2011 consolidated financial statements and adjusted to reflect the impact of one-off items and other normalisation adjustments associated with the IPO and Bega Cheese operating as a publicly listed entity.

Pro-forma adjustments to statutory consolidated income statement

\$'000		Actual 2011	Actual 2010
Statutory profit before income tax		22,090	21,799
Adjustments per Bega Cheese Prospectus (excluding tax effect)			
1	Add back total RMPP	6,497	6,605
2	Deduct the expense component of RMPP	(4,240)	(3,963)
3	Incremental public company expenses	(1,338)	-
4	Adjust interest expense for IPO capital raising	1,868	-
5	Employee loyalty offer expense	1,080	-
6	IPO related expenses	875	-
Total adjustments as per prospectus		4,742	2,642
Additional adjustments to reflect IPO (excluding tax effect)			
7	IPO related expenses (actual)	(875)	-
8	Issue of Bega Cheese Ordinary Shares under employee share scheme	(1,066)	-
Total pro-forma adjustments to statutory consolidated statement of income		3,867	2,642
Pro-forma profit before income tax		25,957	24,441

Notes to adjustments:

1. Bega Cheese made payments to its dairy farmer suppliers in these periods described as regional milk price premiums (RMPP). This item comprised separately identified payments to Bega Cheese Dairy Farmer Suppliers for actual milk delivered in excess of the estimated average price of milk paid to dairy farmers of other entities and in some years it also included a specific drought relief payment. Whilst it was effectively a distribution to dairy farmer suppliers paid based on milk delivered (rather than shares) it was treated as a separate expense line in the calculation of reported profit before tax.
2. With effect from 1 July 2011, Bega Cheese adopted a new milk payments policy which will no longer recognise RMPP separately. Accordingly, the board and management reviewed previous payments to determine that the results reflect consistent outcomes based on how they intend to implement the new milk pricing policy going forward. Accordingly, line 1 adds back all of the actual RMPP and line 2 shows that part of the RMPP that the Bega Cheese board has assessed should be treated as an expense to cost of goods manufactured, consistent with the new milk pricing policy. The difference between lines 1 and 2 is effectively the distribution primarily paid to dairy farmer suppliers.
3. Reflects the incremental expenses associated with being a public company. These have been included on a pro-forma basis to FY2011 only.
4. Reflects an estimate of interest expense savings expected from the capital raised through the IPO being applied (after applicable fees) to the repayment of debt. These have been included on a pro-forma basis to FY2011 only.
5. Reflects the FY2011 expense associated with the Bega Cheese employee loyalty offer. This was accounted for in the consolidated 30 June 2011 Bega Cheese Group financial statements as an expense during the year and credited to the share based payments reserve. The value of the issued Bega Cheese Ordinary Shares was then transferred to share capital on issue.
6. Reflects the reversal of accrued IPO expenses associated with the IPO.
7. Reflects the expense of issuing Bega Cheese Ordinary Shares under the IPO.
8. Reflects the expense of issuing 532,975 Bega Cheese Ordinary Shares under the employee share scheme on listing.

6.14 Forecast financial performance

This scheme booklet does not include an earnings forecast for Bega Cheese. The Bega Cheese board does not believe that it has a reasonable basis to provide a meaningful and reliable forecast of Bega Cheese's earnings due to the uncertainty of such matters as future milk prices, exchange rates and international dairy commodity prices.

6.15 Effect of Merger on Bega Cheese

If the Merger is successful and, as a consequence, Bega Cheese acquires 100% of the Tatura Milk RP Shares, the principal effect of the Merger on the consolidated Bega Cheese Group will be to its equity structure.

Share capital structure

The effect of the Merger on the share capital structure of Bega Cheese will be as follows (assuming no Bega Cheese shares or rights are issued after the date of this scheme booklet until after the Implementation Date other than the Bega Cheese Ordinary Shares to be issued as consideration for the Tatura Milk RP Shares under the Scheme):

Shares	Number	Percentage of total after Merger takes effect
Bega Cheese Ordinary Shares on issue, including the underlying Bega Cheese Employee Rights on issue, at the date of this scheme booklet	127,072,403	84.1%
Bega Cheese Ordinary Shares to be issued in exchange for Tatura Milk RP Shares	24,018,816	15.9%
Total	151,091,219	100%

Pro-forma consolidated statement of financial position

To illustrate the expected effect of the Merger on the Bega Cheese Group, a pro-forma consolidated statement of financial position is set out below which has been prepared using Bega Cheese's pro-forma consolidated statement of financial position including the effect of the IPO included in section 6.13 of this scheme booklet. As Tatura Milk is currently part of the consolidated Bega Cheese Group, the impact of the Merger is therefore internal to the reserves and equity of Bega Cheese and has no impact on net assets or retained earnings.

	Pro-forma 30 June 2011	Pro-forma adjustments	Pro-forma 30 June 2011
\$'000	IPO	Impact of Merger	Merged Group
Current assets			
Cash and cash equivalents	25,316	-	25,316
Trade and other receivables	81,189	-	81,189
Other financial assets	2,489	-	2,489
Inventories	104,595	-	104,595
Assets held for sale	9	-	9
Total current assets	213,598	-	213,598
Non-current assets			
Other financial assets	37,010	-	37,010
Property, plant and equipment	197,866	-	197,866
Deferred tax assets	14,400	-	14,400
Intangible assets	1,788	-	1,788
Total non-current assets	251,064	-	251,064
Total Assets	464,662	-	464,662
Current liabilities			
Trade and other payables	116,589	-	116,589
Borrowings	22,006	-	22,006
Current tax liabilities	1,994	-	1,994
Provisions	18,872	-	18,872
Total current liabilities	159,461	-	159,461
Non-current liabilities			
Trade and other payables	148	-	148
Borrowings	62,800	-	62,800
Provisions	1,616	-	1,616
Total non-current liabilities	64,564	-	64,564
Total Liabilities	224,025	-	224,025
Net Assets	240,637	-	240,637
Equity			
Contributed equity	60,610	40,832	101,442
Reserves	44,977	(15,216)	29,761
Retained earnings	109,434	-	109,434
Capital and reserves attributable to owners of Bega Cheese Limited	215,021	25,616	240,637
Non-controlling interests	25,616	(25,616)	-
Total equity	240,637	-	240,637

6.16 Pro-forma financial information

Financial profile of the Merged Group

The pro-forma historical information of the Merged Group comprises the consolidated statement of financial position of Tatura Milk and Bega Cheese as at 30 June 2011 which has been prepared using:

- the Bega Cheese consolidated statement of financial position as at 30 June 2011, as extracted from the audited consolidated financial statements at that date;

- (b) normalising adjustments contained in the Bega Cheese Prospectus. In addition, the adjustments show the effect of material events since the balance sheet date, being the issue of additional share capital pursuant to the Bega Cheese Prospectus on or about 15 August 2011 as if it had taken place at 30 June 2011;
- (c) relevant acquisition and other adjustments required to present the pro-forma consolidated statement of financial position for the Merged Group as if the Merger had been implemented on 30 June 2011.

Basis of preparation

The Merged Group pro-forma historical financial information is provided for illustrative purposes and is prepared using assumptions to adjust the financial statements as prepared at 30 June 2011.

The pro-forma consolidated statement of financial position of the Bega Cheese Group is based on the Bega Cheese consolidated financial position as at 30 June 2011, which was prepared in accordance with Australian Accounting Standards and audited by PricewaterhouseCoopers. This is contained in the 2011 annual report which can be found on the Bega Cheese website at www.begacheese.com.au.

Normalising adjustments have been incorporated into the consolidated statement of financial position to reflect the balance sheet effect of the pro-forma adjustments to profit before income tax described above. The effect of these is summarised as:

Description of normalising adjustments	Impact on pro-forma consolidated statement of financial position		
	Net assets \$'000	Retained earnings \$'000	Equity and Reserves \$'000
Add back total RMPP	6,497	6,497	-
Deduct the expense component of RMPP	(4,240)	(4,240)	-
Incremental public company costs	(1,338)	(1,338)	-
Adjust interest expense for IPO capital raising	1,868	1,868	-
Employee loyalty offer expense	-	1,080	(1,080)
IPO related costs	875	875	-
Total of adjustments per Bega Cheese Prospectus	3,662	4,742	(1,080)

No account is taken of the tax effect of these adjustments. The pro-forma financial information does not incorporate any actual transactions that have occurred subsequent to 30 June 2011, except the impact of the IPO as detailed in section 6.13. The issuing of share capital has been reflected in the pro-forma consolidated statement of financial position as follows:

Impact on pro-forma consolidated statement of financial position			
	Net assets \$'000	Retained earnings \$'000	Equity and Reserves \$'000
Issue of 17.5 million Bega Cheese Ordinary Shares to the public at \$2.00 each	35,000	-	35,000
Issue of 0.533 million Bega Cheese Ordinary Shares to employees at nil consideration	-	(1,066)	(1,066)
Costs associated with the raising of new capital	(2,625)	-	(2,625)
Other costs associated with the offer	(875)	(875)	-
Total	31,500	(1,941)	33,441

The above adjustments have been reflected in the pro-forma statement of financial position to match the accounting treatment as at 30 June 2011. The \$31.5 million net proceeds of the offer were used to decrease long term debt, which is also reflected in the pro-forma statement of financial position.

In addition to the impact of the normalising adjustments and effect of the issue of shares, the pro-forma shows the impact of the proposed Merger by accounting for the proposed transaction as outlined in this scheme booklet.

Merger consideration

Consideration for the acquisition of the 12,009,408 Tatura Milk RP Shares held by Tatura Milk RP Shareholders will be the issue of 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share held. The pro-forma information reflects the issue of the new Bega Cheese Ordinary Shares at a value of \$1.70 each, which equates to a value of \$3.40 for each Tatura Milk RP Share and represents total consideration of \$40.8 million. This amount has been shown as an increase in share capital.

The actual value of this consideration will fluctuate as the Bega Cheese Ordinary Share price fluctuates during the period through to the Implementation Date.

The potential transaction costs of the Bega Cheese Group of \$1,090,000 have not been reflected in the pro-forma adjustments and transactions set out above. If the transaction had occurred at 30 June 2011, the transaction costs would decrease each of cash and cash equivalents and equity of the Merged Group by \$1,090,000 before tax.

Accounting for the Merger

The pro-forma financial information assumes that the Merger is accounted for as a transaction with non-controlling interests in accordance with AASB 127 Consolidated and Separate Financial Statements. AASB 127 outlines that change in a parent entity's ownership that does not result in a change of control is accounted for as an equity transaction.

In applying AASB 127, the following treatment has been adopted:

- (a) the value of the consideration is \$40.8 million;
- (b) this has been used to offset amounts in respect of the non-controlling interests of \$25.6 million, reducing the figure to zero. This demonstrates that on the implementation of the Merger, the shareholders in Bega Cheese will own all the interests of the subsidiaries of Bega Cheese;
- (c) the balance of \$15.2 million is debited to a new reserve – Transactions with Non-controlling Interests.

This can be summarised as shown below:

Impact on pro-forma consolidated statement of financial position			
Description of impact of the Merger	Net assets \$'000	Retained earnings \$'000	Equity and Reserves \$'000
Issue of new share capital	-	-	40,832
Removal of non-controlling interest	-	-	(25,616)
Creation of new reserve – Transactions with Non-controlling Interests	-	-	(15,216)
Total	-	-	-

The Merger is therefore internal to the reserves and equity section of the pro-forma statement of financial position and has no impact on net assets or retained earnings.

The Merger is not expected to have any material tax consequences on the Merged Group. The tax base of the shares purchased by the Bega Cheese Group has been assumed to be equal to the consideration paid and therefore no taxable gain or loss is due on the transaction by the Bega Cheese Group. The impact of tax on the Tatura Milk RP Shareholders is detailed in the taxation report starting on page 178 of this scheme booklet.

6.17 Risks

This section 6.17 identifies what Bega Cheese regards as the key risks which could adversely impact Bega Cheese's financial performance and cause that performance to differ from any statements of forecast performance contained in this scheme booklet. It also identifies the key risk factors associated with an investment in Bega Cheese Ordinary Shares. You should read the whole of this scheme booklet in order to fully appreciate those risks.

These risks have been identified having regard to the likelihood of them occurring, their potential impact on the Bega Cheese Group and their relevance to Tatura Milk RP Shareholders. They ought not to be taken as an exhaustive statement of the risks faced by Bega Cheese or investors in Bega Cheese. Those risk factors, and others not specifically referred to below, may in the future materially affect the financial performance of Bega Cheese and the value of Bega Cheese Ordinary Shares.

Business specific risks

Business specific risks that may impact significantly on Bega Cheese, its performance and price of Bega Cheese Ordinary include the risks described below.

Background as a co-operative styled business

Bega Cheese has a long history as a successful supplier co-operative business. Although it changed its structure in 2008 from a co-operative to an unlisted public company, and on 16 August 2011 was admitted to the official list of ASX, its constitution retains a number of features reflecting the co-operative background of Bega Cheese, namely the requirement that the board will include at least 4 directors who are or represent Bega Cheese Dairy Farmer Suppliers (out of a maximum of 8) and maximum limits on individual shareholdings in Bega Cheese. There are currently 5 'supplier' directors on the board (see section 6.5 for further details of the directors).

As noted in section 6.7, the directors who are or represent Bega Cheese Dairy Farmer Suppliers are not classified as independent directors within the terms of ASX Corporate Governance Principles and Recommendations and accordingly, Bega Cheese does not comply with ASX Corporate Governance Recommendation 2.1, which provides that a majority of directors should be independent directors, or ASX Corporate Governance Recommendation 2.2, which provides that the chairperson of the board of directors should be an independent director.

The constitution of Bega Cheese sets a maximum shareholding limit of 5% for the first 2 years after the listing of Bega Cheese, increasing to 10% from the end of the second year until the end of the fifth year, when the limit must be voted on by shareholders. If shareholders approve the continuation of the shareholding limit, it will be 15% from the end of year 5 until the end of year 10, at which time it will cease to apply. The purpose of the shareholding limit is to provide shareholder stability for the company for a minimum period following its listing on ASX and ensure that a significant stake can only be acquired if the constitution is modified which would require the approval of a special resolution (75% vote) of Bega Cheese shareholders. However, the existence of a shareholding limit is unusual for a listed company and may adversely affect the value ascribed to Bega Cheese Ordinary Shares. As noted in section 8.7, if a person acquires Bega Cheese shares in excess of the limit, the right to vote and receive dividends in respect of the excess shares will be suspended. Further the constitution contains provisions that allow the directors of Bega Cheese to require the sale of the excess shares.

Tatura Milk RP Shareholders should also be aware that if the Merger is effected they will be in minority compared with the existing shareholders of Bega Cheese. As most of the existing Bega Cheese shareholders are current or former NSW-based dairy farmer suppliers to Bega Cheese and the other shareholders are non-dairy farmer investors, it is possible that they may take a different view to Tatura Milk RP Shareholders as to what is in the best interests of Bega Cheese and/or as to the composition of the Bega Cheese board of directors. A table of the current major shareholders of Bega Cheese is set out in section 6.9, and a table of the Bega Cheese Ordinary Shares expected to be on issue after the Merger is implemented is set out in section 6.15.

Milk supply and pricing

The Bega Cheese Group relies upon ongoing milk supply from its farmer suppliers. In turn, the farmer suppliers need suitable climatic conditions in order to produce pastures and source grain and hay/fibre to feed their dairy herds. Farmer suppliers are not under long term supply contracts, and milk prices are usually set and communicated to farmer suppliers on an annual basis.

Farmer suppliers are free to supply alternative buyers if they so wish. The price paid to farmer suppliers for their milk is a key factor in being able to attract and retain supply. Milk prices paid are a function of the returns that the Bega Cheese Group can achieve for its dairy products. If the Bega Cheese Group cannot achieve a return that enables it to be competitive, it may lose supply of milk from its farmer suppliers.

To ensure that the milk price paid by the Bega Cheese Group is appropriate, the board has adopted a new milk price policy effective from 1 July 2011. Under its previous structure Bega Cheese made additional distributions to farmer suppliers in the form of payments based on milk supplied to Bega Cheese. Bega Cheese confirms that under the new milk pricing policy, farmer suppliers will receive a price determined in accordance with that

policy and will participate in future distributions of profits on the same basis as all shareholders.

International dairy commodity prices and foreign exchange risk

Dairy commodity prices fluctuate in accordance with global supply and demand. The market value of core products of the Bega Cheese Group such as cheddar cheese, whey powder, milk powders and butter are all affected by the global commodities market to some extent even those products not exported but traded within the domestic market are similarly affected. There is a risk that a decline in commodity prices may reduce the prices at which the Bega Cheese Group is able to sell its products, thereby adversely impacting Bega Cheese Group earnings unless input prices for raw materials, including milk, can be adjusted to reflect this change.

Where dairy commodities are sold into export markets the main currency is the US dollar. Fluctuations in the Australian dollar as compared to foreign currencies have the potential to adversely impact the revenue and returns of the Bega Cheese Group.

Reliance on major customers and exports

The businesses of both Bega Cheese and Tatura Milk rely on their ongoing commercial relationships with the major customers for which they manufacture and supply products. The scale of the Bega Cheese and Tatura Milk capabilities has enabled them to satisfy the substantial product requirements of large customers, such as Fonterra and Kraft Foods. However, while these major customer relationships represent a strength, the loss of a major customer could result in significant adverse financial consequences, as it is likely to take some time to replace a major customer.

Bega Cheese and its major customer Fonterra have been reviewing various aspects of their agreement for some time and have reached in principle agreement on certain changes to that document. While the parties intend to reflect their in principle agreement in a more detailed, legally binding document to be signed in the near future, there is a risk that this will not be achieved. While the existing agreement between the parties would continue to apply in those circumstances, Fonterra is only obliged to source Bega branded products and could potentially reduce the volume of other products that it sources from Bega Cheese.

As about 34% of the Bega Cheese Group sales are exports, any imposition of trade barriers, regulatory requirements or other matters that would affect world trade may impact the Group's business.

Environmental risk

Bega Cheese Group, as with other dairy food manufacturers, generates noise, odour, waste and air emissions in the course of food production. These emissions are regulated by statute, licence and agreement that the Bega Cheese Group has to comply with. While the Bega Cheese Group has undertaken major investments to address emission issues and has implemented strategies to deal with some by-products and emissions, it may be required to take further action. Further expense will be incurred in the future to meet commitments to minimise adverse impact on the environment or comply with future requirements from environmental authorities and to changes to environmental regulations.

There is a risk that production events could breach environmental/discharge licences or arrangements that the Group holds.

The Bega Cheese Group is also a major energy user and is subject to legislation that requires it to review and seek to reduce its energy usage. Bega Cheese is currently assessing the impact of the new carbon tax legislation. Preliminary analysis by Bega Cheese indicates that the new tax is likely to impact across the supply chain with some costs being passed through to customers and some impact on raw material suppliers. Bega Cheese's view is that at this early stage of implementation, it is difficult to quantify the impact but it is unlikely to be materially adverse to the Bega Cheese Group's earnings.

Supply of bulk cheese and nutritional formula products

The Bega Cheese Group has a number of major customers who are required to provide bulk cheese and nutritional formula raw materials for processing. If for any reason major customers were unable to source adequate quantities of raw materials, this may impact the returns to Bega Cheese from its FMCG and nutritional operations. It should be noted that these customers are either major manufacturers of dairy products or have global procurement networks to ensure supply.

Commercial, operational and product risk

The Bega Cheese Group may be subject to general commercial and operational risks including product defects, changes to market competition and events that interrupt production. Such events could adversely affect the Bega Cheese Group's financial performance. Like many businesses, the Bega Cheese Group depends on the ongoing and efficient operation of its business systems, infrastructure and supply chain. The Group faces inherent risks including failure of machinery, energy suppliers and computer equipment, industrial action and natural disasters. The group maintains appropriate insurance policies in respect of most insurable risks in accordance with normal commercial practices.

Bega Cheese is the largest retail cheese processor and packer in Australia. It is possible that a new or existing dairy or food processor may build a new facility, acquire an existing operation or otherwise enter the markets in which the Bega Cheese group sells its products and seek to aggressively reduce the group's existing market share. In addition, retailers may increase their direct import of foreign dairy products. Bega Cheese and some of its customers provide products to Australian supermarkets. Supply arrangements with supermarkets are subject to change with product margin pressure and the de-listing of stock lines having potential to impact the performance of Bega Cheese.

The Bega Cheese Group's ability to remain productive, profitable, competitive and to effect its planned growth initiatives depends on its ability to attract and retain workers. Tightening of the labour market in key regions due to a shortage of suitably skilled workers may inhibit the group's ability to hire and retain employees. The group is also subject to occupational health and safety regulations. If the group is not able to maintain its working conditions to meet occupational health and safety regulations it may impact its operations and ability to attract and retain workers and also result in contravention of those regulations, which may give rise to potential criminal and civil liability and also damage the Bega Cheese Group's reputation.

As with all dairy food processors, the Bega Cheese Group is exposed to the risk of product contamination and product recalls. The group manages this risk by:

- (a) testing and monitoring milk intake continually during and on completion of the production process;
- (b) quality review procedures during manufacturing;
- (c) external audit of operations systems by NSW Food Authority, Dairy Food Safety Victoria, Australian Quarantine and Inspection Service and some customers; and
- (d) maintaining insurance cover against any third party claim where appropriate and cost effective to do so.

Key personnel

The Bega Cheese Group's success depends to a significant extent on its key personnel, in particular the senior management team described in section 6.6. These individuals have extensive experience in and knowledge of the Australian dairy industry and the Bega Cheese Group business. Changes that adversely affect the Bega Cheese Group's ability to retain key personnel or an inability to recruit or retain suitable replacement or additional personnel could material impact Bega Cheese Group's business, operational performance and financial results.

Credit risk

The Bega Cheese Group conducts business with its domestic and international customers on normal commercial terms. These terms include trade credit for varying periods from payment up front to settlement up to 90 days after despatch of goods.

The group has policies and procedures in place to manage credit risk, including risk assessments and/or credit checks on its customers. For some trade receivables the group may also obtain security in the form of letters of credit. In addition, the group obtains insurance over export debtors and Australian customers where appropriate and cost effective.

Regulatory risk

Bega Cheese is required to comply with a range of laws and regulations, including laws and regulations specific to the dairy industry, competition, environmental, occupational health and safety, customs and tariff and taxation laws. Future changes to laws and regulations or accounting standards which apply to Bega Cheese could materially adversely affect Bega Cheese's future financial performance.

Interest paying debt

Bega Cheese and Tatura Milk have debt facilities with 2 separate financial institutions of circa \$155 million. The facilities are stand-alone and are not subject to cross charges or cross guarantees. Separate mortgages and floating charges over all the assets and undertakings of the respective entities have been provided. A condition of these facilities is to comply with various covenants in respect of the financial position and performance of the respective entities.

Based on current cash flows, Bega Cheese and Tatura Milk have sufficient facilities to finance their respective operations. Where debt facilities are drawn down, the term and use of the loans is taken into account in deciding what proportion of the loan, if any, should be protected from interest rate movements by using interest swap arrangements. The underlying interest rate payable on borrowings is driven largely by factors outside the control of the group. The group generally maintains between 30 and 60 percent of its borrowings at a fixed rate using interest rate swaps and other arrangements. All borrowings are denominated in Australian dollars.

The working capital facilities (\$70 million) are generally negotiated with 12 to 18 month terms and renewed towards the end of each term or otherwise as required. Currently the working capital facilities are due to expire in December 2012 and the term loan facilities in mid-2014. The group currently complies with all the financial covenants associated with its facilities. While the group has no reason to expect that it will not be able to renew its facilities there is a risk of non-renewal or that terms and conditions of renewal may be less favourable than they are currently.

General risks

General risks that may impact significantly on the Bega Cheese Group, its performance and the price or value of Bega Cheese Ordinary Shares include the following.

General economic conditions

The operating and financial performance of Bega Cheese is influenced by a variety of general domestic and world economic and business conditions, inflation, interest rates, exchange rates, access to debt and equity capital markets, and government fiscal, monetary and regulatory policies. A prolonged deterioration in any of the above factors may have a material adverse effect on the financial performance, financial position, cash flows, distributions, growth prospects and share price of Bega Cheese.

No guarantee of dividends

There is no guarantee that dividends will be paid on Bega Cheese Ordinary Shares in the future as this is a matter that depends on the financial performance of the Bega Cheese Group.

Stock market risks

Potential investors should recognise that there are risks associated with any investment in shares. The price at which Bega Cheese Ordinary Shares may trade on ASX may vary depending on the financial performance of the Bega Cheese Group and various external factors. In particular there is a risk that the price at which Bega Cheese Ordinary Shares trade on ASX may be less than the market price for Bega Cheese Ordinary Shares as at the date of this scheme booklet. Further, there is no guarantee that an active, liquid market in the Bega Cheese Ordinary Shares will develop or continue.

Force majeure events

Events such as acts of terrorism, an outbreak of international hostilities or natural disasters may occur within or outside Australia and may have an impact on the Bega Cheese Group's business. Any such force majeure events may have a negative impact on the value of an investment in Bega Cheese shares.

6.18 Bega Cheese Prospectus

Bega Cheese was admitted to the official list of ASX on 16 August 2011 following its initial public offering of 18,350,000 Bega Cheese Ordinary Shares to raise total proceeds of up to \$35,000,000. The offer was made under the Bega Cheese Prospectus dated 18 July 2011 and closed a week early over subscribed.

The Bega Cheese Prospectus contains detailed information about the Bega Cheese Group as at the date of its issue, including its prospects and the potential risks and rewards of investing in Bega Cheese Ordinary Shares. If you would like to review a copy of the Bega Cheese Prospectus it can be obtained by you from Bega Cheese, free of charge, by calling Bega Cheese's company secretary, Brett Kelly, on (02) 6491 7777 or by downloading a copy from the Bega Cheese website at www.begacheese.com.au.

6.19 Continuous disclosure statement

Bega Cheese, as a disclosing entity under the Corporations Act, is subject to regular reporting and disclosure obligations. These obligations include requiring Bega Cheese to notify ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the stock market conducted by ASX. In particular Bega Cheese has an obligation under the ASX Listing Rules (subject to certain limited exceptions) to notify ASX immediately of any information of which it becomes aware which a reasonable person would expect to have a material effect on the price or value of the Bega Cheese Ordinary Shares.

Copies of documents lodged with ASIC in relation to Bega Cheese may be obtained from, or inspected at, an ASIC office.

Bega Cheese will provide a copy of any of the following documents, free of charge, to any person who asks for it on or before the Implementation Date:

- (a) The annual financial report of Bega Cheese for the year ended 30 June 2011.
- (b) All continuous disclosure notices given by Bega Cheese to ASX to notify ASX of information relating to Bega Cheese under the provisions of the ASX Listing Rules referred to in section 674(1) of the Corporations Act after lodgement of the 30 June 2011 annual financial report and before the lodgement of the copy of this scheme booklet with ASIC.

6.20 ASX quotation

Application for quotation on ASX of the new Bega Cheese Ordinary Shares to be issued under the Scheme has been made to ASX by Bega Cheese, or will be made within 7 days after the date of this scheme booklet.

6.21 Expiry date

No Bega Cheese securities will be issued on the basis of this scheme booklet after 16 December 2012.

7. An explanation of the process

7.1 Outline and effect of the proposed Merger

- (a) The Merger involves you selling your Tatura Milk RP Shares to Bega Cheese in exchange for Bega Cheese Ordinary Shares. As a result, Tatura Milk will become a wholly-owned subsidiary of Bega Cheese.
- (b) To achieve this it is proposed that pursuant to the Scheme (which only becomes effective if it is approved by Tatura Milk RP Shareholders and the Supreme Court) as set out in the Scheme of Arrangement Deed:
 - (1) Tatura Milk RP Shareholders sell and transfer all their Tatura Milk RP Shares held at 9:00 am on the Implementation Date to Bega Cheese; and
 - (2) Bega Cheese issue to each Tatura Milk RP Shareholder 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share held by the Tatura Milk RP Shareholder at 9:00 am on the Implementation Date.

This is to happen on the Implementation Date.

- (c) On the Merger taking effect:
 - (1) Bega Cheese will become the only shareholder of Tatura Milk, holding all of the Tatura Milk RP Shares and Tatura Milk Ordinary Shares;
 - (2) you will become a shareholder of Bega Cheese holding Bega Cheese Ordinary Shares in the ratio of 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share held by you at 9:00 am on the Implementation Date; and
 - (3) Tatura Milk RP Shareholders will hold in aggregate approximately 24 million Bega Cheese Ordinary Shares which immediately after the issue of those shares would represent approximately 15.9% of the total number of issued Bega Cheese Ordinary Shares and Bega Cheese Employee Rights (assuming no other Bega Cheese securities are issued after the date of this scheme booklet).
- (d) The Bega Cheese Ordinary Shares issued to you will rank *pari passu* with all other Bega Cheese Ordinary Shares then on issue. This will include the right to participate in any interim or final dividend payable in respect of Bega Cheese Ordinary Shares, the record date for which is on or after the Implementation Date.
- (e) Bega Cheese has agreed that the record date for determining entitlements to any dividend on the Bega Cheese Ordinary Shares in respect of the financial performance of Bega Cheese for the 6 months ending 31 December 2011 will be after 31 January 2012. Accordingly, if the Implementation Date occurs before 31 January 2012 as planned, as the holder of Bega Cheese Ordinary Shares issued to you under the Scheme, you will be entitled to participate in any such dividend. However, if implementation of the Merger is delayed until after 31 January 2012, and the Bega Cheese Ordinary Shares under the Scheme are not issued to you until after the record date for a Bega Cheese dividend, you will have no right to participate in the dividend.

- (f) Bega Cheese must seek ASX quotation of the Bega Cheese Ordinary Shares, and must use its reasonable endeavours to ensure that they are listed for quotation on and from the Business Day after they are issued to you.
- (g) The terms of the Scheme and Merger are embodied in the Scheme of Arrangement Deed. A copy of the Scheme of Arrangement Deed is set out in this scheme booklet starting on page 181.

7.2 Modifications to the constitution of Tatura Milk

- (a) Under Tatura Milk's constitution:
 - (1) the maximum number of Tatura Milk RP Shares which may at any time be held by or on behalf of one person is 5% of the issued Tatura Milk RP Shares (article 4(2));
 - (2) a transfer of Tatura Milk RP Shares must not be registered unless the instrument of transfer is executed by the transferor and transferee and the transfer is to a Supplier (article 25(1));
 - (3) the board of directors of Tatura Milk must include 2 Dairy Farmer Suppliers (article 65(5)); and
 - (4) the number of directors that the 'Majority Shareholder' may appoint by written notice is limited to 4 (article 66(1)).

The Majority Shareholder is the person holding more than 50% of the issued shares in Tatura Milk, which is currently Bega Cheese,

- (b) These and other articles are proposed to be modified to allow Bega Cheese to acquire 100% of the issued Tatura Milk RP Shares under the Scheme as proposed, and to ensure that only Bega Cheese nominees can be directors of Tatura Milk and there is no limit on number, after the Merger takes effect.
- (c) In particular, it is proposed:
 - (1) to insert at the end of article 4(2) a new paragraph which:
 - (A) would make the acquisition of Tatura Milk RP Shares by Bega Cheese under the Scheme an exception to the limit; and
 - (B) would result in the article ceasing to apply after Tatura Milk becomes a wholly-owned subsidiary of Bega Cheese upon the Merger taking effect;
 - (2) to modify article 25(1) to allow the transfer of Tatura Milk RP Shares to Bega Cheese under the Scheme, and to any subsequent transferee after the Merger takes effect;
 - (3) to modify article 65(5) to remove the requirement following the Merger taking effect that there be 2 directors who are Dairy Farmer Suppliers;

- (4) to modify article 66(1) to remove the limit on the number of directors that the Majority Shareholder may appoint following the Merger taking effect; and
 - (5) to modify article 72(1) so that the Dairy Farmer Supplier Directors automatically vacate office upon the Merger taking effect.
- (d) These proposed modifications are contained in the notice of the general meeting which is set out on page 192.

7.3 Voting by Tatura Milk RP Shareholders

- (a) The Merger requires three levels of shareholder approval.
- (b) As noted, Tatura Milk's constitution will need to be modified to allow Bega Cheese to acquire 100% of the issued Tatura Milk RP Shares under the Scheme as proposed. Tatura Milk may modify its constitution by special resolution. A special resolution must be passed by at least 75% of the votes cast by Tatura Milk shareholders (either in person or by proxy, attorney or representative) who are entitled to vote on the resolution.
- (c) The special resolution to modify the constitution is to be considered at a general meeting of Tatura Milk convened by the board of directors of Tatura Milk. All shareholders of Tatura Milk, including Bega Cheese as holder of the Tatura Milk Ordinary Shares, will be entitled to attend the general meeting and vote on the special resolution, unless disqualified from doing so under Tatura Milk's constitution because of outstanding indebtedness owed to Tatura Milk – see paragraph (i) below. Bega Cheese is obliged under the terms of the Merger Implementation Agreement to vote in favour of the special resolution to modify the constitution.
- (d) The Scheme under which the Merger is to be effected must be approved at a meeting of Tatura Milk RP Shareholders convened in accordance with an order of the Court by a resolution:
 - (1) passed by a majority in number of the Tatura Milk RP Shareholders present and voting (either in person or by proxy, attorney or representative); and
 - (2) passed by at least 75% of the votes cast on the resolution.
- (e) On an application by Tatura Milk, the Supreme Court ordered Tatura Milk to convene a meeting of Tatura Milk RP Shareholders for the purpose of considering the Scheme. This meeting is a separate class meeting of Tatura Milk RP Shareholders only, excluding Bega Cheese or a subsidiary of Bega Cheese (if any of them are Tatura Milk RP Shareholders). Accordingly, no member of the Bega Cheese Group will be permitted to vote at this meeting. As at the date of this scheme booklet, no member of the Bega Cheese Group is a Tatura Milk RP Shareholder.
- (f) The general meeting of Tatura Milk at which the special resolution to modify the constitution is to be considered has been convened by the board of directors of Tatura Milk to be held at the Sir Ian McLennan Centre, Echuca Road, Mooroopna, Victoria on Wednesday 14 December 2011 at 11:00 am. The separate class meeting of Tatura Milk RP Shareholders to consider the resolution to approve the Scheme

has been convened in accordance with the order of the Court to be held immediately following the conclusion or adjournment of the general meeting.

- (g) Notice of the general meeting and notice of the Scheme meeting are included in this scheme booklet on pages 192 and 195.
- (h) The general meeting will be conducted in accordance with the provisions of Tatura Milk's constitution applicable to general meetings of Tatura Milk, including the provisions relating to shareholders' eligibility to vote. The Scheme meeting will also be conducted in accordance with those provisions so far as they are capable of application (and with all necessary changes).
- (i) Where money due and payable to Tatura Milk in respect of any Tatura Milk shares has not been paid, the holder of those shares is not entitled to attend or vote at a meeting by virtue of that shareholding.
- (j) Those persons who are registered as the holders of Tatura Milk shares on Monday 12 December 2011 at 7:00 pm (**Determination Time**) will be taken to be the holders of those shares for the purposes of determining voting entitlements at the general meeting and the Scheme meeting. Accordingly, unless disqualified from attending and voting due to outstanding indebtedness owed to Tatura Milk:
 - (1) Bega Cheese, assuming it continues to be the holder of all of the Tatura Milk Ordinary Shares at the Determination Time, will be entitled to attend the general meeting and vote on the special resolution to be considered at that meeting; and
 - (2) if you hold Tatura Milk RP Shares at the Determination Time, you will be entitled to attend both the general meeting and the Scheme meeting and to vote on all resolutions to be considered at those meetings.
- (k) Each Tatura Milk shareholder entitled to vote on a resolution has one vote on a show of hands and, on a poll, has one vote for each share held.
- (l) Voting on all resolutions to be considered at the general meeting and Scheme meeting will be by a poll.
- (m) A shareholder entitled to attend and vote at a meeting is entitled to appoint a proxy, attorney or representative to attend the meeting and vote on the shareholder's behalf. A shareholder may appoint up to 2 proxies and may specify the proportion or number of votes each proxy may exercise on a poll, but neither proxy is entitled to vote on a show of hands. A person may be appointed proxy, attorney or representative for more than one shareholder, in which case he or she has the voting entitlement of each shareholder he or she represents.
- (n) In the case of joint holders of a share, anyone of them may vote at a meeting in person or by proxy, attorney or representative in respect of that share as if solely entitled to it, but if more than one joint holder is present (in person or by proxy, attorney or representative) only the joint holder whose name stands first in Tatura Milk's register of shareholders in respect of the share is entitled to vote in respect of the share.

- (o) The quorum required for a meeting is 5 shareholders present at the meeting in person or by proxy, attorney or representative. Where within 15 minutes after the time appointed for the meeting a quorum is not present, the meeting stands adjourned to the same day in the next week at the same time and place or to such other day, time and place as notified to shareholders and others entitled to notice of the meeting. At the adjourned meeting 2 persons each being a shareholder, or proxy, attorney or representative of a shareholder, will constitute a quorum.

7.4 Conditions of Scheme becoming effective

- (a) The Scheme is conditional on an order of the Court approving the Scheme being made under section 411(4)(b) of the Corporations Act on or before 29 February 2012 or such other date as Bega Cheese and Tatura Milk may agree. It is anticipated that Court approval will be sought on Friday 16 December 2011 and the Implementation Date will be Friday 23 December 2011.
- (b) The Scheme is also conditional on the Merger Implementation Agreement between Tatura Milk and Bega Cheese not being terminated. Termination could occur because of a number conditions not being satisfied, such as the occurrence of a 'material adverse change' or 'prescribed occurrence' in relation to Tatura Milk or Bega Cheese, subject to the rights of each of them to waive the non-satisfaction of certain conditions.
- (c) A more detailed summary of these conditions is set out in section 9.8, and a copy of the Merger Implementation Agreement is available for inspection by Tatura Milk RP Shareholders:
 - (1) free of charge during normal business hours at the registered office of Tatura Milk at 236 Hogan Street, Tatura, Victoria; or
 - (2) from Bega Cheese's announcements on the ASX website at www.asx.com.au.

A summary of relevant provisions of the Merger Implementation Agreement is also contained in section 9.8.

7.5 Becoming a shareholder of Bega Cheese

- (a) On the Implementation Date of the Scheme, you will be issued Bega Cheese Ordinary Shares and, if you are not then already a shareholder of Bega Cheese, you will have agreed to become a member of Bega Cheese and authorised your name and address as it appears in the register of shareholders of Tatura Milk to be entered into the register of shareholders of Bega Cheese. Bega Cheese will include these details in its register of shareholders as they appear in the register of shareholders of Tatura Milk, subject to the requirements of Bega Cheese's share registrar. While you are a shareholder of Bega Cheese you agree to be bound by the constitution of Bega Cheese.
- (b) Your rights as a shareholder of Bega Cheese are set out in Bega Cheese's constitution, which is summarised in section 8.

7.6 Dealings in Tatura Milk RP Shares before and after Implementation Date

- (a) If the Court makes an order approving the Scheme under section 411(4)(b) of the Corporations Act, Tatura Milk will close its register of shareholders at 5:00 pm on the date an office copy of the order is lodged with ASIC. That is expected to happen on the next Business Day after the Court approval.
- (b) Tatura Milk will ensure that all registrable transfers and transmission applications in respect of Tatura Milk RP Shares which are:
 - (1) received by Tatura Milk (or its share registrar) before closure of the register; and
 - (2) not refused for registration in accordance with Tatura Milk's constitution;are registered as soon as reasonably practicable after receipt and, where registration occurs after closure of the register, with effect at that time.
- (c) A Tatura Milk RP Shareholder (and any person claiming through that Tatura Milk RP Shareholder) must not dispose of or purport to agree to dispose of any Tatura Milk RP Shares or any interest in them after the time of closure of the register.
- (d) Tatura Milk will not register any transfer or transmission application in respect of Tatura Milk RP Shares received after the time of closure of the register, until all the transfers of Tatura Milk RP Shares to Bega Cheese under the Scheme are registered.

7.7 Your Dairy Farmer Supplier Directors to be appointed to the Bega Cheese board

Under the Scheme of Arrangement Deed, Bega Cheese has agreed that:

- (a) by the Implementation Date 2 of your Dairy Farmer Supplier Directors who are in office at the Effective Date and are selected by or in accordance with an agreement between them will be appointed to the board of Bega Cheese; and
- (b) Bega Cheese will use its best endeavours to ensure that 2 individuals who are Tatura Milk Dairy Farmer Suppliers (or the representative of a body corporate that is a Tatura Milk Dairy Farmer Supplier) are on the Bega Cheese board for 2 years from the Implementation Date.

All 4 of your Dairy Farmer Supplier Directors have nominated for these 2 board positions, and have agreed to have a ballot for the selection of 2 of them to be voted on by Tatura Milk RP Shareholders only. This ballot is planned to be conducted at the general meeting of Tatura Milk to be held on the same day as the Scheme meeting. Tatura Milk RP Shareholders (or their proxies or other representatives) at the meeting will be asked to cast their vote in favour of just 2 of the candidates and the 2 Dairy Farmer Supplier Directors who receive the most votes will be selected for appointment to the Bega Cheese board. Voting will be by a poll.

7.8 Amendment of Scheme of Arrangement Deed

From the date of this scheme booklet until the Implementation Date, the Scheme of Arrangement Deed may be amended or repealed and replaced by a supplementary deed

between Tatura Milk and Bega Cheese but only if the Court approves the amendment or replacement.

7.9 Court approval – when Scheme becomes effective and who is bound by the Scheme

- (a) On application by Tatura Milk, the Supreme Court has ordered Tatura Milk to convene the Scheme meeting at which Tatura Milk RP Shareholders can consider the resolution to approve the Scheme, to be held immediately after the closure or adjournment of the general meeting on Wednesday 14 December 2011.
- (b) If the resolution is passed at the Scheme meeting, and the special resolution to modify Tatura Milk's constitution is also passed at the earlier general meeting, Tatura Milk will apply to the Court for the Court's approval of the Scheme.
- (c) If the Scheme is approved by the Court and all other conditions of the Scheme and Merger are satisfied or waived, the Scheme and Merger will become effective whereby all Tatura Milk RP Shares on issue at 9:00 am on the Implementation Date will be transferred to Bega Cheese and Bega Cheese Ordinary Shares will be issued to Tatura Milk RP Shareholders.
- (d) That will happen on the Implementation Date which will be the 4th Business Day after the Effective Date. The Effective Date is the date an office copy of the Court order approving the Scheme is lodged with ASIC or such other effective date of the Scheme and Merger as Tatura Milk and Bega Cheese may, with the consent of the Court, agree. The Scheme, and the Scheme of Arrangement Deed, is binding on Tatura Milk and Bega Cheese and will become binding on all persons who are Tatura Milk RP Shareholders on and from the Effective Date.
- (e) It is anticipated that Court approval of the Scheme will be sought on Friday 16 December 2011 and the Implementation Date will be Friday 23 December 2011.

7.10 Taxation considerations

Tatura Milk has engaged MB+M Business Solutions to prepare a report on the general Australian taxation implications of disposing of Tatura Milk RP Shares and acquiring Bega Cheese Ordinary Shares as consideration for that disposal under the Scheme. A copy of the report is set out in this scheme booklet starting at page 178. The taxation report is not intended to be comprehensive, and is based on the income tax legislation in force at the date of the report. The report focuses on the situation of Australian resident shareholders holding Tatura Milk RP Shares on capital account. It does not address the tax considerations applicable to Tatura Milk RP Shareholders that may be subject to special rules, such as shares held by non-residents, shares held as trading stock and shares held on revenue account.

You should not rely on the taxation report as advice in relation to your own affairs. The taxation laws are complex and there could be implications in addition to those generally described in the report. It is recommended that you consult your own tax adviser for advice applicable to your individual needs and circumstances. No responsibility is accepted for the tax implications of disposing of your Tatura Milk RP Shares in exchange for Bega Cheese Ordinary Shares under the Scheme. The taxation report is not exhaustive of all possible Australian income tax considerations that could apply and, in particular, does not address the tax considerations applicable to shareholders that may be

subject to special tax rules, nor does it address any foreign tax law ramifications resulting from the Scheme.

8. Summary of the constitution of Bega Cheese

8.1 Inspection

Your rights and obligations as a shareholder of Bega Cheese on the Merger taking effect, will be largely contained in Bega Cheese's constitution, the material provisions of which are summarised below. If further information is required, the constitution should be consulted, a copy of which can be obtained by calling Bega Cheese's company secretary, Brett Kelly, on (02) 6491 7777 or by downloading a copy from the Bega Cheese website at www.begacheese.com.au. The Corporations Act, ASX Listing Rules and general law also govern the rights of shareholders of Bega Cheese.

8.2 Shares

Subject to the Corporations Act, ASX Listing Rules and the constitution of Bega Cheese, the directors of Bega Cheese may issue, or grant options in respect of, shares in Bega Cheese to such persons, on such conditions and with such rights and restrictions as the directors think fit. At present the only shares in Bega Cheese on issue are Bega Cheese Ordinary Shares.

As the Bega Cheese Ordinary Shares to be issued as consideration for your Tatura Milk Ordinary Shares will, on issue, be fully paid, they are not subject to any calls for money by the directors and will therefore not become liable for forfeiture.

8.3 Voting rights

At a general meeting, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and one vote for each Bega Cheese Ordinary Share on a poll.

A poll may be demanded by the chairperson of the meeting, at least 5 shareholders entitled to vote on the resolution or shareholders with at least 5% of the total number of shares in Bega Cheese.

8.4 Dividend rights

Bega Cheese Ordinary Shares participate in all dividends that have a record date after their issue. Dividends are determined by the directors at their discretion and, subject to any special rights (at present there are none), are payable on all Bega Cheese Ordinary Shares in proportion to the amount of the issue price paid up on those shares.

8.5 Rights on winding up

On a winding up of Bega Cheese, all shareholders are entitled to participate in the distribution of surplus property in proportion to the Bega Cheese Ordinary Shares held by them.

8.6 Transfers of shares

Bega Cheese Ordinary Shares are transferable, subject to the requirements of the constitution (including the shareholding limit) and the ASX Listing Rules.

8.7 Shareholding limit

- (a) No person, together with his or her associates, may hold or have a relevant interest in a number of shares in Bega Cheese that exceeds the shareholding limit. The shareholding limit is 5% of the total number of shares in Bega Cheese on issue for the first 2 years from date of the ASX listing of Bega Cheese (16 August 2011) and 10% of the total shares on issue from the end of that 2 year period (16 August 2013) and to the anniversary of the fifth year of listing (16 August 2016). The shareholding limit must be put to shareholders for renewal for another 5 years by way of ordinary resolution by no later than the fifth anniversary of the listing. If the shareholding limit is not renewed, it will automatically cease. If the shareholding limit is renewed, the shareholding limit will increase to 15% of the total shares on issue and will automatically cease at the tenth anniversary (16 August 2021).
- (b) The shareholding limit will cease to have effect at an earlier time if Bega Cheese's constitution is amended by special resolution of shareholders to remove the shareholding limit.
- (c) If a person acquires shares in excess of the shareholding limit, the right to vote and be paid dividends in relation to the shares held in excess of the shareholding limit will be suspended. Further the directors may require the disposal of the shares held in excess of the shareholding limit. If that disposal is not made within the period set out in the constitution, the directors may proceed to sell those shares and distribute the proceeds of the sale, after paying relevant costs and expenses, to the holder.

8.8 Directors

- (a) The board of directors of Bega Cheese will comprise up to 8 directors of whom 4 must be, or be the representative of a body corporate that is, a Bega Cheese Dairy Farmer Supplier. This includes a Tatura Milk Dairy Farmer Supplier or any other person who conducts a dairy farming business and supplies milk to Tatura Milk (or any other member of the Bega Cheese Group).
- (b) Further, during the 2 years after the successful implementation of the Merger, 2 of the directors must be, or be the representative of a body corporate that is, a Tatura Milk Dairy Farmer Supplier.
- (c) Subject to the Corporations Act and the requirement for a minimum number of 4 directors who are or represent Bega Cheese Dairy Farmer Suppliers, the board may increase or reduce the number of directors comprising the board from time to time. The board must not reduce the size of the board to less than the number of directors in office at the time the reduction takes effect.

8.9 Remuneration of directors

The directors are entitled to be remunerated for their services as directors. The total annual remuneration must not exceed \$900,000 or such other amount approved by shareholders. The total annual remuneration amount is divided between the directors in the manner agreed or in default of agreement, equally. Refer sections 9.3(l) and 9.4(j) for further details.

8.10 Liquidation rights

All Bega Cheese Ordinary Shares, rank equally in the event of liquidation. Once all the liabilities of Bega Cheese are satisfied, a liquidator may, with the authority of a special resolution of shareholders, divide among the shareholders at the time the whole or any part of the remaining assets of Bega Cheese.

8.11 Indemnity

Bega Cheese must indemnify, on a full indemnity basis and to the fullest extent permitted by law, each director of Bega Cheese for all losses or liabilities incurred by the director as a director. The directors of Bega Cheese may extend this indemnity to other officers, or an auditor, of the Bega Cheese Group.

8.12 Alteration of constitution

The constitution can only be amended by a special resolution passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

9. Additional information

9.1 Marketable securities of Tatura Milk – recent sale prices

- (a) At the date of this scheme booklet, the only marketable securities of Tatura Milk on issue are 28,413,511 Tatura Milk Ordinary Shares and 12,009,408 Tatura Milk RP Shares.
- (b) As far as Tatura Milk is aware, no Tatura Milk Ordinary Shares have been sold in the 6 months immediately before the date of this scheme booklet.
- (c) Set out below is all the information that Tatura Milk has as to the sales of Tatura Milk RP Shares in the above-mentioned 6 month period:

This number of Tatura Milk RP Shares...	...were sold on or about this date...	...for this price for each share...	...totalling this amount...
126,069	22 June 2011	\$1	\$126,069
187,939	27 July 2011	\$1	\$187,939
9,585	24 August 2011	\$1	\$9,585
277,773	21 September 2011	\$1	\$277,773

9.2 Marketable securities of Bega Cheese – recent sale prices

- (a) At the date of this scheme booklet, the only marketable securities of Bega Cheese on issue are 126,709,903 Bega Cheese Ordinary Shares and 362,500 Bega Cheese Employee Rights.
- (b) Bega Cheese Ordinary Shares are granted official quotation on ASX, having commenced quotation on 19 August 2011.
- (c) The latest ASX recorded sale price of a Bega Cheese Ordinary Share before the date of this scheme booklet was \$1.72 on 16 November 2011.
- (d) The highest and lowest ASX recorded sale prices of a Bega Cheese Ordinary Share during the 3 months immediately before the date of this scheme booklet were \$1.91 on 8 September 2011 and \$1.60 on 7 November 2011 respectively.
- (e) On 9 March 2011 (before the listing of Bega Cheese) a public announcement about the Scheme and Merger was issued by Tatura Milk and Bega Cheese. On 4 October 2011 a further public announcement about the Scheme and Merger was issued by Tatura Milk and Bega Cheese. The latest ASX recorded sale price of a Bega Cheese Ordinary Share immediately before this further public announcement was \$1.77.

- (f) The volume weighted average price of Bega Cheese Ordinary Shares sold on ASX over the period from the commencement of trading of Bega Cheese Ordinary Shares on ASX (19 August 2011) to the day before the date of this scheme booklet was \$1.76.
- (g) The volume weighted average price of Bega Cheese Ordinary Shares sold on ASX over the period from the date the Merger was announced (4 October 2011) to the day before the date of this scheme booklet was \$1.70.

9.3 Directors of Tatura Milk and their interests

- (a) Under Tatura Milk's constitution, the board of directors of Tatura Milk must comprise up to 4 Bega Cheese Nominees, 2 Dairy Farmer Supplier Directors and up to 2 other directors.
- (b) The directors of Tatura Milk holding office at the date of this scheme booklet are:

Name	Status
Barry Irvin AM	Chairman and Bega Cheese Nominee
Richard Parbery	Bega Cheese Nominee
Colin Griffin	Bega Cheese Nominee
Aidan Coleman	Bega Cheese Nominee
Rick Cross	Deputy chairman and Dairy Farmer Supplier Director
Ken Wood	Dairy Farmer Supplier Director
Fred De Cicco	Dairy Farmer Supplier Director
Jeff Odgers	Dairy Farmer Supplier Director

- (c) At the date of this scheme booklet, the directors of Tatura Milk own legally or beneficially or otherwise have a relevant interest in the following marketable securities of Tatura Milk:

This director...	...has a relevant interest in these Tatura Milk marketable securities...
Barry Irvin AM	Nil
Richard Parbery	Nil
Colin Griffin	Nil
Aidan Coleman	Nil

This director...	...has a relevant interest in these Tatura Milk marketable securities...
Rick Cross	136,585 Tatura Milk RP Shares
Ken Wood	154,927 Tatura Milk RP Shares
Fred De Cicco	135,314 Tatura Milk RP Shares
Jeff Odgers	81,587 Tatura Milk RP Shares

- (d) No director of Tatura Milk has acquired or disposed of a relevant interest in Tatura Milk marketable securities in the 4 month period ended on the day immediately before the date of this scheme booklet.
- (e) Each director who has a relevant interest in Tatura Milk RP Shares will be entitled to participate in the Scheme on the same basis as all other Tatura Milk RP Shareholders and, accordingly, if the Scheme becomes effective, will as a consequence of the Scheme acquire an equivalent relevant interest in 2 Bega Cheese Ordinary Shares for every 1 Tatura Milk RP Share in which the director has a relevant interest at 9:00 am on the Implementation Date.
- (f) All of your Tatura Milk directors who own or otherwise have a relevant interest in Tatura Milk RP Shares themselves, intend to vote, or procure to the extent they can the relevant Tatura Milk RP Shareholder to vote, in favour of the Scheme and Merger and all related resolutions (including the special resolution to amend Tatura Milk's constitution to be considered at the general meeting of Tatura Milk to be held before the Scheme meeting).
- (g) At the date of this scheme booklet, the directors of Tatura Milk own legally or beneficially or otherwise have a relevant interest in the following marketable securities of Bega Cheese:

This director...	...has a relevant interest in these Bega Cheese marketable securities...
Barry Irvin AM	3,004,984 Bega Cheese Ordinary Shares
Richard Parbery	2,664,012 Bega Cheese Ordinary Shares
Colin Griffin	120,000 Bega Cheese Ordinary Shares
Aidan Coleman	82,512 Bega Cheese Ordinary Shares
Rick Cross	15,300 Bega Cheese Ordinary Shares
Ken Wood	15,500 Bega Cheese Ordinary Shares
Fred De Cicco	5,250 Bega Cheese Ordinary Shares

This director...	...has a relevant interest in these Bega Cheese marketable securities...
Jeff Odgers	Nil
(h) No director of Tatura Milk has acquired or disposed of a relevant interest in any Bega Cheese marketable securities in the 4 month period ended on the day immediately before the date of this scheme booklet except as follows:	
(1) Aidan Coleman has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 82,512 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.	
(2) Rick Cross has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 10,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each; 2,500 by purchase on ASX on 19 August 2011 at a sale price of \$1.77 each; 2,800 by purchase on ASX on 23 August 2011 at a sale price of \$1.83 each.	
(3) Ken Wood has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 10,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each; 5,500 by purchase on ASX on 13 September 2011 at a sale price of \$1.77 each.	
(4) Fred De Cicco has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 5,250 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.	
(5) Colin Griffin has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 120,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.	
(i) There is no agreement or arrangement made between any director of Tatura Milk and another person in connection with or conditional on the outcome of the Scheme or Merger except as described elsewhere in this scheme booklet.	
(j) No director of Tatura Milk has any interest in any contract entered into by Bega Cheese (or Tatura Milk or any other member of the Bega Cheese Group) except as described below or elsewhere in this scheme booklet:	
(1) Barry Irvin and Richard Parbery are Bega Cheese Dairy Farmer Suppliers (or they represent bodies corporate that are Bega Cheese Dairy Farmer Suppliers). In the 2011 financial year, collectively they delivered approximately 2.7% of all milk acquired by Bega Cheese. The terms (including pricing) on which they (or the body corporate they represent) supply their milk, are exactly the same as for other Bega Cheese Dairy Farmer Suppliers in the region in which these directors operate their dairy farms.	
(2) Each Dairy Farmer Supplier Director, or a body corporate he represents, supplies milk to Tatura Milk. Collectively this amounts to approximately 2.3% of milk acquired by Tatura Milk. The terms (including pricing) on which Dairy Farmer Supplier Directors (or the bodies corporate they	

represent) provide their milk are exactly the same as for other Tatura Milk Dairy Farmer Suppliers in the region in which the Dairy Farmer Supplier Directors operate their dairy farms.

- (3) Each of Barry Irvin, Aidan Coleman and Colin Griffin receive remuneration for their performance of executive duties for Bega Cheese, as detailed in section 9.3(1)(2) below.
- (k) None of the directors of Tatura Milk has any material interests (whether as a director, shareholder or creditor of Tatura Milk or otherwise):
 - (1) in the Scheme or otherwise in the Merger; or
 - (2) where the effect of the Scheme on those interests is or will be different from the effect on the like interests of other persons;

other than as stated in this section 9 or elsewhere in this scheme booklet.

- (l) Set out below is a summary of the additional material personal interests of the directors of Tatura Milk in transactions and other arrangements with Tatura Milk (or any other member of the Bega Cheese Group) which are current or occurred since 30 June 2011:
 - (1) Rick Cross is entitled to director fees for his services as a director and deputy chairman of the board of directors of Tatura Milk at the annual rate of \$30,000 plus a 9% superannuation contribution and each other Dairy Farmer Supplier Director is entitled to director fees for his services as a director of Tatura Milk at the annual rate of \$20,000 plus a 9% superannuation contribution. In addition each Dairy Farmer Supplier Director is entitled to remuneration for performing extra duties (such as working on the Merger) at the daily rate of \$625. To the date of this scheme booklet, the Dairy Farmer Supplier Directors have received or are entitled to receive additional remuneration of approximately \$20,000 in the aggregate for extra duties relating to the Merger.
 - (2) Each Bega Cheese Nominee is also a director or senior executive of Bega Cheese and is entitled to the following remuneration for his services as such:
 - (A) As executive chairman, Barry Irvin receives a set base salary which is adjusted down for any fees he may earn from his role as director with related organisations and dairy industry entities. Currently that annual amount is \$425,000 which includes an annual incentive amount (inclusive of superannuation) of \$100,000, less any amounts received by Barry Irvin in his position as a director of the boards of WCB, Tatura Milk and the Gardiner Foundation (estimated currently to be \$135,000).
 - (B) Richard Parbery is entitled to director fees for his services as a director of Bega Cheese at the annual rate of \$70,000 (inclusive of superannuation).
 - (C) Under his service contract with Bega Cheese as CEO, from 1 July 2011, Aidan Coleman will receive a set base annual salary of \$700,000, an at

risk short term incentive amount subject to the achievement of agreed outcomes of up to \$300,000 and a long term incentive scheme linked to the market price of Bega Cheese shares.

- (D) Under his service contract with Bega Cheese as CFO, Colin Griffin receives a base annual salary and an at risk short term incentive amount subject to the achievement of agreed outcomes as agreed from time to time. In FY2011, Colin Griffin's total remuneration was \$420,689 (inclusive of superannuation).
- (3) No Bega Cheese Nominee receives, separately, any director fees for his services as a director of Tatura Milk other than:
 - (A) Barry Irvin, who is paid a director's fee and chairman's allowance totalling \$40,000 per annum (plus a 9% superannuation contribution) by Tatura Milk for his role as chairman; and
 - (B) Richard Parbery, who is paid a director's fee of \$30,000 per annum (plus a 9% superannuation contribution) by Tatura Milk for his role as a director.

9.4 Directors of Bega Cheese and their interests

- (a) The constitution of Bega Cheese requires that at least 4 out of 8 directors must be (or be the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier, and for 2 years following the Merger, 2 of those Bega Cheese Dairy Farmer Supplier directors must be or represent Tatura Milk Dairy Farmer Suppliers.
- (b) The directors of Bega Cheese holding office at the date of this scheme booklet are:

Name	Status
Barry Irvin AM	Executive chairman who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Max Roberts	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Richard Parbery	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Tom D'Arcy	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier
Richard Platts	Non-executive director who also is (or is the representative of a body corporate that is) a Bega Cheese Dairy Farmer Supplier

Name	Status
Peter Margin	Independent non-executive director
Joy Linton	Independent non-executive director

- (c) At the date of this scheme booklet, no director of Bega Cheese owns legally or beneficially or otherwise has a relevant interest in any marketable securities of Tatura Milk.
- (d) No director of Bega Cheese has acquired or disposed of a relevant interest in Tatura Milk marketable securities in the 4 month period ended on the day immediately before the date of this scheme booklet.
- (e) At the date of this scheme booklet, the directors of Bega Cheese own legally or beneficially or otherwise have a relevant interest in the following marketable securities of Bega Cheese:

This director...	...has a relevant interest in these Bega Cheese marketable securities...
Barry Irvin AM	3,004,984 Bega Cheese Ordinary Shares
Richard Parbery	2,664,012 Bega Cheese Ordinary Shares
Max Roberts	1,755,000 Bega Cheese Ordinary Shares
Tom D'Arcy	1,290,276 Bega Cheese Ordinary Shares
Richard Platts	3,616,586 Bega Cheese Ordinary Shares
Peter Margin	2,500 Bega Cheese Ordinary Shares
Joy Linton	20,000 Bega Cheese Ordinary Shares

- (f) No director of Bega Cheese has acquired or disposed of a relevant interest in any Bega Cheese marketable securities in the 4 month period ended on the day immediately before the date of this scheme booklet except as follows:
- (1) Max Roberts has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 80,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.
 - (2) Tom D'Arcy has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 10,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.
 - (3) Richard Platts has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 31,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.

August 2011 at an issue price of \$2 each; 47,630 by purchase on ASX on 7 September 2011 at a sale price of \$1.89.

- (4) Peter Margin has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 2,500 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.
- (5) Joy Linton has acquired a relevant interest in the following Bega Cheese Ordinary Shares – 20,000 under the Bega Cheese Prospectus by issue on 15 August 2011 at an issue price of \$2 each.
- (g) There is no agreement or arrangement made between any director of Bega Cheese and another person in connection with or conditional on the outcome of the Scheme or Merger except as described elsewhere in this scheme booklet.
- (h) No director of Bega Cheese has any interest in any contract entered into by Tatura Milk (or any other member of the Bega Cheese Group) except as described in this section 9 or elsewhere in this scheme booklet.
- (i) None of the directors of Bega Cheese has any material interests:
 - (1) in the Scheme or otherwise in the Merger; or
 - (2) where the effect of the Scheme on those interests is or will be different from the effect on the like interests of other persons;other than as stated in this section 9 or elsewhere in this scheme booklet.
- (j) Set out below is a summary of the additional material personal interests of the directors of Bega Cheese in transactions and other arrangements with Tatura Milk (or any other member of the Bega Cheese Group) which are current or occurred since 30 June 2011:
 - (1) Each non-executive director is entitled to director fees for his or her services as a director of Bega Cheese at the annual rate of \$70,000 (inclusive of superannuation).
- (k) Other than as set out below or elsewhere in this scheme booklet, no director of Bega Cheese has had any interest in the last 2 years in the formation or promotion of Bega Cheese, or in property acquired or proposed to be acquired by Bega Cheese in connection with its formation or promotion or the offer of Bega Cheese Ordinary Shares under the Merger or in the offer itself, and no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to any director to induce the director to become, or to qualify as, a director of Bega Cheese, or for services provided by the director in connection with the formation or promotion of Bega Cheese or the offer of Bega Cheese Ordinary Shares under the Merger:
 - (1) Directors' fees payable to the non-executive directors of Bega Cheese on commercial market terms. In the last 2 financial years these have totalled \$362,315.

- (2) Executive salary and other remuneration payable to Barry Irvin as an executive director of Bega Cheese as described in section 9.3.

9.5 Retirement benefits

As a result of or in connection with the Scheme or any other aspect of the Merger, no payment or other benefit has been, or is proposed to be, made or given:

- (a) to any director, secretary or executive officer of Tatura Milk as compensation for loss of, or as consideration for or in connection with his or her retirement from, office in Tatura Milk or another member of the Bega Cheese Group;
- (b) to any director, secretary or executive officer of a member of the Bega Cheese Group other than Tatura Milk as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in that entity or in Tatura Milk; or
- (c) to any person in connection with the retirement of a person from a board or managerial office in Tatura Milk or a related body corporate.

9.6 Bega Cheese's interests in Tatura Milk

- (a) At the date of this scheme booklet, Bega Cheese had a relevant interest in 28,413,511 Tatura Milk Ordinary Shares, and had no relevant interest in any Tatura Milk RP Shares.
- (b) At the date of this scheme booklet, Bega Cheese's voting power in Tatura Milk was 70.29%.
- (c) Neither Bega Cheese nor an associate of Bega Cheese has provided, or agreed to provide, consideration for any Tatura Milk marketable securities under a purchase or agreement during the 4 month period ended on the day immediately before the date of this scheme booklet.
- (d) Neither Bega Cheese nor an associate of Bega Cheese has acquired or disposed of a relevant interest in Tatura Milk marketable securities in the 4 month period ended on the day immediately before the date of this scheme booklet.
- (e) During the period of 4 months ended on the day immediately before the date of this scheme booklet, neither Bega Cheese nor an associate of Bega Cheese gave, or offered to give or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to:
 - (1) vote in favour of the Scheme; or
 - (2) dispose of Tatura Milk RP Shares;and which is not offered or provided to all Tatura Milk RP Shareholders under the Scheme.
- (f) Neither Bega Cheese nor an associate of Bega Cheese has entered into any escalation agreement that would be prohibited by section 622 of the Corporations

Act if Bega Cheese had offered to acquire all of the Tatura Milk RP Shares pursuant to takeover bid for those securities made or proposed at the date of this scheme booklet.

9.7 Voting intentions of Bega Cheese

- (a) Bega Cheese currently holds all of the Tatura Milk Ordinary Shares.
- (b) Bega Cheese is obligated under the terms of the Merger Implementation Agreement to, and intends to, vote all of its Tatura Milk Ordinary Shares in favour of the special resolution to modify the constitution of Tatura Milk to remove the 5% limit on the ownership of Tatura Milk RP Shares to allow Bega Cheese to acquire 100% of them under the Scheme as proposed, and to make other consequential changes.

9.8 Merger Implementation Agreement

- (a) On 4 October 2011, Tatura Milk and Bega Cheese entered into the Merger Implementation Agreement. The Merger Implementation Agreement sets out the process for Tatura Milk and Bega Cheese preparing for and implementing the Merger and proposing the Merger to the Tatura Milk RP Shareholders. Relevant extant provisions of the Merger Implementation Agreement are summarised below.

Pre-conditions to the Merger

- (b) Implementation of the Merger is subject to the satisfaction or waiver of a number of pre-conditions. These include:
 - (1) all necessary regulatory approvals being obtained;
 - (2) the Scheme being approved by the Tatura Milk RP Shareholders;
 - (3) the special resolution to modify the constitution of Tatura Milk being passed;
 - (4) there being no temporary restraining order, preliminary or permanent injunction or other order or decision by any court of competent jurisdiction or any regulatory authority which prevents the Merger from proceeding and there being no other legal restraint or prohibition preventing the consummation of any aspect of the Merger on the Implementation Date;
 - (5) no material adverse change event occurring on or before the Implementation Date;
 - (6) no prescribed occurrence occurring on or before the Implementation Date; and
 - (7) the representations and warranties given by a party under the Merger Implementation Agreement being true and correct in all material respects up to the Implementation Date.
- (c) A material adverse change event will occur if:
 - (1) any one or more events or circumstances happens which individually, or when aggregated, will result in, or be reasonably likely to result in, the earnings

before interest, tax, depreciation and amortisation (**EBITDA**) of Bega Cheese or Tatura Milk for the financial year ended on 30 June 2010 or any later financial year being \$10 million or more less than the EBITDA of that entity disclosed (or based on the results disclosed) in its annual audited financial statements for the financial year ended 30 June 2010 lodged with ASIC;

- (2) the arithmetic average of the daily volume weighted average price at which Bega Cheese Ordinary Shares are sold in the ordinary course of trading on ASX over any 5 consecutive trading days falls below \$1.55; or
 - (3) a change in law (including a change to a regulatory approval held by Bega Cheese or Tatura Milk) occurs which prohibits or materially restricts the Merger.
- (d) A prescribed occurrence will occur if:
- (1) a party converts all or any of its securities into a larger or smaller number of securities;
 - (2) a party resolves to reduce its capital in any way or reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its securities;
 - (3) a party enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under the Corporations Act;
 - (4) a party declares or pays a dividend or makes any other distribution to its shareholders;
 - (5) a party issues securities or other instruments convertible into securities, or grants an option over its securities, or agrees to make such an issue or grant such an option;
 - (6) a party makes any change or amendment to its constitution; or
 - (7) an insolvency event occurs in relation to a party;

unless required or permitted to be done or procured by the party pursuant to the Merger Implementation Agreement or the Scheme or approved by the other party. For instance, the issue and redemption of Tatura Milk RP Shares that is approved by the board of directors of Tatura Milk, the issue of Bega Cheese securities to employees of Tatura Milk or any other member of the Bega Cheese Group and the declaration of a dividend by Bega Cheese after 31 January 2012 in respect of the financial performance of Bega Cheese for the 6 months ending 31 December 2011 are permitted under the Merger Implementation Agreement.

Current status of pre-conditions

- (e) At the date of this scheme booklet, the status of each of the pre-conditions is as follows:

- (1) ASIC/ASX approvals –
 - (A) before the Court hearing at which an order to convene the Scheme meeting was sought, ASIC issued a letter stating that it did not propose to make submissions to the Court, or to intervene to oppose the Scheme, at that hearing; as noted on page 1 of this scheme booklet, ASIC has registered this scheme booklet; before the Court hearing for approval of the Scheme, Tatura Milk will request a letter from ASIC stating that ASIC has no objection to the Scheme;
 - (B) Bega Cheese is making arrangements to apply to ASX for quotation of the Bega Cheese Ordinary Shares to be issued to Tatura Milk RP Shareholders under the Scheme and Bega Cheese is not aware of any reason why ASX will not approve the quotation of those shares;
- (2) obtaining all other regulatory approvals – none is required;
- (3) obtaining shareholder approval of the Scheme and modification of article 4(2) – this condition cannot be satisfied until the general meeting and Scheme meeting are held;
- (4) there being no restraining order, material adverse change, prescribed occurrence or breach of warranty – neither Tatura Milk nor Bega Cheese is aware that any such event or circumstance has occurred in relation to it, the occurrence of which has not been waived.

Superior proposal

- (f) Nothing in the Merger Implementation Agreement restricts Tatura Milk or your Dairy Farmer Supplier Directors from responding to or undertaking another act with respect to a proposed bona fide takeover bid, scheme of arrangement, amalgamation, merger or other business combination involving any member of the Tatura Milk Group and any other person in circumstances where the Dairy Farmer Supplier Directors have determined in good faith and acting reasonably that:
 - (1) the proposal, if recommended by the directors of Tatura Milk and completed substantially as proposed, would result in a transaction materially more favourable to Tatura Milk and its shareholders as a whole than the Merger, after receiving written advice from Tatura Milk’s financial adviser in relation to the matter; and
 - (2) failing to respond in any way to the proposal would be likely to cause the Dairy Farmer Supplier Directors (or the directors of Tatura Milk) to breach their fiduciary or other legal duties, after receiving written advice from Tatura Milk’s external lawyers in relation to the matter;

and Tatura Milk notifies Bega Cheese of this determination in writing (including providing to Bega Cheese the advice from Tatura Milk’s financial adviser and external lawyers).

Termination

- (g) The Merger Implementation Agreement will terminate if the Scheme is not approved by the Tatura Milk RP Shareholders at the Scheme meeting or the special resolution to modify the constitution of Tatura Milk is not passed at the general meeting, and may be terminated by a party if any other pre-condition to the Merger is not satisfied or waived or resolved by the parties in accordance with the Merger Implementation Agreement.
- (h) A party may also terminate the Merger Implementation Agreement in a number of other circumstances, including:
 - (1) if the Scheme is not approved by the Court on or before 29 February 2012 or such other date as Bega Cheese and Tatura Milk may agree;
 - (2) due to the material default of the other party; or
 - (3) where the Dairy Farmer Supplier Directors determine that another proposal is superior to the Merger in the circumstances noted above.
- (i) Bega Cheese may also terminate the Merger Implementation Agreement if a Dairy Farmer Supplier Director withdraws his recommendation that Tatura Milk RP Shareholders vote in favour of the Scheme or makes a public statement indicating that he no longer supports the Scheme.

9.9 Interests and fees of certain people involved in the Merger

Other than as set out below or elsewhere in this scheme booklet, no person named in this scheme booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the scheme booklet has had any interest in the last 2 years in the formation or promotion of Bega Cheese, or in property acquired or proposed to be acquired by Bega Cheese in connection with its formation or promotion or the offer of Bega Cheese Ordinary Shares under the Merger or in the offer itself, and no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given for services provided by any such person in connection with the formation or promotion of Bega Cheese or the offer of Bega Cheese Ordinary Shares under the Merger:

- (a) Value Adviser Associates Pty Ltd has prepared the independent expert report set out in this scheme booklet starting on page 105 and will receive fees at the firm's usual rates for this work, which will be approximately \$70,000 plus GST in total. No statement in this scheme booklet is made by Value Adviser Associates Pty Ltd or is based on a statement made by Value Adviser Associates Pty Ltd, except for the independent expert report, or a reference to that report or a conclusion or other information contained in that report.
- (b) MB+M Business Solutions has prepared the taxation report set out in this scheme booklet starting on page 178 and will receive fees at the firm's usual rates for this work, which will be \$1,850 plus GST in total. No statement in this scheme booklet is made by MB+M Business Solutions or is based on a statement made by MB+M Business Solutions, except for the taxation report, or a reference to that report or a conclusion or other information contained in that report.

- (c) Lawler Corporate Finance Pty Ltd has acted as corporate adviser for Tatura Milk in connection with the Merger and will receive fees at the firm's usual rates for this work. In connection with the preparation of this scheme booklet, these fees will be approximately \$13,000 plus GST. No statement in this scheme booklet is made by Lawler Corporate Finance Pty Ltd or is based on a statement made by Lawler Corporate Finance Pty Ltd.
- (d) Norton Gledhill has acted as lawyers for Tatura Milk in connection with the Merger and will receive fees at the firm's usual rates for this work. In connection with the preparation of this scheme booklet, these fees will be approximately \$85,000 plus GST. No statement in this scheme booklet is made by Norton Gledhill or is based on a statement made by Norton Gledhill.

9.10 Consents

- (a) Every director of Tatura Milk and Bega Cheese has consented to the lodgement of this scheme booklet with ASIC, and its despatch to the shareholders of Tatura Milk.
- (b) Value Adviser Associates Pty Ltd has consented to the independent expert report set out in the scheme booklet starting on page 105 being included in this scheme booklet in the form and context in which it is included, and has not withdrawn its consent before lodgement of this booklet with ASIC.
- (c) MB+M Business Solutions has consented to the taxation report set out in the scheme booklet starting on page 178 being included in this scheme booklet in the form and context in which it is included, and has not withdrawn its consent before lodgement of this booklet with ASIC.

10. Glossary

In this scheme booklet, unless the context otherwise requires, the following definitions apply:

ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or the Australian Securities Exchange operated by ASX Limited, as the context requires
ASX Listing Rules	Listing rules of ASX
Bega Cheese	Bega Cheese Limited ABN 81 008 358 503
Bega Cheese Dairy Farmer Supplier	A person who conducts a dairy farming business and supplies milk to Bega Cheese or any of its related bodies corporate (which includes Tatura Milk)
Bega Cheese Employee Right	A right granted to a senior executive of the Bega Cheese Group to acquire a Bega Cheese Ordinary Share for no monetary payment under an employee share plan established by the board of directors of Bega Cheese called the 'Incremental Plan'
Bega Cheese Group	Bega Cheese and its subsidiaries (which includes Tatura Milk)
Bega Cheese Nominee	A director of Tatura Milk appointed by Bega Cheese
Bega Cheese Ordinary Share	An ordinary share in Bega Cheese which is, or on issue will be, fully paid or credited as fully paid
Bega Cheese Prospectus	The prospectus dated 18 July 2011 issued by Bega Cheese for its initial public offering of Bega Cheese Ordinary Shares preparatory to its listing on ASX
Business Day	A day which is not a Saturday, Sunday, bank holiday or public holiday in Melbourne or Sydney
Corporations Act	Corporations Act 2001 (Cth)
Court or Supreme Court	Supreme Court of Victoria
Dairy Farmer Supplier or Tatura Milk Dairy Farmer Supplier	A person who conducts a dairy farming business and supplies milk to Tatura Milk (or whom the directors are satisfied will do so or deem to be a supplier). After the Merger, to qualify as a Tatura Milk Dairy Farmer Supplier for the purposes of Bega Cheese's constitution, the supply of milk must be collected from the person's farm and delivered directly to Tatura Milk's milk processing facility at Tatura, Victoria

Dairy Farmer Supplier Director	A director of Tatura Milk who is a Dairy Farmer Supplier
Effective Date	The date an office copy of the Court order approving the Scheme under section 411(4)(b) of the Corporations Act is lodged with ASIC or such other effective date of the Scheme and Merger as Tatura Milk and Bega Cheese may, with the consent of the Court, agree
FY	12 months ended or ending 30 June of any year (e.g. FY2010 is the 12 months ended 30 June 2010)
Implementation Date	The 4 th Business Day after the Effective Date
Industrial Supplier	A person who trades in milk or other dairy commodities and supplies significant quantities to Tatura Milk, and who is not a Dairy Farmer Supplier
IPO	The initial public offer of Bega Cheese Ordinary Shares which resulted in Bega Cheese being admitted to the official list of the ASX on 16 August 2011
Merged Group	The Bega Cheese Group following implementation of the Scheme
Merger	Merger between Tatura Milk and Bega Cheese whereby Tatura Milk RP Shareholders become shareholders of Bega Cheese and Tatura Milk becomes a wholly-owned subsidiary of Bega Cheese in accordance with the Scheme as set out in the Scheme of Arrangement Deed, as proposed or effected
Merger Implementation Agreement	Merger implementation agreement dated 4 October 2011 between Tatura Milk and Bega Cheese, as amended
Scheme	Scheme of arrangement between Tatura Milk and the Tatura Milk RP Shareholders under part 5.1 of the Corporations Act the terms of which are embodied in the Scheme of Arrangement Deed, as proposed or effected
Scheme of Arrangement Deed	Scheme of arrangement deed dated 9 November 2011 between Tatura Milk and Bega Cheese
Supplier	Dairy Farmer Supplier or Industrial Supplier
Tatura Milk	Tatura Milk Industries Limited ABN 66 006 603 970
Tatura Milk Group	Tatura Milk and its dormant controlled entity
Tatura Milk Ordinary Share	An ordinary share in Tatura Milk

Tatura Milk RP Share	An A class redeemable preference share in Tatura Milk
Tatura Milk RP Shareholder	A person who is the registered holder of Tatura Milk RP Shares other than Bega Cheese or a subsidiary of Bega Cheese
WCB	Warrnambool Cheese and Butter Factory Company Holdings Limited ACN 071 945 232
you	The reader of this document, if you are a Tatura Milk RP Shareholder

11. Statements by directors

11.1 Statement by directors of Tatura Milk

This scheme booklet has been approved by each director of Tatura Milk for despatch to the shareholders of Tatura Milk.

The information in this scheme booklet has been prepared by Tatura Milk partly from information provided by Bega Cheese. Tatura Milk has assumed for the purpose of preparing this scheme booklet that the information in sections 3.3 to 3.5, 3.7 to 3.9, 4, 6, 8, 9.2, 9.4, 9.5(b), 9.6, 9.7 and 11.2, in statements attributed or relating to Bega Cheese or its directors and other information provided to Tatura Milk by Bega Cheese (**Bega Cheese Statements**) is correct.

The information concerning Tatura Milk contained in this scheme booklet other than the independent expert report, the taxation report and the Bega Cheese Statements, is the responsibility of Tatura Milk. None of Tatura Milk, its officers and employees and persons engaged by Tatura Milk in the preparation of this scheme booklet takes any responsibility for anything in the Bega Cheese Statements or anything else prepared or distributed by Bega Cheese, except to the extent required by law.

There is no information material to the making of a decision in relation to the Merger (including a decision by a Tatura Milk RP Shareholder whether or not to agree to the Scheme), being information that is within the knowledge of any director of Tatura Milk or of its dormant subsidiary and that has not previously been disclosed to the Tatura Milk RP Shareholders, other than the information set out in this scheme booklet.

11.2 Statement by directors of Bega Cheese

Each director of Bega Cheese agrees with the Bega Cheese Statements, and has approved their despatch to the shareholders of Tatura Milk as contained in this scheme booklet.

The Bega Cheese Statements are the responsibility of Bega Cheese. None of Bega Cheese, its officers and employees and persons engaged by Bega Cheese in the preparation of the Bega Cheese Statements takes any responsibility for any other part of this scheme booklet or anything else prepared or distributed by Tatura Milk, except to the extent required by law.

There is no information material to the making of a decision in relation to the Merger (including a decision by a Tatura Milk RP Shareholder whether or not to agree to the Scheme), being information that is within the knowledge of any director of Bega Cheese or of any wholly-owned subsidiary of Bega Cheese and that has not previously been disclosed to the Tatura Milk RP Shareholders, other than the information set out in this scheme booklet.

Independent expert report



Tatura Milk Industries Ltd

Independent Expert Report in relation to proposed scheme
of arrangement

2 November 2011

Value Adviser Associates Pty Ltd

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2 November 2011

The Independent Directors
Tatura Milk Industries Ltd
236 Hogan Street
Tatura
VIC 3616

Dear Sirs

Independent Expert Report in relation to proposed scheme of arrangement

Introduction and purpose of the report

On 4 October 2011, Bega Cheese Ltd. ["Bega"] announced a Merger Implementation Agreement with Tatura Milk Industries Ltd ["Tatura"] had been signed. The proposed acquisition ["Proposal"] is to be affected by way of a Scheme of Arrangement ["Scheme"]. Bega propose to acquire 12,009,508 Redeemable Preference Shares in Tatura by issuing two Bega shares for each Redeemable Preference Share.

The proposed acquisition is subject to a number of conditions precedent as set out in the Scheme Booklet.

Clause 8303 of Schedule 8 of the Corporations Regulations (2001) sets out the requirement for an Independent Expert Report in relation to a scheme of arrangement when a party to that scheme has a prescribed shareholding in the company subject to the scheme.

The Corporations Regulations require that the directors of Tatura provide Redeemable Preference shareholders with an Independent Expert Report which assesses whether the proposal is, in all respects, in the best interests of the Redeemable Preference shareholders.

Value Adviser Associates has been appointed by the independent directors of Tatura to provide this expert report.

Assessment framework

Value Adviser Associates believe that the Proposal should be evaluated within the framework as set out below:

1. Is the offer price fair?
2. Will Tatura Redeemable Preference shareholders be better off after the transaction?
3. Is the proposed transaction the best alternative?



4. Is it reasonable for Tatura Redeemable Preference shareholders to approve the Terms proposed by Bega?

If the Proposal satisfies the above framework, it will, in Value Adviser Associates opinion be fair and reasonable and be in the best interests of Tatura Redeemable Preference shareholders to accept the Proposal.

Summary of opinion

In the opinion of Value Adviser Associates, the Proposal is in the best interests of the Redeemable Preference shareholders, because:

1. the Proposal price is fair;
2. the Redeemable Preference shareholders are likely to be better off if the Proposal is accepted;
3. the Proposal is the best available alternative; and
4. the terms are reasonable and capable of satisfaction.

We set out a summary of each point below.

1. Is the offer price fair?

Assessed value

Value Adviser Associates has concluded that the value of Tatura is in the range of \$3.05 to \$3.78 per share.

Our valuation range represents the underlying value of Tatura on a controlling basis. That is, our valuation range takes into account our assessment of the value to Bega of increasing ownership from 70% to 100% if the Proposal proceeds.

Proposal price

Bega has offered two newly issued shares in Bega for each Redeemable Preference Share held by Tatura shareholders.

The Bega offer of 2 shares for each Tatura Redeemable Preference Share is estimated to be in the range \$3.40 to \$3.58 per share based on a volume weighted average price ["VWAP"] of Bega's shares over two periods. The \$3.40 is based on trades after the announcement of the Merger Implementation on the 4th October 2011 to 21 October 2011. Value Adviser Associates is of the view that this is the best estimate, as at the time of the report, of the share price expected to prevail upon implementation of the Proposal. The upper bound was based on the period 26 August 2011 through to end of 21 October 2011 and incorporates all trading since listing except the first 5 days. The first 5 day were excluded because trading in the initial stages of an IPO is typically 'noisy' and not necessarily representative of subsequent trades.

The VWAP of Bega's share price of \$1.70 and \$1.79 means the proposal price is in the range \$3.40 to \$3.58 per Redeemable Preference share there being 2 shares offered for each Redeemable Preference Share. This is within our valuation range of \$3.05 to \$3.78 per Redeemable Preference Share and therefore we are of the view that the proposal is fair and reasonable and in the best interests of Tatura Redeemable Preference shareholders.



Control premium offered relative to the Tatura valuation

The management of both Bega and Tatura advise that Tatura has benefitted from improved performance in recent years and that under 100% ownership there is minimal scope for synergies or operational improvements. This is an assessment based on Tatura as it stands today. The improvements have included:

1. Lower purchasing costs for inputs;
2. Milk logistics optimisation reducing transportation costs;
3. Quality and environmental improvements;
4. Revenue synergies; and
5. Changes in management and governance.

In addition, we note that the corporate overhead cost structure of Tatura is relatively lean and that there are not significant opportunities for further cost reductions. This is likely to be the case regardless of the bidder.

Consequently, Value Adviser Associates' opinion is that the control premium in the range of 10% to 20% is reasonable under these circumstances, most likely at the lower end of this range. Value Adviser Associates has considered the premium on a stand-alone basis and used evidence of premiums paid for listed companies by listed companies in acquisitions of this nature as a cross check and is of the view that it falls in the range of such premiums.

Taxation

The taxation implications for shareholders are outlined in Section 2.5 of this report and in the Scheme Booklet. Redeemable Preference shareholders who accept the Proposal will receive Bega scrip and may be able to obtain scrip for scrip capital gains tax rollover relief.

Shareholders should seek advice as to what their net proceeds are likely to be following any tax obligations associated with the sale.

2. The Redeemable Preference shareholders are likely to be better off if the Proposal is accepted

Net benefits

In Value Adviser Associates opinion, Tatura shareholders will be better off if the Proposal proceeds, because the benefits outweigh the disadvantages.

In Value Adviser Associates opinion, the key benefits include:

1. Receiving an offer price which is within our assessed value range, which includes a premium for control;
2. Accessing liquidity in Bega shares not currently available because Tatura as an unlisted company, thereby enabling realisation of invested wealth;
3. Separating milk supply and personal wealth investment decisions i.e. the Dairy Farmer Suppliers do not have to invest in Tatura as the purchaser of their milk to enable them to supply milk to Tatura;



4. The Tatura business, through Bega and Bega being listed, having improved access to sustaining and growth capital resulting from accessing a broader set of equity investors other than just milk suppliers;
5. Access to dividends and franking credits from the broader Bega Group' earnings;
6. The potential for risk mitigation arising from the combined entity operating and marketing to a wider range of customers and geographic regions; and
7. A low likelihood of Redeemable Preference shareholders being affected by the change in share ownership on a day-to-day basis - Bega has stated that it does not intend to effect any change to Tatura's day-to-day operations.



In Value Adviser Associates opinion, the key disadvantages include:

1. A number of rights will be given up by ceasing to be shareholders of Tatura and becoming shareholders of Bega;
 - a. The right to attend, speak and vote at general meeting of Tatura and thereby have a say in the appointment of Dairy Farmer Supplier Directors and other governance arrangements concerning Tatura Milk;
 - b. The right to dividends from Tatura either according to the number of Tatura shares or the quantity of milk supplied;
 - c. The right to have the Redeemable Preference shares redeemed; and
 - d. The right for Dairy Farmer Suppliers to subscribe to additional Redeemable Preference shares under the subscription scheme based on their milk supplies;
2. Exposure to the performance of Bega's operations which may prove disadvantageous compared with Tatura on a stand-alone basis over the longer term;
3. Exposure to volatility in the market price of Bega's shares especially given the short trading history since the Initial Public Offering ["IPO"]. It is possible that the share price could move adversely before final implementation and the opportunity to sell occurs. However it may also move favourably; and
4. There may be changes to day-to-day operations in the future, notwithstanding the expectation and express intention by Bega that this will not be the case.

3. Is the proposed transaction the best alternative?

While acceptance of the Bega offer will result in Redeemable Preference shareholders forgoing any potential higher offer, Value Adviser Associates notes that the Directors have stated that there are currently no superior offers available to shareholders. It is unlikely that an alternative offer will arise since Bega already owns 70% of voting rights in Tatura and the intention to acquire the remaining 30% was outlined in the IPO Prospectus dated 18 July 2011 giving ample opportunity for alternative bids to emerge.

In summary, the proposed transaction is the best alternative for the following reasons:

1. There are no alternative and superior offers (or options) available. The Directors do not believe a superior offer is likely to be forthcoming;
2. Continuing with the present business with Bega as 70% owner does not provide liquidity nor access to the control premium in the Proposal;
3. Listing, asset sale or winding up are considered unlikely alternatives with Bega currently owing 70% of the voting rights.

4. Is it reasonable for Tatura shareholders to approve the terms proposed by Bega?

There are a number of conditions precent to approval of the offer. These are outlined in the Scheme Booklet and Merger Implementation Agreement. Of particular importance is approval of changes to the Tatura constitution to enable the Scheme to be implemented.



Redeemable Preference shareholder acceptance

The Scheme of Arrangement (which is subject to Regulatory Approvals and conditions precedent¹ being satisfied or waived) that encompasses the Proposal requires the following majority acceptances:

1. Approval by a majority (i.e. greater than 50%) in number of the Scheme Shareholders present and voting; and
2. Accepting Scheme Shareholders (being Redeemable Preference shareholders)) must cast at least 75% of the total number of votes cast.

If the Scheme receives the above approval levels, all Redeemable Preference shareholders will have to sell 100% of their shares even if they do not vote in favour of the Scheme.

If the Scheme is not approved by the majority (as defined above) then the Bega offer will lapse.

Conclusion

The Proposal is a share exchange offer with no deferred payment terms. Bega shares will be issued on the Implementation Date of the Scheme.

The Bega terms and intentions do not imply a significant departure from the current Tatura operations.

The proposed changes to the Tatura Constitution largely reflect the requirements to give effect to the Bega offer and provide for the intention for reasonable representation of Redeemable Preference shareholders at the Bega Board level.

Bega's conditions precedent are not unreasonable and are largely dependent upon constitutional, regulatory and legal approvals.

In summary, in Value Adviser Associates opinion, the terms proposed by Bega are reasonable.

Other matters

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the shareholders of Tatura. The decision to accept or reject the Proposal is a matter for individual shareholders. Shareholders of Tatura should consider the advice in the context of their own circumstances and preferences. Shareholders of Tatura who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Value Adviser Associates has prepared a Financial Services Guide in accordance with the Corporations Act, 2001. The Financial Services Guide is included as Appendix 7 to this report.

¹ Refer to Scheme Booklet for Regulatory Approvals and Conditions Precedent



Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full report.

Yours faithfully

Value Adviser Associates

Dr Steven Bishop
Executive Director

Michael Mileo
Senior Corporate Adviser



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Glossary

Term	Meaning
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
Bloomberg	A financial information service provider
CommSec	Commonwealth Securities Limited
Company	Tatura
CY	Calendar Year
Dairy Suppliers	Farmer A dairy farmer who supplies milk to Tatura (or whom the directors are satisfied will do so or deem to be a supplier)
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EV	Enterprise Value
FAPRI	Food and Agricultural Policy Research Institute
FY	Financial Year
IPO	Initial Public Offering, Bega Cheese Ltd issued a Prospectus dated 18 July 2011 in support of its recent IPO. It signalled the intention to acquire the remaining 30% of Tatura in this document
Merger Implementation Agreement	An agreement reached between Bega Cheese Ltd and Tatura Milk Industries on 4 th October 2011
MPC	Milk Protein Concentrate
NFDM	Non Fat Dairy Milk
RPS	Redeemable Preference Shares
Scheme	Scheme of Arrangement
SMP	Skim Milk Powder
Tatura	Tatura Group Limited
VAA	Value Adviser Associates Pty Ltd



Term	Meaning
VWAP	Volume Weighted Average (Share) Price
WMP	Whole Milk Powder



1. Outline of the Bega offer

On 4th October 2011 Bega announced to the ASX that a Merger Implementation Agreement with Tatura had been signed. This followed a prior announcement of its intention to acquire the shares in Tatura that it did not already own. The intention to acquire was included in the Prospectus dated 18 July 2011.

The proposed acquisition is to be effected by way of a Scheme of Arrangement ["Scheme"]. Pursuant to the Scheme, Bega would acquire 12,009,508 Redeemable Preference shares in Tatura by issuing two Bega shares for each Tatura Redeemable Preference Share.

Under the Merger Implementation Agreement, Tatura agreed to propose the Scheme to Tatura Redeemable Preference Shareholders and Tatura and Bega agreed to take all steps reasonably necessary to implement the Scheme.

Upon implementation, two Tatura Directors will join the Bega Board.

The Scheme is subject to a number of procedural steps and approvals which are set out below:

1. Approval by Tatura Redeemable Preference shareholders of the Scheme at a Court-ordered Meeting;
2. Consents or approval of ASIC and ASX and other regulatory authorities being met;
3. Court approval - The Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;
4. No Material Adverse Change occurs before the implementation date;
5. No Bega or Tatura Prescribed Occurrence before the implementation date (Prescribed Occurrence is defined in the Merger Implementation Agreement);
6. Modification of the Constitution to remove the restriction of the limit of 5% ownership of the Redeemable Preference shares and the restriction of ownership to Suppliers;
7. The representations and warranties of Bega and Tatura are true and correct; and
8. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Transaction is in effect.

Value Adviser Associates has been provided with the following documents that set out the Bega offer to Tatura Redeemable Preference shareholders:

1. Merger Implementation Agreement dated 4 October 2011;
2. Working draft Scheme Booklet setting out the details of the Bega offer.

The key elements of the Proposal as outlined in Scheme document are as follows:



1.1 Price and structure

1. Bega will issue two Bega shares for each of the 12,009,508 Redeemable Preference shares not held by Bega. Bega holds all the 28,413,511 ordinary shares in Tatura and does not hold any Redeemable Preference Shares. The new Bega shares will rank equally with existing Bega shares and be entitled to any dividend where the record date for determination of entitlements to the dividend occurs after the implementation date;
2. No cash is offered for the Redeemable Preference shares;
3. Bega's shareholding in Tatura will increase from 70% to 100% following the Acquisition; and
4. The Acquisition will be consummated through a scheme of arrangement.

1.2 Operational Intentions

1. Milk Pricing

Bega recognises that the Tatura business requires a substantial and reliable supply of milk and, accordingly, is committed to maintaining a base of dairy farmer milk suppliers to Tatura in Northern Victoria. Bega recognises that, in order to ensure this milk supply base remains in place following the Merger, Tatura will have to continue to pay a leading manufacturers price for milk supplied to it by dairy farmers in Northern Victoria.

2. Tatura Business

Following the Merger, Bega intends to continue key business operations of Tatura from the company's facilities at Tatura, Victoria. Bega also intends to support and foster the success of the Tatura business and the use of the Tatura brand in that business.

3. Sale Facility for Bega Shares

Bega will use its best endeavours to establish an arrangement with a stock broker to enable Scheme Shareholders to sell any Bega shares issued to them under the Scheme within a period of 3 months after the Implementation Date.

1.3 What would change if the Bega offer is accepted?

This section summarises the key areas that would change if the Bega offer was accepted:

- Bega will own 100% of all shares in Tatura;
- Tatura Redeemable Preference Shareholders will own 2 shares in Bega for every 1 Redeemable Preference Shares held and be exposed to changes in Bega's share price;
- Tatura shareholders will be exposed to the earnings of Bega and Tatura rather than just Tatura;
- Tatura Redeemable Preference shareholders will lose the claim to dividends and supply based dividends from Tatura but these will be replaced by a claim to Bega dividends;



- The Tatura Redeemable Preference shareholders will lose the right to have the Redeemable Preference shares redeemed for \$1 but will be able to sell their Bega shares via the ASX without losing Supplier rights;
- Tatura Redeemable Preference shareholders will be able to sell their Bega shares on the Australian Stock Exchange at their own choosing; and
- Dairy Farmer Supplier directors will cease to be directors of Tatura. Bega will use its best endeavours to ensure two representatives of Tatura Dairy Farmer suppliers will be appointed to the Board of Bega for at least 2 years.

1.4 What would not change if the Bega offer is accepted?

This section summarises the key areas that would not change if the Bega offer was accepted:

- Current Suppliers can remain as suppliers. There will be no change in the contractual arrangements between Tatura suppliers and Tatura for the supply of milk and other commodities;
- Bega has expressed an intention to ensure that processing activities continue at Tatura;
- Bega has expressed an intention that milk supply prices will be competitive.



2. Scope of the report

2.1 Purpose of the report

The proposed acquisition by Bega of the Tatura Redeemable Preference Shares is to be implemented by way of scheme of arrangement under Section 411 of the Corporations Act, 2001 between Tatura and Tatura Redeemable Preference shareholders ['Scheme'].

There are a number of proposed changes to the constitution of Tatura which require shareholders to approve to facilitate the implementation of the Scheme. These proposed changes are set out in the special resolutions to be put to the general meeting of Tatura shareholders which has been convened on the same day as the Court-ordered Scheme meeting.

The Scheme (which is also subject to Court approval and conditions precedent² being satisfied, resolved or waived) must be approved by the Court-ordered meeting of Tatura Redeemable Preference shareholders by a resolution passed by:

1. a majority (i.e. greater than 50%) in number of the Redeemable Preference Shareholders present and voting (in person or by proxy, attorney representative); and
2. at least 75% of the total number of votes cast.

If the Scheme receives the above acceptance levels, all Redeemable Preference shareholders will have to sell all of their shares even if they do not vote in favour of the Scheme.

The Independent Directors of Tatura have requested Value Adviser Associates prepare an Independent Expert Report. The report has been requested to be provided to the Redeemable Preference shareholders of Tatura to assist them assess the merits of the Scheme.

Voting in favour or against the Scheme is a matter for individual shareholders. Individual shareholders are likely to have their own views on value and expectations in relation to future economic growth and conditions. In addition, there will be individual circumstances which will be factored in arriving at a voting decision.

Value Adviser Associates recommends that shareholders seek their own professional advice in working through their voting decision.

2.1.1 Corporations Regulations and ASIC requirements/guidelines

Tatura is required to send Tatura Redeemable Preference shareholders a copy of a report made by an expert who is not associated with Bega stating whether or not, in the expert's opinion, the proposed Scheme "in the best interest of the members of the company".

This report sets out Value Adviser Associates' opinion as to whether the Scheme is in the best interests of Tatura Redeemable Preference shareholders.

There is no legal definition of "best interests", however ASIC has provided guidance for independent experts to assist in this assessment. It expects consideration of whether the offer is fair and reasonable.

ASIC Regulatory Guide ("RG") 111.17 states that:

² Refer to Scheme Booklet for Regulatory Approvals and Conditions Precedent



"If an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is in the best interests of the members [shareholders] of the company":

Accordingly, the independent expert report may consider whether, in the opinion of the expert, the proposed Scheme is fair and reasonable to the target company's independent shareholders and provide reasons for forming that opinion.

This report addresses the fairness and reasonableness of the Scheme and whether the Scheme is in the best interests of the Redeemable Preference shareholders, taking into account all matters which are being put to shareholders at the Scheme meeting called to consider the Scheme resolutions. The proposed acquisition by Bega of the Tatura Redeemable Preference shares by way of the Scheme is referred to in this report as "the Proposal".

Further requirements of the expert, based on ASIC's guidance in relation to expert reports is set out in Section 2.2 below.

2.2 Meaning of "fair and reasonable"

There is no legal definition provided for "fair and reasonable". In preparing this report, Value Adviser Associates has had regard to relevant regulatory guides issued by ASIC, with particular reference to ASIC Regulatory Guide 111: *Content of expert reports*.

ASIC Regulatory Guide 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. ASIC Regulatory Guide 111 sets out the view of ASIC on the meaning of "fair and reasonable" in the context of a mergers and acquisitions. Specifically, ASIC Regulatory Guide 111 states that:

1. An offer is "fair" if the value of the offer price or consideration is equal to, or greater than, the value of the securities that are the subject of the offer. This comparison should be made assuming 100 percent ownership of the target and should not consider the percentage holding of the bidder or its associates in the target; and
2. An offer is "reasonable" if it is "fair". An offer may also be "reasonable" if, despite not being "fair", there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.
3. ASIC has identified the following as some of the factors which an expert might consider when deciding whether a bid is reasonable:
 - a. The bidder's pre-existing voting power in securities in the target;
 - b. Other significant security holding blocks in the target;
 - c. The liquidity of the market in the target's securities;
 - d. Taxation losses, cash flow or other benefits through achieving 100 percent ownership of the target;
 - e. Any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target;
 - f. The likely market price if the offer is unsuccessful; and



- g. The value to an alternative bidder and likelihood of an alternative offer being made.

2.3 Basis of evaluation

In developing our evaluation criteria, we have considered the nature of the Proposal and how this will impact Tatura Redeemable Preference shareholders.

The Proposal will result in Bega assuming full control of Tatura through its increase in shareholding from 70% to 100% although it has effective strategic and operational control with its current ownership.

In considering whether the proposed acquisition is in the best interests of Tatura Redeemable Preference shareholders, we have considered whether the Proposal includes a control premium, pursuant to the requirements of ASIC Regulatory Guide 111 'Content of Expert Reports' issued March 2011.

Regulatory Guide ("RG") 111 states that:

RG 111.9

"It has long been accepted in Australian mergers and acquisitions practice that the words 'fair and reasonable' in s640 establish two distinct criteria for an expert analysing a control transaction:

(a) is the offer 'fair'; and

(b) is it 'reasonable'?

That is, 'fair and reasonable' is not regarded as a compound phrase."

RG 111.10

"Under this convention, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% 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. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares."

RG 111.11

"An offer is 'reasonable' if it is fair. It 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 111.15

"Schemes of arrangement can be used as an alternative to a Ch 6 takeover bid to achieve substantially the same outcome. In these circumstances, we expect the form of analysis to be substantially the same as for a takeover bid, even though the wording of the opinion will also be whether the proposed scheme is 'in the best interests of the members of the company'. This reflects that the legislative test for schemes of arrangement differs from that applicable to a Ch 6 takeover bid."

RG 111.17

"If an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is in the best interests of the members of the company."



In our view, for the proposed merger to be fair and reasonable and in the best interests of Tatura Redeemable Preference shareholders, it must be capable of satisfying four key criteria:

1. Is the offer price fair?

This involves a comparison of the value of the total consideration being offered for the Tatura Redeemable Preference shares including consideration of any control premium. If the total value of the consideration offered is greater than the value of the Tatura shares, including a control premium, the offer price will be fair.

2. Is the offer reasonable?

A 'fair' offer will usually be 'reasonable' however it is possible that an 'unfair' offer may be considered 'reasonable'. Assessing reasonableness will involve considering:

- a. The offeror's existing shareholding and the opportunities for further strategic or operational improvements;
- b. The likelihood of another offer;
- c. The liquidity of the market for Tatura versus Bega shares without the offer;
- d. Other advantages and disadvantages for Tatura Redeemable Preference shareholders of approving the proposal.

3. Is the proposed transaction the best alternative?

This involves assessing the likelihood of an alternative higher valued offer coming forward as well as alternatives such as continuing under current ownership and Constitutional arrangements, listing or winding up.

4. Are the terms reasonable and capable of satisfaction?

This involves a consideration of other commercial arrangements, such as board and management control, and any material contractual conditions. The terms of the proposed acquisition should not contain any onerous or non-commercial conditions which could materially dilute the value of the consideration

The "in the best interests" criterion incorporates the requirements for a fair and reasonable assessment.

An offer that is considered 'fair and reasonable' and an offer considered "unfair but reasonable" would be considered 'in the best interests' of the Tatura shareholders.

In undertaking our assessment, we have considered the likely impact of the Proposal on the Redeemable Preference shareholders as a whole. We have not considered how the proposal may affect individual shareholders. Individual shareholders have different financial and tax circumstances and it is not practicable nor possible to consider the implications of the proposed acquisition on individuals as their respective financial circumstances are not known to us. Individual shareholders should seek their own professional advice.



2.4 Shareholder's decision

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Shareholders. The decision whether to vote in favour of the Proposal is a matter for individual Redeemable shareholders. Shareholders should consider this report in the context of their own circumstances, preferences and risk profiles.

Shareholders should also have regard to the Scheme documentation.

Shareholders who are in doubt as to whether or how they should vote on the Proposal should consult their own professional adviser.

Value Adviser Associates has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Appendix 7 to this report.

2.5 Taxation implications

In the event that a Shareholder sells their shares pursuant to the Scheme, they will have exchanged their Redeemable Preference shares for taxation purposes.

Relief from capital gains tax may be available under these circumstances.

If in doubt as to the taxation implications relating to Proposal, shareholders should consult their own financial or taxation adviser.



3. Industry profile

3.1 Australian dairy industry background

3.1.1 Production

Australia produced around 9.0 billion litres of milk in the 2010 financial year from 1.6 million dairy cows spread across 7,511 farms. The farmgate value of production was \$3.4 billion, ranking the dairy industry as the third largest rural industry behind wheat and beef.

Milk production has been declining by approximately 1.5% p.a. over the past decade as a result of a lower number of dairy farms and lower overall dairy cow numbers; this trend was partially offset by increased volume milk yields per cow. VAA notes that the current year projections are for an increase of around 1.5% in production as a result of favourable rainfall and water allocations, large volumes of hay storages and plentiful local feed grain stocks.

Milk production is seasonal, peaking the spring period of October/November and falling to lower levels during the late autumn/winter months of May to July. Australian farmers use grain concentrates to supplement grass pastures, particularly during the winter months, to ensure milk supplies are maintained throughout the year. In addition, dairy processors and manufacturers provide other incentives to farmers to help maintain a meaningful volume of supply during off peak periods because of their need for a stable supply throughout the year.

Dairy production is concentrated in the higher rainfall areas along coastal eastern, south-eastern and south-western Australia and in the Murray Darling Basin. Victoria is the largest milk producing State, accounting for 64% of national milk production in the 2010 financial year.

Victoria also produces most of the manufacture milk used in the production of dairy products. New South Wales and Tasmania account for approximately 12% and 7% of national milk production respectively.

Australian milk production is divided into two sectors:

- market milk (i.e. drinking milk) – this accounts for 24% of total milk production. Per capita consumption of market milk is estimated to be 102.4 litres in FY2010 and has increased over the past four years due to the increasingly mainstream coffee culture, reversing a downward trend that commenced in the mid-1990s; and
- manufacture milk - used for the manufacture of a variety of dairy products by combining the basic components of milk (milkfat and proteins) in different ways. The principal dairy products are butter, cheese, milk proteins and milk powders. In addition, manufacturers produce a range of fresh dairy products, including yoghurt, dairy desserts, chilled custard and cream and frozen products, such as ice-cream.



3.1.2 Australian dairy consumption

The Australian market for dairy products continues to generate volume and value growth. Australians drink about 2.3 billion litres of milk (24% of annual milk production). A further 30% of milk production is consumed in the form of dairy products such as cheese, dairy spreads and yoghurt (i.e. manufacture milk); the remaining 46% produced is exported.

Reductions in milk production and increases in domestic consumption result in a trend of less milk being available for export/manufacture markets.

Imports of butter and cheese products into Australia contribute an estimated 23% and 25% of domestic consumption respectively. New Zealand is the major source of imports, contributing to around 90% of total cheese imports and over 80% of butter imports, which has remained consistent over recent years.

VAA has analysed and summarised Food and Agricultural Policy Research Institute ["FAPRI"] data on the historical production, consumption and export volumes and growth rates for Australia between 2000 and 2010. The table below sets out the key highlights and growth rates which include the following key trends:

- Milk cow numbers are reducing due to farm rationalisation;
- Overall milk supply volumes are falling, but yields per cow are increasing;
- Drinking milk volumes are increasing relative to manufacturing volumes;
- Local consumption of butter, cheese and powders is increasing; and
- Manufacturing volumes available for export are decreasing.



TABLE 1 HISTORICAL PRODUCTION IN AUSTRALIA 2000 – 2010

Item	Unit	ACTUAL					
		11 years 2000-2010			5 years 2006-2010		
		2000	2010	CAGR	2006	2010	CAGR
Milk Cow Numbers	'000 Head	2,226	1,600	-3.0%	1,835	1,600	-2.7%
Milk Production per Cow	kg	4,950	5,750	1.4%	5,522	5,750	0.8%
Cow Milk Production	'000 tonnes	11,018	9,200	-1.6%	10,133	9,200	-1.9%
Manufacturing Use	'000 tonnes	8,983	6,787	-2.5%	7,907	6,787	-3.0%
Butter	'000 tonnes						
Production		170	114	-3.6%	123	114	-1.5%
Consumption		58	70	1.8%	59	70	3.7%
Net Trade		120	54	-7.0%	70	54	-4.9%
Cheese	'000 tonnes						
Production		374	320	-1.4%	361	320	-2.4%
Consumption		203	225	1.0%	220	225	0.5%
Net Trade		181	115	-4.0%	145	115	-4.5%
Nonfat Dry Milk	'000 tonnes						
Production		265	170	-3.9%	213	170	-4.4%
Consumption		33	51	4.2%	40	51	5.0%
Net Trade		233	121	-5.8%	178	121	-7.4%
Whole Milk Powder	'000 tonnes						
Production		196	130	-3.7%	144	130	-2.0%
Consumption		23	29	2.3%	27	29	1.4%
Net Trade		170	100	-4.7%	130	100	-5.0%
Totals	'000 tonnes						
Production		1,004	734	-2.8%	841	734	-2.7%
Consumption		315	375	1.6%	346	375	1.7%
Net Trade		703	390	-5.2%	521	390	-5.6%

Source: FAPRI-ISU 2011 World Agricultural Outlook (Dairy data table); VAA analysis

Net Trade - Difference between production and consumption and includes changes in inventory

3.2 Global dairy industry background

The key focus of Tatura is on the export of dairy products and infant formula, predominantly to the Asian region. Accordingly, our review of the global dairy industry is focused on issues most relevant to Tatura's markets.

VAA has analysed data sourced from Food and Agricultural Policy Research Institute – USA ("FAPRI") to examine historical (and forecast) production volumes of dairy products (excluding milk). The data covers butter, cheese, non-fat dry milk and whole milk powder.

The table below summarises the top producers of dairy products (excluding milk) in the 2010 calendar year.



TABLE 2 TOP 10 PRODUCERS IN 2010

Region	Rank	2010 Production '000 tonnes				
		Total	Butter	Cheese	NFDM	WMP
EU + Switzerland	1	10,954	2,028	7,168	1,008	750
USA	2	6,237	725	4,722	790	
India	3	4,490	4,098		393	
New Zealand	4	2,041	480	309	381	871
China	5	1,441	109	277	55	1,000
Brazil	6	1,364	78	648	120	518
Argentina	7	853	52	543	38	220
Russia	8	780	240	430	60	50
Australia	9	734	114	320	170	130
Mexico	10	562	170	240	31	121
Sub-total Top 10		29,456	8,094	14,657	3,046	3,660
TOTAL - FAPRI sample		31,634	8,456	15,944	3,388	3,845

Source: FAPRI-ISU 2011 World Agricultural Outlook (Dairy data table); VAA analysis

From the above data, VAA notes:

- The global production of (non-liquid milk) products is dominated by a small number of regions/countries;
- Australia is ranked 9th with approximately 2.3% of the total production attributable to the 26 regions/countries covered by the FAPRI data;
- The Top 5 Exporters – which represent over 95% of the reported export volumes – were dominated by the EU (including Switzerland) and New Zealand;
- Australia was the 3rd ranked exporter with approximately 11% of the combined export volume of EU (including Switzerland) and New Zealand;
- Russia and China – two of the Top 10 Producers – were the Top 2 Importers.

Annual production in any given region/country can be significantly influenced by climatic conditions, which are by their very nature volatile. Australia, being a relatively small producer, is therefore exposed to potentially large swings in demand for its export production. For example the recent drought in Russia led to unexpected export opportunities for butter from Australia. Conversely, favourable conditions can lead to short term excess supply which can translate to increased competition.

TABLE 3 TOP 5 EXPORTERS IN 2010

Region	Rank	2010 Export (Import) '000 tonnes				
		Total	Butter	Cheese	NFDM	WMP
New Zealand	1	1,997	455	285	379	878
EU + Switzerland	2	1,455	128	551	356	420
Australia	3	390	54	115	121	100
USA	4	322	17	-4	309	
Argentina	5	247	16	43	20	168

Source: FAPRI-ISU 2011 World Agricultural Outlook (Dairy data table); VAA analysis



TABLE 4 TOP 5 IMPORTERS IN 2010

Region	Rank	2010 Export (Import) '000 tonnes				
		Total	Butter	Cheese	NFDM	WMP
Russia	1	658	87	343	190	38
China	2	486	26	32	91	337
Mexico	3	299	76	71	114	38
Algeria	4	286	9	22	85	170
Indonesia	5	254	16	9	181	48

Source: FAPRI-ISU 2011 World Agricultural Outlook (Dairy data table); VAA analysis

By way of general global production and demand trends, VAA notes the following:

- Demand from developing markets has been robust despite rising commodity prices;
- Chinese production is increasing but has not kept pace with demand;
- There is a strong preference for imported infant formula products in China;
- Chinese whole milk powder imports increased significantly in 2010;
- In the US and the EU, steadily improving consumer spending is increasing domestic product demand;
- In Japan, following the March 2011 tsunami disaster, the demand for imported product increased;
- Droughts in Russia significantly reduced domestic production in 2010;
- African production lags demand;
- In New Zealand – a major global producer and exporter – the 2010/11 production has been adversely affected by drought, storms and earthquakes;
- In South East Asia demand has increased with education and economic prosperity; and
- Demand generally exceeds supply in many markets.

3.3 Dairy commodity prices

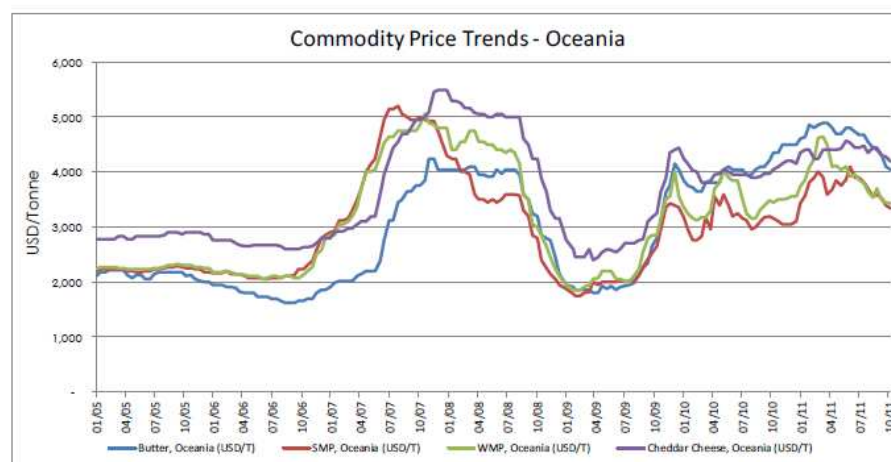
The majority of wholesale dairy product prices are directly influenced by prevailing international prices, which are in turn driven by world market conditions.

Commodity prices for dairy products are cyclical in nature and follow world economic growth. Subsidies for US and EU production also influence commodity prices, as do exchange rates.

International commodity prices for various dairy products from January 2005 to October 2011 are set out below:



GRAPH 1. COMMODITY TRENDS



Source: Bloomberg

Commodity prices in the past two (2) years have recovered from the GFC lows reflecting the following key market conditions³:

- The world market in the last quarter of the 2010/11 production stabilised and consolidated. The fundamentals (supply and demand balances) in the global dairy market remain tight, with supply limitations and sustained demand for commodity ingredients;
- Southern Hemisphere supplies of butterfat are limited and prices remain high. Northern Hemisphere supplies are rebuilding, although surplus product availability from Europe may be absorbed by Russia as a consequence of the severe drought;
- Cheese markets remain steady, with firm pricing for product from all origins. The US is becoming a major player in global cheese markets. Demand for lactose and whey by-products has outstripped supply and prices for lactose and whey powder remain firm. Lactose is being increasingly used in standardisation, while much more whey powder is being used in feed than previously;
- Milk powder markets are unsettled with a mixed outlook. WMP prices have recently receded having risen quickly in early 2011. SMP prices posted more modest gains, nearing US\$4,100/tonne.

³ FAPRI-ISU 2011 World Agricultural Outlook



3.4 Global industry outlook

Global demand is likely to continue to rise in the long term with growing awareness of milk's nutritional value and functional diversity (wide applications), and the improvement of living standards in developing economies.

The Australian dairy industry has well-established customer relationships in developing market regions and is likely to be able to take advantage of global dairy demand growth into the future.

FAPRI projections⁴ suggest that global demand of approximately 4-5 billion litres (approximately 15% of 2010 global milk production) will be unmet by 2020. This is likely to underpin improving market conditions over the medium term. These projections assume the following:

- Sustained growth in milk production and export availability for a number of the major producers and exporters (it is noted that the EU Commission's outlook is for slow growth in milk production, dairy product manufacture and consumption leading to the likelihood of increased export volumes);
- Assumed growth in production in Australia of 1% per annum and New Zealand of 2.5% per annum; and
- Rapid expansion of Chinese production and consumer demand.

Sustained firm market prices into the medium to long term are highly sensitive to a number of factors as follows:

- Expansion of Chinese milk production and manufacturing output;
- Strength in consumer demand;
- EU's trade balance, affected by the adjustment in milk supply after production quotas are removed in 2015;
- US trade balance, especially affecting available exports of skim milk powder; and
- Growth in New Zealand milk production.

The tight balance and sensitivity of the outlook to small changes in key production and market region variables may still, however, result in ongoing price volatility.

⁴ Dairy Australia, Dairy Situation and Outlook, May 2011 p21



4. Profile of Tatura

4.1 Overview

Tatura is an unlisted public company established in 1907 and located at Tatura in regional Northern Victoria, Australia.

Tatura is supplied by approximately 280 dairy farms and processes approximately 350 million litres (ML) of milk each year. Approximately 300 ML are supplied by Tatura suppliers (shareholders). The majority of supplying farms are located within a 30kms radius of the factory, making transport cost effective.

Tatura manufactures dairy ingredients for the global market, predominantly at a business to business level with no significant visibility of the Tatura brand. Approximately 70,000 tonnes of manufactured products are produced from the Tatura Site. Tatura also processes 70 ML of liquid milk and liquid by-products.

Key products and FY11 sales volumes (rounded) are set out in the table below:

TABLE 5 KEY PRODUCTS AND FY11 SALES

Product	Tonnes – FY11
Cream Cheese / Frozen Cream	19,800
Infant Formula	19,700
Milk Powders	23,000
Milk Protein Concentrate (MPC)	3,300
Lactoferrin & Colostrum	20
Butter	2,700
Manufactured Product	68,520

Source: Tatura Management Accounts

More than 70% of revenues are generated from exports to the Asian region (Japan, Korea, China, Thailand, Taiwan, Hong Kong) and Europe. Tatura has been active in the Asian markets for many years and is positioned to benefit from the consumption growth in the region.

The majority of the cream cheese / frozen cream volumes are sold to Japanese customers through trading houses. The Japanese market has demonstrated strong loyalty of custom.

Tatura has several major infant formula customers which are based in Australia and Asia. Tatura also provides toll manufacturing services for Mead Johnson for infant formula production.

Tatura manufactures MPC under lease and licence arrangements from Ingredia SA (France). MPC is used as a dairy ingredient in desserts, baked goods, beverages, processed cheese products, toppings and spreads.



Tatura processes milk and cream to supply several liquid customers including Capital Chilled Foods Australia ("CCFA").

In April 2007 Bega Cheese Limited acquired a 70% controlling interest in Tatura Milk.

4.2 Tatura Value Chain

4.2.1 Reliable Milk Supply

Tatura's production is dependent upon a reliable milk supply. The Northern Victoria region represents approximately 25% of Victorian milk production at approximately 1.8 billion litres (Victoria as a whole produces around 65% of national milk production). Tatura receives ~300 ML p.a. which equates to ~20% of Northern Victoria supply.

Milk production is largely dependent upon the following key drivers:

- Number of dairy cows;
- Milk production yields;
- Farm gate prices;
- Water storage levels for pasture irrigation; and
- Grain and nutrition supplement prices for herd feed.

Total Australian dairy farm numbers have reduced by around 65% since 1980 from 22,000 to 7,500. In Victoria a similar, but less severe reduction of around 55% from 11,500 to 5,200 farms has been noted.⁵ This reduction reflects a lower total volume of production, but also a rationalisation towards larger, more efficient farm sizes. Accordingly, average cows per farm have increased substantially over this period from around 85 to 220 cows per farm.

Critically, average annual milk production per cow has increased substantially since 1980 from around 3,000 to 5,600 litres per annum per cow to (an increase of 185%). This yield increase is largely due to improvements in genetics, pasture developments and feeding supplements.

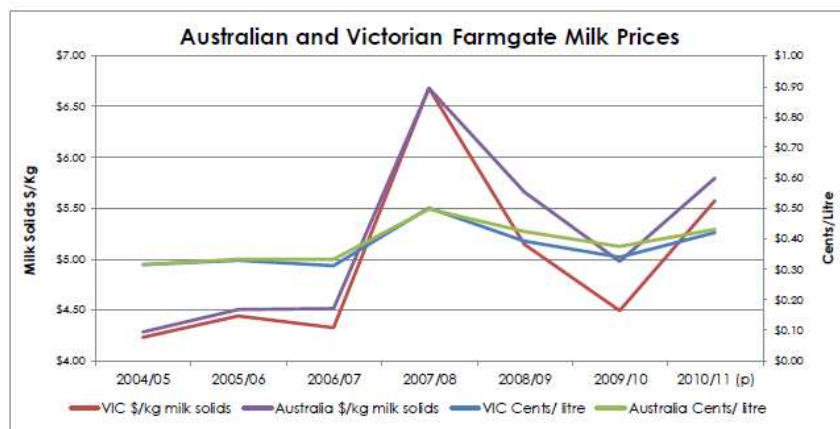
Farm gate prices have varied materially over the past 5 years reflecting the impact of the drought on local supply volumes and the significant reduction in global dairy commodity prices in late 2008. Sustained farmer supply is reliant upon manufacturers such as Tatura and milk processors meeting/exceeding milk market prices. This is particularly critical in Northern Victoria where there is strong competition for supply.

The profitability of dairy manufacturers such as Tatura is highly sensitive to changes in farm gate prices if there is no corresponding change in the price of dairy commodities produced by the manufacturer. The graph on the following page shows the changes in farm gate prices at a State and National level over the past 6 (six) years.

⁵ Dairy Australia, Australian Dairy in Focus 2010 p11



GRAPH 2. AUSTRALIAN AND VICTORIAN FARMGATE MILK PRICES



Source: Dairy Australia

Australian market prices are comprised of an opening pay rate (set around June each year) and allowances for deferred loyalty payments throughout the year. In addition, there may be additional incentives for extra supply (particularly in the 'off-peak' periods) in order to encourage a smoother supply volume outside of the peak Spring season.

4.2.2 Manufacturing

Tatura's core expertise is the manufacture of value added dairy-based products and infant formula. The majority of Tatura's dairy manufacture volumes are exported, predominantly to Asia. The export prices are subject to global commodity prices and as such Tatura must ensure that its manufacturing processes underpin a high quality output at competitive prices.

Efficient and flexible manufacturing plants are critical in the dairy manufacturing industry. Milk input costs are the single largest cost component, however the products manufactured may vary significantly in terms of margins generated depending on a number of factors. As milk may be utilised in a number of different products, the ability to focus production to take advantage of favourable pricing is key.

Global commodity prices can fluctuate as a result of changes in supply, for example Tatura recently responded to a shortage of butter in Russia due to drought conditions in that market.

Tatura is able to determine which products offer the most advantageous margins based on market prices at the time. For example, butter may be interchanged with frozen cream in the high fat segment.

Tatura is operating at close to capacity under the current configuration. Additional capacity is being added for the cream cheese product which will provide approximately 50% additional capacity. However other product volume growth will be limited in the absence of significant capital expenditure.

Tatura is viewed as a high quality producer of dairy products and infant formula (as evidenced by the demonstrated track record of customer loyalty) and competes on the



basis of established customer relationships, consistent/high quality product and reliable supply. In terms of milk powders, Tatura competes with larger scale manufacturers globally and as such is disadvantaged in gross margin performance in this segment.

Tatura provides toll manufacturing services for Mead Johnson infant formula products under a contract arrangement. The services are contracted until 2019. Tatura expects to manufacture approximately 9,500 tonnes in FY12.

As noted earlier, Tatura produces high quality milk protein concentrate for Ingredia SA, a global manufacturer of dairy and functional foods.

4.2.3 Marketing

As an export-driven company, Tatura has focused on the faster growing Asian market where it can successfully compete alongside Australian, European, New Zealand and US exporters.

Product consistency is critical to ensuring the customers are not required to modify recipes in order to ensure consistency of end product.

Tatura has long established relationships with key customers that have been based on a high quality / consistent product, reliable supply and competitive pricing. Tatura's customer profiles vary depending on the product segment, for example the cream cheese and frozen cream products marketed in Japan are sold through trading houses that subsequently on sell to a number of manufacturing companies.

The majority of Tatura products are priced with reference to global commodity prices (USD). Competitive pricing is a requirement given the global commodity markets for butter, cheese, SMP and WMP.

4.3 Competitive positioning

Tatura competes in its export markets on the following bases:

4.3.1 Quality

Tatura, as an Australian made product, has a solid reputation for high quality and bio security. Recent events in Japan (tsunami and radioactive contamination) and Korea's recent bout of foot and mouth disease are examples of adverse biological issues that have positioned Australian dairy quality favourably.

Quality standards in the manufacture of dairy products and infant formula are tightly controlled and require substantial expertise to deliver a consistent product to high standards. Tatura has developed a solid reputation for high quality infant formula over several years which underpins demand from several Asian customers.



4.3.2 Established Milk Supply

Tatura has long established supplier relationship based on its co-operative origins. It is located in a high volume dairy region which results in relatively modest logistics timeframes and costs.

Farming practices have improved significantly in the last 20-30 years and the recent resilience demonstrated in the prolonged drought which has led to improved herd management, growth in local feed production and wider irrigation/water supply improvements should result in improved supply over the coming years.

Competition for manufacturing milk is expected to remain robust as local demand growth is sustained. It is expected, subject to sustaining competitive price offerings to suppliers, that Tatura should enjoy adequate milk supplies into the medium-long term.

4.3.3 Established Trading Relationships

Supplier dependability in terms of quality and reliability is critical in food manufacturing and marketing companies. VAA understands that Tatura enjoys solid relationships across a diverse range of customers which has been built over many years of operations. This can be evidenced by the material level of repeat business from uncontracted customers.

Subject to relatively competitive pricing parameters, Tatura is likely to sustain its customer base in the medium term, particularly in relation to cream cheese sales into Korea and Japan.

In addition to the trading relationships, as noted earlier, Tatura has embedded relationships with Mead Johnson via its contract manufacturing arrangement and Ingredia SA via its bi-lateral manufacturing and distribution agreement for MPC.

4.4 Bega Operating Synergies and Operating Improvements

Tatura has been able to coordinate operating synergies with Bega in relation to milk processing arrangements with Bega's Coburg operations and with the CCFA operations in Canberra to optimise milk processing opportunities.

Both Bega and Tatura have advised that management and operating improvements, primarily for Tatura have included:

- Procurement benefits arising from an improved bargaining position from higher purchase volumes which has led to lower prices for materials such as packaging;
- Separation of Board and management including adding individuals to a management team experienced in management of milk processing businesses;
- Changes in safety and environmental management processes;
- Further development of the initiative underway to become less reliant on fresh milk for raw material supply and establishing a tolling arrangement with Mead Johnson.

The majority of operating improvements and synergies have been achieved in the four years since Bega gained strategic and operating control of Tatura. It is anticipated by management that there may remain some relatively small administrative, governance and logistical related synergies arising from implementation of the Scheme.



4.5 Financial information

4.5.1 Historical financial performance

The financial performance (trading summary) for the periods 30 June 2007 to 30 June 2011 drawn from the audited accounts is summarised below.

TABLE 6 SUMMARY – STATUTORY ACCOUNT FORMAT

Tatura Milk Industries Profit & Loss Summary \$'000s									
Financial Year Ended 30 June	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Growth 2008 v 07	Growth 2009 v 08	Growth 2010 v 09	Growth 2011 v 10
Revenue	249,005	340,317	310,523	271,241	312,316	36.7%	-8.8%	-12.7%	15.1%
Costs									
Changes in Inventories	4,813	(29,965)	29,526	(19,182)	21,527	-722.6%	-198.5%	-165.0%	-212.2%
Raw Materials & Consumables Used	178,740	282,917	217,378	209,447	211,237	58.3%	-23.2%	-3.6%	0.9%
Employee Expenses	29,105	30,435	29,936	32,490	35,648	4.6%	-1.6%	8.5%	9.7%
Warehouse & Distribution Expenses	8,986	8,867	10,910	10,296	7,271	-7.3%	23.0%	-5.6%	-29.4%
Research & Development	398	396	340	306	-	-0.5%	-14.1%	-10.0%	-100.0%
Other Expenses	13,286	18,052	16,364	14,977	13,557	35.9%	-9.4%	-8.5%	-9.5%
Total Expenses	235,328	310,702	304,454	248,334	289,240	32.0%	-2.0%	-18.4%	16.5%
EBITDA	13,677	29,615	6,069	22,907	23,076	116.5%	-79.5%	277.4%	0.7%
% Revenue	5.5%	8.7%	2.0%	8.4%	7.4%				
Depreciation & Amortisation	8,479	7,760	6,927	7,149	7,174	-8.5%	-10.7%	3.2%	0.3%
Writedown of Canning Line Investment	6,213	-	-	-	-				
EBIT	(1,015)	21,855	(858)	15,758	15,902	N/A	N/A	N/A	0.9%
Net Finance Costs	7,000	4,157	4,524	3,034	2,064	-40.6%	8.8%	-32.9%	-32.0%
Profit Before Tax	(8,015)	17,698	(5,382)	12,724	13,838	-320.8%	-130.4%	-336.4%	8.8%
Income Tax Expense/(Benefit)	8,071	(2,524)	(1,882)	(4,088)	(1,790)	-131.3%	-25.4%	117.2%	-56.2%
Reported Profit After Tax	(16,086)	20,222	(3,500)	16,812	15,628	N/A	N/A	N/A	N/A

Source: Tatura Statutory Accounts

The following key points should be noted in respect of the financial performance set out in the table above:

- Revenues have been relatively volatile over the five (5) year period reflecting a significant decrease in commodity prices in FY09 following relatively high prices in FY08. Volume reductions in FY10 and FY11 were slightly offset by a recovery in commodity prices;
- The low Australian dollar relative to the US dollar also had a significant impact on FY08 earnings. The accretion of the Australian dollar from FY09 had a negative impact on revenues and EBITDA;
- Gross margin pressures led by the reduction in WMP and SMP commodity prices which were partially offset by MPC, infant formula contributions and fat-based products;
- Improvements in raw materials input costs and efficiencies in warehousing and distribution (including working capital management) which are partially resultant from the business combination with Bega from 2007;
- Other Expenses have been held constant reflecting a reduction in real terms;
- Stabilisation in EBITDA over the FY10 and FY11 periods.



4.5.2 Forecast financial performance

Tatura has not provided forecasts for the purposes of the Independent Expert Report. Consequently the analysis of financial performance is based on historical results.

4.5.3 Balance sheet

The Tatura Balance sheets for FY07 to FY11 as presented in its audited financial accounts as at 30 June is summarised below:

TABLE 7 CONSOLIDATED BALANCE SHEET

Tatura Milk Industries Balance Sheet \$000s					
Financial Year Ended 30 June	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011
Current Assets					
Cash and Cash Equivalents	5,176	2,789	6,292	8,915	1,780
Trade and Other Receivables	52,961	56,234	59,209	41,369	41,071
Inventories	35,024	64,989	35,463	54,645	33,118
Other Current Assets	-	-	-	-	1,855
Total Current Assets	93,161	124,012	100,964	104,929	77,824
Non-Current Assets					
Non Current Receivables	9,285	5,260	-	-	-
Deferred Tax Assets	8,027	9,659	8,529	14,280	14,847
Investments	902	12	12	-	-
Other Non Current Assets	-	-	-	152	152
Property, Plant and Equipment	71,590	64,901	67,123	65,303	69,903
Intangible Assets and Goodwill	21	114	148	376	190
Total Non-Current Assets	89,825	79,946	75,812	80,111	85,092
Total Assets	182,986	203,958	176,776	185,040	162,916
Current Liabilities					
Trade and Other Payables	46,372	57,386	43,483	55,340	40,379
Interest Bearing Liabilities	22,543	22,031	36,690	26,873	12,726
Provisions - Current	5,613	4,744	5,102	5,293	6,059
Derivatives	-	-	-	2,222	-
Total Current Liabilities	74,528	84,161	85,275	89,728	59,164
Non-Current Liabilities					
Payables - Non Current	9,285	5,710	300	150	-
Interest Bearing Liabilities	24,942	18,735	11,478	6,659	-
Provisions - Non Current	492	394	438	421	329
Total Non-Current Liabilities	34,719	24,839	12,216	7,230	329
Total Liabilities	109,247	109,000	97,491	96,958	59,493
Net Assets	73,739	94,958	79,285	88,082	103,423
Equity					
Issued Capital	48,956	47,859	46,874	47,020	48,846
Reserves	29,241	31,336	19,042	15,808	17,952
Retained Profits	(4,458)	15,763	13,369	25,254	36,625
Total Equity	73,739	94,958	79,285	88,082	103,423

Source: Tatura Statutory Accounts



VAA has presented an alternative classification of the Tatura Balance Sheet as follows.

TABLE 8 CONSOLIDATED BALANCE SHEET – ALTERNATE CLASSIFICATION

Tatura Milk Industries Balance Sheet - Alternate Classification \$000s										
Financial Year Ended 30 June	Actual	Actual	Actual	Actual	Actual	% Net Assets				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Working Capital										
Trade and Other Receivables	62,246	61,494	59,209	41,369	41,071					
Inventories	35,024	64,989	35,463	54,645	33,118					
Other Current Assets	-	-	-	-	1,855					
Trade and Other Payables	(46,372)	(57,386)	(43,483)	(55,340)	(40,379)					
Derivatives	-	-	-	(2,222)	-					
Payables - Non Current	(9,285)	(5,710)	(300)	(150)	-					
Working Capital	41,613	63,387	50,889	38,302	35,665	56%	67%	64%	43%	34%
Net Investments										
Investments	902	12	12	-	-					
Property, Plant and Equipment	71,590	64,901	67,123	65,303	69,903					
Interest Bearing Liabilities	(42,309)	(37,977)	(41,876)	(24,617)	(10,946)					
Intangible Assets and Goodwill	21	114	148	376	190					
Total Net Investments	30,204	27,050	25,407	41,062	59,147	41%	28%	32%	47%	57%
Other Assets & Liabilities										
Deferred Tax Assets	8,027	9,659	8,529	14,280	14,847					
Other Non Current Assets	-	-	-	152	152					
Income Tax Payable	-	-	-	-	-					
Provisions - Current	(5,613)	(4,744)	(5,102)	(5,293)	(6,059)					
Deferred Tax Liabilities	-	-	-	-	-					
Provisions - Non Current	(492)	(394)	(438)	(421)	(329)					
Total Other Assets & Liabilities	1,922	4,521	2,989	8,718	8,611	3%	5%	4%	10%	8%
Net Assets	73,739	94,958	79,285	88,082	103,423	100%	100%	100%	100%	100%

Source: Tatura Statutory Accounts/VAA Analysis

The following key points are noted in relation to the above restated balance sheets:

- Working capital accounts balances have been substantially reduced in the past few years reflecting the significant focus on working capital management, for example inventory reductions;
- Gross investment (driven by capital expenditures) has not increased materially over the FY07-11 periods. Significant debt repayments of approximately \$35m have driven the significant increase in Total Net Investments. The debt repayments have substantially been funded by retained earnings.
- Total Other Assets and Liabilities have increased due to Deferred Tax Asset growth. This growth is largely driven by carried forward tax loss movements; and
- Total Net Asset growth has largely been driven by a reduction in interest bearing liabilities as a result of debt repayments. This, in turn has been made possible by improvements in profitability and working capital management. As the debt level is relatively modest as at 30 June 2011 (\$11m), it is likely that any future Net Asset growth will be driven by expenditure on plant and equipment or increases in working capital.



4.5.4 Cash flows

The cash flows for FY07 to FY11 are summarised below:

TABLE 9 CASH FLOWS FY07 TO FY11

Tatura Milk Industries Cash Flow Statement \$'000s					
Financial Year Ended 30 June	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011
Cash Flows from Operating Activities					
Receipts From Clients (including GST)	261,393	332,873	313,228	281,199	311,082
Payments to Suppliers and Employees (including GST)	(233,856)	(319,956)	(296,740)	(255,595)	(277,359)
Net Cash Flows from Operating Activities	27,537	12,917	16,488	25,604	33,723
Cash Flows from Investing Activities					
Purchase of Property, Plant & Equipment	(1,386)	(3,192)	(9,207)	(5,397)	(11,578)
Purchase of Intangible Assets	(1)	(148)	(104)	(418)	(36)
Interest Received	497	465	269	207	255
Proceeds from Sale of Property, Plant and Equipment	961	2,792	775	449	11
Proceeds from Financial Assets	-	248	-	342	-
Net cash flows used in investing activities	71	165	(8,267)	(4,817)	(11,348)
Cash Flows from Financing Activities					
Proceeds from Issue of Shares	25,181	1	681	1,340	2,059
Payments for Shares	(1,640)	(1,098)	(1,666)	(1,194)	(233)
Receipt of Farmer Loan Repayments	289	124	159	86	83
Interest Paid	(4,827)	(3,683)	(3,614)	(2,500)	(1,976)
Dividend Paid - Shares Held	(3,736)	(8,366)	(4,774)	(1,161)	(1,546)
Dividend Paid - Milk Supplied	-	-	-	(1,000)	(4,250)
Dividend Paid - Completion Distribution	-	(11,231)	(3,481)	-	-
Lease Payments	(1,124)	(2,096)	(908)	(454)	(1,294)
Loans from Related Parties	-	15,790	5,000	6,000	-
Loans to Related Parties	(12,177)	-	(4,217)	(5,014)	(2,753)
Repayment of Borrowings	(41,995)	(10,411)	(7,098)	(14,267)	(19,600)
Proceeds from Borrowings	11,000	5,500	15,200	-	-
Net Cash Flows Used in Financing Activities	(29,029)	(15,470)	(4,718)	(18,164)	(29,510)
Net Increase/(Decrease) in Cash Held	(1,421)	(2,388)	3,503	2,623	(7,135)
Cash Held at Beginning of Financial Year	6,598	5,177	2,789	6,292	8,915
Cash at End of Financial Year	5,177	2,789	6,292	8,915	1,780

Source: Tatura Statutory Accounts

The following key points are noted in respect of the cash flows set out above:

- Operating cash flows have been relatively consistent with the exception of FY08 and FY09 when working capital levels were increased substantially;
- Investments in Plant and Equipment have been relatively modest as noted earlier leading to the need for 'catch-up expenditure' (capital expenditure of around \$31m for FY07-FY11 relative to Depreciation/Amortisation of \$37m) reflecting the cautious application of funds following the challenging FY09 period;
- Borrowings of approximately \$60m (repayments versus proceeds from borrowings) have been repaid over the FY07 to FY11 period; and



- Dividends of approximately \$25m have been paid to Ordinary and Redeemable Preference shareholders over the FY07 to FY11 period.

4.5.5 Tatura financial performance summary

The following summary key points are noted in respect Tatura financial performance as it pertains to maintainable earnings:

4.5.5.1 Trading performance summary

- Sales volumes are generally increasing and the change in product mix towards higher value segments such as infant formula together with the recent recovery in prices generally is supporting revenue and gross margin levels;
- Tatura has been operating at close to manufacturing capacity in recent periods suggesting that material volume growth may not be possible without substantial capital expenditures;
- Expense levels have been closely held over the FY07 to FY11 period; and
- Sales and EBITDA has been volatile (albeit stabilising in the past 2 years) reflecting dairy commodity and financial markets generally. This volatility can be expected to continue.

4.5.5.2 Investment levels

- Significant reductions in working capital and the generation of operating cash flows have facilitated the ability to accelerate debt repayments;
- Borrowings have reduced from \$47m in FY07 to \$13m in FY11, consequently there is potential for new borrowings to fund expansion, if required; and
- Investment in new plant and equipment has been relatively modest at an average of around \$5m p.a. This level of investment has not kept pace with depreciation and amortisation which has averaged around \$7m p.a. for the same period resulting in the need for the 'catch-up' expenditure noted above.

4.5.5.3 Cash flows

- Tatura has generated free cash flows from operating and investing activities of \$92m over the FY07 to FY11 period (a solid performance relative to the \$95m of EBITDA generated for the same period).



4.6 Capital structure

The Tatura share structure is comprised of Ordinary Shares which were issued to Bega in April 2007 and Redeemable Preference shares are held by suppliers.

The specific share class holdings as at 30 June FY2009 to the last reported date of 4 October 2011 are as follows.

TABLE 10 FULLY PAID SHARES

As At	Fully Paid Shares			
	30 Jun 2009	30 Jun 2010	30 Jun 2011	4 Oct 2011
Ordinary Shares	28,413,511	28,413,511	28,413,511	28,413,511
Redeemable Preference Shares	10,096,112	10,242,156	12,068,282	12,009,508
Total Shares	38,509,623	38,655,667	40,481,793	40,423,019
% Shares Held				
Ordinary Shares	73.8%	73.5%	70.2%	70.3%
Redeemable Preference Shares	26.2%	26.5%	29.8%	29.7%

Source: Tatura Statutory Accounts

There are no other forms of equity instrument issued or on offer to existing or potential shareholders.

4.6.1 Ordinary Shares

Ordinary shares are non-cumulative and attract a dividend rate declared by the Directors. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Ordinary shareholders are entitled to one vote per share at meetings of the Company.

On 23 April 2007 the Company issued to Bega Cheese Limited 16,000,000 ordinary shares for cash and 12,413,511 ordinary shares for deferred settlement in accordance with the share issue transaction entered into by Tatura Milk Industries Limited and Bega Cheese Limited. This agreement was for a 70% interest in the share capital of the Company.

4.6.2 Redeemable Preference shares

The Redeemable Preference shares are non-cumulative, attract a dividend rate declared by Directors' and are subject to a buy-back offer at a value of \$1.00 per Redeemable Preference share when a shareholder ceases to be a dairy farmer supplier to the Company at the discretion of the Board of Directors and are entitled to one vote per share at meetings of the Company.

In the event of winding up of the Company, ordinary shareholders and Redeemable Preference shareholders rank equally after creditors and are all fully entitled to any proceeds of liquidation.



A prerequisite for holding Redeemable Preference shares is that the member/shareholder must qualify as a milk supplier to Tatura. The following points summarise the eligibility as a supplier:

- A dairy farmer who has supplied a commercial quantity of milk (such quantity to be determined by the Directors from time to time) to the Company on a regular basis during the 60 days prior to (but not including) the Relevant Date;
- A dairy farmer with whom the Directors are satisfied will supply milk in the future;
- A dairy farmer who is, at the Relevant Date, deemed to be a Supplier under Rule 5(3); or
- a person, not being a Dairy Farmer, that is an Industrial Supplier at the Relevant Date (an industrial supplier being a supplier of more than 100,000 litres of milk in the preceding 12 months or having supplied dairy commodities other than milk) with an invoice value of greater than \$100,000 in the preceding 12 months.

The total number of Redeemable Preference shares on issue can vary throughout the year as a result of changing volumes and supplier preferences.

The Tatura constitution limits the number of Redeemable Preference Shares held by any member to 5% of the total Redeemable Preference Shares issued [Cl. 4. (2) (b)].

4.6.3 Fully diluted basis

As there are no other forms of equity instruments issued or on offer to existing or potential shareholders, the total Tatura equity instruments to be applied to the equity valuation are per the table above.

4.7 Major Redeemable Preference shareholders

Based on the shareholder register provided as at 7 October 2011, there were 12,009,508 Redeemable Preference shares on issue. As the Tatura Constitution limits the concentration of redeemable preference share ownership to no more than 5%, the shareholder base is relatively widely spread across the 300 supplier shareholders.

The Top 20 supplier shareholders account for approximately 33% of Redeemable Preference shares on issue.

4.8 Dividends

The following table sets out dividends paid over the past five (5) financial years. The dividends exclude distributions in relation to Bega consideration for the 70% acquired in 2007.

Dividend payments have typically been made in the financial year following the trading performance to which the dividend declaration was made by Tatura Directors.

Dividends paid to Redeemable Preference shareholders have varied significantly reflecting the trading losses after tax in the FY07 and FY09 periods. The losses were primarily driven by:

- Extensive write downs in the carrying value of the canning plant in FY07;



- Finance costs were high in relation to EBIT over the FY07 to FY09 periods; and
- Trading conditions were difficult in FY09 due to GFC impacts on dairy commodity prices.

In the FY10 and FY11 periods, dividend payments increased substantially, driven primarily by:

- FY08 was a relatively profitable year, buoyed by sharp increases in dairy commodity prices leading to relatively large dividend payments in FY09;
- The introduction and payment of volume-based dividend to suppliers in the FY10 and FY11 periods;
- The significant reduction in debt levels leading to increased available free cash for dividend payments; and
- The impacts of improved working capital management and trading margins generally, leading to increased available free cash for dividend payments.

TABLE 11 DIVIDENDS PAID

Dividends Paid \$000s					
FY Ended 30 June	2007	2008	2009	2010	2011
Dividends per Share					
Ordinary Shares - Bega	-	-	2,841	852	1,137
Redeemable Preference Shares	957	-	1,933	308	409
Total Dividends Per Share	957	-	4,774	1,161	1,546
Volume Based Dividends	-	-	-	1,000	4,250
Total Dividends Paid	957	-	4,774	2,161	5,796
Total RPS Dividends	957	-	1,933	1,308	4,659

Source: Tatura Statutory Accounts

The Tatura Constitution states that Redeemable Preference shareholders rank ahead of Ordinary Shareholders in relation to dividend payments (Refer Cl 5 (1) (a)). However, dividends declared and paid in the past 5 years have been paid equally to both classes of shareholders.



5. Assessed value of Tatura

5.1 Definition of value

The “fairness” assessment requires consideration of whether the assessed offer price under the proposal to the Redeemable Preference shareholders exceeds the value of those shares.

There is no definition of “value” which applies to Section 640 of the Corporations Act.

In assessing the value of the Redeemable Preference shares we have determined the value of those shares in the presence of the current ownership arrangements, strategy and operational performance and then considered the value increment which might be available to Bega or an alternative purchaser to arrive at the potential control premium which Redeemable Preference shareholders might expect in the presence of an acquisition.

RG111 specifically excludes the notion of “special value” which may be available to a particular party.

5.2 Valuation method and approach

Value Adviser Associates has selected the capitalisation of future maintainable earnings method to assess the fair market value of the Tatura shares. We have outlined a number of commonly used valuation methods in Appendix 2 – Valuation methods.

In selecting this method as our primary valuation method we have considered the following key points:

1. The continuing businesses and operations of Tatura are well established and expected to be profitable;
2. The discounted cash flow method is often considered to be a more robust valuation method. However, in this case information considered essential to the application of the discounted cash flow method, such as long-term financial forecasts, is not available; and
3. There are a number of other listed entities operating in the agri-food sector that provide information to apply the capitalisation of future maintainable earnings approach.

When applying the capitalisation of earnings method, we have derived the value of 100 percent of the shares based on the following procedures:

1. Forming an assessment of the future maintainable earnings (EBITDA) of Tatura;
2. Assessing a range of appropriate capitalisation multiples, having regard to comparable companies and transactions and other matters specific to Tatura;
3. Calculation of the enterprise value of the Tatura business;
4. Consideration of any other assets, liabilities, contingent liabilities and interest bearing liabilities of Tatura; and



5. Calculation of the value of 100 percent of the Tatura shares and the value per share on a fully diluted basis.

We have adopted earnings before interest, tax, depreciation and amortisation ["EBITDA"] as the earnings base for our analysis as:

1. The depreciation policies adopted by comparable companies may be inconsistent;
2. Amortisation expense, which is driven by goodwill acquired and the intangible assets recognised in the statement of financial position, can be significantly different across comparable companies; and
3. Different gearing levels of comparable companies impact on the interest expense of these comparable companies. Use of EBITDA removes this difference.

As noted below, prior to finalising our valuation conclusion, we gave consideration to the reasonableness of our valuation range by comparing the valuation range to the multiples implied in similar recent transactions. As we address later, most were affected in an economic climate that was quite different to the current volatile economic conditions making the use of these multiples questionable. We examine the implied price to book value of equity as a cross-check.

5.3 Future maintainable earnings

5.3.1 Normalised EBITDA

The table below summarises the normalised EBITDA from FY07 to FY11.

The EBITDA normalisation adjustments are applied to eliminate any non-core earnings/expenses which are not expected to be sustained in the longer term. The adjustments have been based on our discussions with management.

Based on management representations, there are no material normalisation adjustments required for FY10 or FY11.

TABLE 12 MAINTAINABLE EARNINGS ESTIMATE

Tatura Milk Industries Maintainable Earnings Estimate \$'000s					
Financial Year Ended 30 June	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011
Revenue	249,005	340,317	310,523	271,241	312,316
Annual Growth		37%	-9%	-13%	15%
EBITDA	13,677	29,615	6,069	22,907	23,076
Annual Growth		117%	-80%	277%	1%
Less Gains on Sale of PP&E	-	(613)	(648)	(199)	-
Less Gains on Disposal of NCA	(41)	-	(943)	-	-
Normalised EBITDA	13,636	29,003	4,477	22,711	23,076
Annual Growth		113%	-85%	407%	2%

Source: Tatura Annual Reports, Management Discussions



5.3.2 Key EBITDA drivers

The 5 year period reviewed illustrates a significant level of volatility in normalised EBITDA. The key drivers of the EBITDA volatility were as follows:

- Production volumes and mix – since FY09 there has been a change in product mix towards higher value segments such as infant formula. Milk and cream processing volumes have been reduced materially since FY10;
- Commodity prices – a peak occurred in FY08 followed by a sharp decline in FY09 and gradual increase in FY10-FY11;
- Changes in the value of the Australian dollar (in particular increases against the US dollar); and
- Farmgate input prices – followed similar trends to commodity prices.

Capacity constraints are likely to contain volume driven growth in the medium term and as such, EBITDA sustainability is most likely to be driven by commodity prices (local farmgate and global prices) and product mix.

Current indications are that FY12 market prices are likely to be in line with FY11. The strategy for FY12 is to continue the focus on the production and marketing on higher margin segments to maximise returns on restrained capacity.

The table below summarises key revenue and normalised EBITDA performance relative to the key Tatura operating metrics.

TABLE 13 KEY TRADING METRICS

Tatura Milk Industries Key Trading Metrics \$000s						
Financial Year Ended 30 June	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Average FY 07-11
Revenues	249,005	340,317	310,523	271,241	312,316	296,680
Normalised EBITDA	13,636	29,003	4,477	22,711	23,076	18,581
Milk Intake - Millions Litres	396	452	417	368	344	395
Sales - Manufactured Products - Tonnes	49,190	79,661	90,559	82,650	68,459	74,104
Sales - Milk & Cream - Tonnes	24,230	20,690	32,637	59,716	34,407	34,336
Sales Total - Tonnes	88,149	100,351	123,196	142,366	102,866	111,386
Commodity Selling Prices (Oceania - Ann. Ave)						
WMP - USD Tonne	\$ 2,890	\$ 4,669	\$ 2,647	\$ 3,185	\$ 3,780	\$ 3,434
SMP - USD Tonne	\$ 2,986	\$ 4,375	\$ 2,388	\$ 2,904	\$ 3,445	\$ 3,220
Butter - USD Tonne	\$ 1,926	\$ 3,872	\$ 2,576	\$ 3,338	\$ 4,507	\$ 3,244
Cheese - USD Tonne	\$ 2,896	\$ 5,033	\$ 3,375	\$ 3,678	\$ 4,217	\$ 3,840
Farmgate Prices						
Victoria - \$/Kg Milk Solids	\$ 4.32	\$ 6.68	\$ 5.14	\$ 4.49	\$ 5.58	\$ 5.24
Australia - \$/Kg Milk Solids	\$ 4.51	\$ 6.68	\$ 5.66	\$ 4.98	\$ 5.80	\$ 5.53

Source: Tatura Statutory & Management Accounts, Dairy Australia, Bloomberg



5.3.3 Assessment of maintainable EBITDA

Based on the recent historical normalised EBITDA, VAA has assessed the maintainable EBITDA to be in the range \$23m - \$24m p.a.

Current market dynamics suggest that recent performance is likely to be a reasonable guide for future maintainable earnings however there has been considerable volatility over the period 2007 to 2009. This assessment factors the following considerations:

- Farmgate prices may be stabilising towards the \$5.00 - \$5.50 per Kg of milk solids into the medium term which is consistent with the recent 5 year average;
- Farm profitability appears to be improving and reliance on herd feed has been reduced significantly following the end to the long running drought suggesting viability of supply at recent farmgate prices;
- Incidents of suppliers switching to alternate processors has been low and milk supply is expected to remain strong (subject to Tatura market prices being competitive);
- Commodity prices have rebounded over the past 20 months and are relatively consistent with the 5 year average (with the exception of butter which is currently trading at higher levels); we note that global markets remain relatively volatile;
- Tatura's customer base remains relatively loyal thereby implying no major milk supply shocks;
- There remains a significant threat that new infant formula capacity may be added in Tatura's important Asian markets resulting in increased competition suggesting pressure on prices;
- Production constraints are likely to be an important limiting factor to growth over the medium term;
- The business is exposed to volatility in output and input prices which has led to volatility in EBITDA in the past. This EBITDA volatility is expected to continue; and
- The business is operating close to full capacity leading to a low expectation of volume growth. This is being addressed in cream cheese by planned capital expenditure however otherwise the upside is restrained.

5.4 Capitalisation multiple

In forming our assessment of an appropriate range of capitalisation multiples to apply in our valuation, we have had regard to the trading multiples of listed companies in Australia and overseas.

An overview and analysis of each of the comparable companies is set out in Appendix 3.

We have also considered multiples implied by comparable transactions observed for dairy and related industries.



5.4.1 Trading multiples

The following table summarises the trading multiples of comparable companies as at 7 October 2011.

Comparable companies to Tatura have been classified in three groups:

1. Australian dairy companies – Bega and Warrnambool Cheese and Butter ["WCB"];
2. Other small / medium sized companies involved in the production and export of food related products – Patties, Tassal and Goodman Fielder; and
3. Small / medium sized overseas dairy companies up to approximately \$1bn AUD market capitalisation – Robert Wiseman Dairies, Dairy Crest Group, Emmi, and Bongrain.

TABLE 14 TRADING MULTIPLES OF COMPARABLE COMPANIES

Company Name	Country	Market Capitalisation	Net Debt	Enterprise Value	EBITDA Multiple		EBITDA Margin	Sales Growth	Sales CAGR
		A\$m	A\$m	A\$m	FY11	FY12	FY11	FY10-FY11	FY08-FY11
Australian Dairy									
Warrnambool Cheese and Butter	Australia	213.0	22.5	235.5	5.6	6.1	8.4%	21.1%	-1.3%
Bega ¹	Australia	213.6	108.1	321.7	5.9	5.8	5.7%	13.0%	10.3%
Mean					5.7	5.9	7.0%	17.1%	4.5%
Other Australian Agricultural / Food									
Patties	Australia	213.0	59.7	272.7	7.4	6.7	17.0%	10.2%	9.5%
Tassal	Australia	213.6	86.4	300.0	5.1	4.7	26.5%	4.6%	-8.2%
Goodman Fielder	Australia	683.3	883.5	1,566.8	4.3	4.3	14.3%	-3.9%	-1.5%
Mean					5.6	5.2	19.3%	3.6%	0.0%
Mean Australian Comparables					5.6	5.5	14.4%	9.0%	1.8%
European Dairy									
Robert Wiseman Dairies	United Kingdom	374.6	17.6	392.2	3.7	4.9	6.9%	-9.1%	-3.2%
Dairy Crest Group	United Kingdom	742.8	501.5	1,244.3	5.3	5.4	8.9%	-13.8%	-9.9%
Emmi	Switzerland	1,077.5	291.6	1,369.1	5.5	5.3	8.3%	7.7%	0.6%
Bongrain	France	1,125.6	613.0	1,738.6	5.2	4.8	6.4%	1.4%	-5.5%
Mean Overseas Comparables					4.9	5.1	7.6%	-3.5%	-4.5%

Source: Bloomberg, Company Accounts, Value Adviser Associates Analysis

¹ Bega's EBITDA and Debt has been adjusted for investments in WCB and CCF.

Trading multiples were adjusted for historical one-off income and expenses, as well as any non-operating income and expenses.

Bega owns 16.1% (as of 28 September 2011) of WCB which is not consolidated in Bega's accounts (and therefore earnings attributable to Bega from WCB is not included in Bega's reported EBITDA) and 25% of Capitol Chilled Foods Australia, which is accounted for as a joint venture therefore Bega's share of its EBITDA is reflected in the Bega's accounts.

The value of these investments is reflected in the share price. To ensure consistency in the EBITDA and enterprise value numbers we needed to include a share of WCB's EBITDA in Bega's EBITDA and add a share of WCB's debt to Bega's debt.

Historical (FY11) EBITDA multiples for Australian comparable dairy companies (WCB and Bega) were in the range of 5.6x to 5.9x, with an average of 5.7x.



The multiples for Patties, Tassal and Goodman Fielder varied considerably more than the two dairy comparable companies. As example, Patties' FY11 multiple of 7.4x is significantly higher than Goodman Fielder at 4.3x.

Patties multiple is expected to be higher due its highly recognisable brands (including Four'n'Twenty, Patties, Herbert Adams, and Nannas) and strong recent sales growth – between FY08 and FY11 growth (CAGR) was 9.5% p.a., compared with (8.2)% for Tassal and (1.5)% for Goodman Fielder.

However, the overall historical average was 5.6x for Patties, Tassal and Goodman Fielder, which is similar to the historical average for WCB and Bega of 5.8x.

The European dairy companies had an EBITDA multiple in the range of 3.7x to 5.5x, with an average of 4.9x.

Robert Wiseman's historical EBITDA multiple is significantly lower due to a recent substantial fall in share price after management lowered earnings forecasts due to increasing competition and customer pressure from the large supermarket chains. Excluding Robert Wiseman from the European historical average increases the multiple to 5.3x but this still implies an approximate 9% discount for European dairy EBITDA multiples versus Australian dairy EBITDA multiples. This is may be due to lower growth expectations, as while EBITDA margins are similar (at or around 7%) for Australian and Europe, historical sales growth in Australia has been significantly stronger than it has been in Europe.

Across all comparable companies (excluding Robert Wiseman) the historical multiple was 5.5x. It was slightly lower at 5.4x for the forecast year FY12, reflecting only limited expectations for EBITDA growth.

We consider the historical averages more appropriate for the purposes of this valuation, as:

- The Australian comparable dairy companies do not publish forecast earnings; and
- There is limited coverage by analysts to which incorporates an adequate sample of earnings forecast estimates as most of the comparable companies are small to medium sized. Assessed trading multiple for Tatura

Value Adviser Associates has assessed Tatura's EBITDA multiple to be in the range of 5.5x to 5.9x. Our assessed mid-point value is 5.5x.

The high end of the range relates to Bega's historical EBITDA multiple on an historical basis, a closely related peer. However, we observed that the historical sales growth for Bega and WCB was higher than it was for Tatura (3-year CAGR) suggesting a lower multiple is appropriate.

The other relevant peers, including overseas comparable companies' exhibit lower historical growth. Therefore our lower-end assessment of the multiple considers the average across all peers of 5.5x. This lower end of the range incorporates reduced expectations for EBITDA growth.



5.4.2 Reflection of control premium

In assessing an appropriate earnings multiple to apply in respect to the valuation of Tatura we have had regard to the following key points:

1. The trading multiples in Section 5.4.1 are based on the market price for minority share-holdings and typically do not include a full premium for control. The trading multiples may reflect a component of a control premium if there is speculation that an acquisition is imminent. For example there has been newspaper speculation that Bega may make a bid for WCB however this has been rigorously denied by Bega. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:
 - a. The ability to realise synergistic benefits arising from merging the target company's operations with those of the acquiring entity;
 - b. Improved stand-alone operating performance arising from changes in governance, corporate, business and / or operating strategy; and
 - c. Access to tax benefits.
2. The expected benefits of a particular acquisition are circumstantial. It will not only depend on the expected size of the benefits of the nature described above but also on such factors as the likelihood of a competitive offer, the bargaining power of the parties involved. Evidence from studies indicates that the average control premiums on recent successful acquisitions (last 5 years) have been in the range of 20% to 30%⁶ while the range has been from discounts in excess of 100% and premiums in excess of 100%. The evidence also suggests that control premiums vary significantly and in some circumstances are actually negative. The evidence cited, and more broadly, shows that premiums in stock offers are lower than cash offers;

RSM Bird Cameron report an average premium of 30.7% for successful takeover offers and schemes of arrangements between 1 July 2005 and 30 June 2010 for companies listed on the ASX.⁷ The premium is assessed relative to the share price 20 trading days prior to the announcement of the offer. They describe the average control premium as falling in the range of 20% - 30% above the pre-offer share price of the target company.

However, as noted, there is a wide range of control premiums paid as is evident by the statement in the RSM Bird Cameron report:

*"Control premiums ranged significantly with discounts in excess of 100%, to premiums in excess of 100%. However the distribution of control premiums followed a bell shaped curve with the majority of control premiums between 0% and 50 . . ."*⁸

This wide range makes it challenging to use empirical data as a cross check for assessing fairness of an offer although it appears common for valuers to refer to the average as a cross check.

⁶ See RSM Bird Cameron "Control Premium Study" and Appendix 6

⁷ RSM Bird Cameron "Control Premium Study",

⁸ Op cit p3



3. ASIC Regulatory Guide 111 requires the independent expert to value 100 percent of the target and therefore incorporate a premium for control;
4. In considering control premiums in relation to Tatura, we have considered the specific terms of Tatura's recent improved operating performance and the relatively limited scope for further improvement (also see the discussion in Section 4.4). In particular, we have had regard to profit improvements arising from:
 - a. Lower purchasing costs;
 - b. Milk optimisation;
 - c. Quality and environmental improvements;
 - d. Revenue synergies; and
 - e. Changes in Management and governance.
5. We have also had regard to the relatively lean corporate overhead structure in place at Tatura and note that there is not significant potential for profit enhancement from overhead cost synergies.

Further discussion of the control premium for assessing fairness and reasonableness is provided in Appendix 6. As a consequence of the above factors and the requirements of ASIC Regulatory Guide 111, we believe it appropriate to reflect a premium for control into our valuation of a 100% interest in Tatura. However given the improvements in Tatura's operating performance in recent years and its current state of operating efficiency and low brand value as a commodity manufacturer, we are of the view that a control premium in the range 10 – 20% is appropriate. This is below the range of average premiums of 20% - 30% for the reasons described above. We expect this to be the case regardless of bidder.



5.5 Net debt

As at 30 June 2011, gross debt for Tatura was \$12.725m, or \$10.945m net of cash and equivalents. The components of the debt are summarized below.

TABLE 15 TATURA NET DEBT POSITION FY10 AND FY11

Tatura Milk Industries \$000s	FY10	FY11
Short-term borrowings		
Bank loans	147	66
Lease liabilities	1,205	659
Rural Finance Corporation loan	4,020	-
Trade debtor facility	21,500	12,000
Total short-term borrowings	26,872	12,725
Long-term borrowings		
Lease liabilities	659	-
Rural Finance Corporation loan	6,000	-
Total long-term borrowings	6,659	-
Total borrowings	33,531	12,725
Cash and equivalents	8,915	1,780
Net debt	24,616	10,945

Source: Tatura statutory Accounts

As at 30 June 2011, the majority of Tatura's debt relates to the trade debtor facility.

Tatura's debt levels vary significantly throughout the year due to the seasonal nature of the group's sales, which in turn lead to a seasonal build-up and release of working capital levels throughout the year. We note that cash levels, and therefore the net debt position also likely vary throughout the year.

Debt levels have fallen significantly from FY10 to FY11, primarily due to a reduction in the required trade debtor facility. This was largely a result of better working capital management and profitability as discussed in this report. In addition, long-term borrowings which relate to the Rural Finance Corporation loan and lease liabilities, were paid down during the year.

5.6 Additional compliance / regulatory capital expenditure required

Tatura management has outlined the need for additional capital expenditure in the near term to ensure that Tatura continues to meet its regulatory obligations for safety and the environment. We note that this forecast capital expenditure is significantly above current levels of depreciation.

A large component of the planned capital expenditure is necessary for the continuing operations of the business and is deemed necessary to ensure that future maintainable earnings are achievable. This will not add to sales growth or earnings in the future.



This regulatory capital component of planned capital expenditure has been deducted from our assessment of Tatura's Enterprise Value on the basis that this is a once-off investment. In this regard, \$10.0m has been deducted as outlined in the table below.

TABLE 16 BUDGET CAPEX FOR FY12

Budget Capex - FY12	A\$m
Regulatory & Compliance capex	
Environment	2.5
Safety	1.0
Site related	5.9
Other	0.6
Total regulatory capex	10.0
Product / growth capex	
Town water storage	1.0
Safety	0.3
Nutritionals	1.5
Cream Cheese	6.4
Total product / growth capex	9.2

Source: Tatura Management

5.7 Surplus assets/liabilities

For the purposes of the valuation, surplus assets/liabilities are defined as assets/liabilities that are either not required by a business to generate the forecast earnings, or are assets that are owned by a particular entity where the economic benefits associated with owning those assets are being enjoyed by other entities. To qualify as a surplus asset/liability, the asset/liability must represent an operating asset/liability in excess of the current and prospective operating requirements of a business, and there must be an ability to liquidate the excess asset/liability.

Based on our consideration of Tatura's Balance Sheet and discussions with Tatura management we understand the company does not have any surplus assets (cash and cash equivalents have been netted against gross debt).

However, we do note that the company has deferred tax assets which could be viewed as a surplus asset.

5.7.1 Deferred tax assets

The value of the deferred tax assets is \$10.629m as at 30 June 2011. This reflects the expected tax benefit of carry forward losses of Tatura.

We understand that these losses related to the deductibility of dividend and capital under the cooperative structure and will not be available to offset against Bega's earnings if it elects to consolidate for tax purposes after implementation of the Scheme should it be approved.

For the purposes of the valuation, it is Value Adviser Associates opinion that observed comparable EBITDA multiples incorporate the benefit of franking tax credits. As the payout ratio of peers is approximately 50%, we believe that approximately 50% of the value of the carry forward losses is already included in comparable company multiples.



By way of further explanation, if the tax losses were not available to Tatura then it would pay more tax on a given level of earnings but be able to pay franking tax credits reflecting this additional tax. With the tax losses it will pay less tax thereby foregoing the associated franking tax credits. An issue arises as to the value of the credits however their value will be reflected in the multiples used. To include all the tax losses on the balance sheet would involve an element of double counting.

We have therefore added a value of \$5.315 for the carry forward losses to our assessment of the enterprise value of Tatura. This represents half of the tax loss reflecting evidence that franking tax credits are not fully valued.

To the extent that these tax carry forward losses are not able to be utilised by Bega's or an alternative purchaser's consolidated tax group, this asset would not be realised.



5.8 Assessed value of Tatura

Value Adviser Associates has assessed the value of 100 percent of Tatura to be in the range of \$3.05 to \$3.78 with the inclusion of a control premium. This is outlined below.

TABLE 17 VALUATION SUMMARY

Valuation Summary	Low	High
Value of TMI Equity		
TMI Future Maintainable Earnings (EBITDA) (\$m)	23.0	24.0
TMI EV / EBITDA Multiple	5.50	5.90
Enterprise Value of TMI (\$m)	126.5	141.6
Plus		
Value of Deferred Tax Assets (\$m)	5.3	5.3
Less		
Net Debt (\$m)	(10.9)	(10.9)
Additional regulatory capex (\$m)	(10.0)	(10.0)
Value of Total TMI Equity on a going concern basis (\$m)	110.9	126.0
% To be Acquired by Bega	30%	30%
Value of 30% of Equity on a going concern basis (\$m)	33.3	37.8
Number of RPS on issue	12,009,508	12,009,508
TMI equity value per RPS on a going concern basis	\$ 2.77	\$ 3.15
Assessed control premium	10%	20%
TMI equity value per RPS on a control basis	\$ 3.05	\$ 3.78
Value of 30% of TMI Equity on a control basis (\$m)	36.6	45.3

As noted in Section 5.4 the assessed valuation reflects the value of 100% of Tatura shares inclusive of a premium for control. This is in accordance with the requirements of ASIC Regulatory Guide 111.

It should be noted that the achievement of a value at the upper end of the range would require a buyer to have a favourable view of a number of factors which will include the future performance of Tatura; these may include:

1. The extent of potential additional synergies that may be capable of being realised;
2. The existing plant capacity limitations that would prohibit material growth in volumes;
3. The volatility in historical EBITDA; and
4. Changes in market conditions including commodity prices, foreign exchange rates and the global economy generally.

5.9 Valuation cross checks

We have considered the reasonableness of our valuation derived using the capitalisation of earnings approach using comparable transactions and price to book ratios.



5.9.1 Transaction Multiples

The following table summarises the multiples of comparable transactions within the Dairy and related food sector in Australia over the past decade:

TABLE 18 MULTIPLES FOR COMPARABLE TRANSACTIONS

Date	Target Name	Acquirer Name	Announced Total Value A\$m	Historical EBITDA Multiple
Oct-2008	ACF / Dairy Farmers	National Foods	675	12.5
Nov-2007	National Foods	Kirin Holdings Co	2,800	15.5
Dec-2005	New Zealand Dairy Foods	Goodman Fielder	721	13.3
Jun-2005	Bonlac Foods	Fonterra Co-operative Group	170	NA
Dec-2004	National Foods	San Miguel Corp	1,942	13.1
Nov-2001	King Island Co	National Foods	89	14.9
May-1998	Pauls Ltd	Parmalat Finanziaria SpA	503	8.8

Source: Bloomberg, Value Adviser Associates Analysis

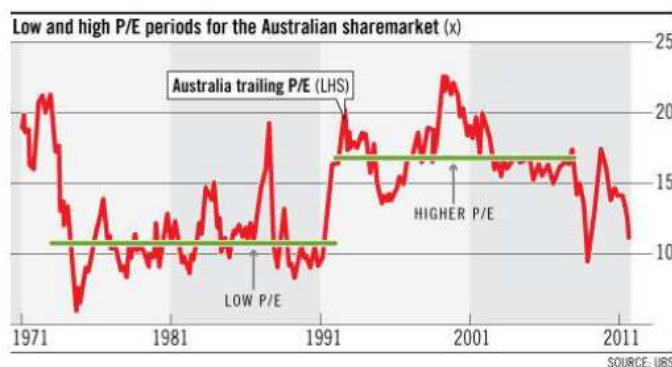
The range of transaction multiples varies significantly accounting for particularities of each transaction, including the nature or attractiveness of the assets being acquired, the competitiveness of the bid process, and the potential for realisation of synergies when the two businesses are combined.

It is our assessment that these multiples are well above the multiples relevant to the Tatura transaction, as:

1. the above transactions represented significant opportunities for synergy benefits whereas there are limited synergy or performance improvement benefits available in the case of Tatura ;
2. in contrast to Tatura, some of the above targets include strong brand names such as the brands owned by National Foods as well as the King Island brand. Such companies can be expected to attract higher multiples; and
3. market trading multiples for non-controlling (or going concern) interests have fallen considerably over the past 10 years. This is illustrated in the chart below which shows that market price-earnings multiples were nearly twice the levels currently observed when some of the above transactions took place.



GRAPH 3. HISTORICAL PE RATIOS FOR THE AUSTRALIAN SHAREMARKET



Source: Australian Financial Review, 19 October 2011

5.9.2 Market to book ratios

The following table summarises the market to book ratios as at 21 October 2011, i.e. market capitalisation of equity to book value of equity, of the Australian comparable companies used to assess the EBITDA multiple.

TABLE 19 MARKET TO BOOK RATIOS FOR COMPARABLE COMPANIES

Company	Market Cap to Book Equity 21/10/11
Tatura (without control premium) - mid point	1.1
Warmambool Cheese and Butter	1.4
Bega	1.0
Patties	1.8
Tassal	0.9
Goodman Fielder	0.7
Average (excl Tatura)	1.1

The market to book ratios are consistent with the commentary on the EBITDA multiples in section 5.4.1. For example, Patties Foods has a relatively high multiple as might be expected for a company with well-established branded products.

The assessed 'market to book' ratio arising from our valuation of Tatura is the same as the average for the comparables and marginally above that for Bega. This suggests that the valuation range is reasonable.



6. Evaluation of the Proposal

6.1 Fairness

In our opinion, the value of Tatura on a control basis is in the range of \$3.05 to \$3.78 per Redeemable Preference share, fully diluted. Our valuation range represents the underlying value of the Tatura equity of \$122m to \$152m on a controlling basis or \$37m to \$45m for the 30% interest.

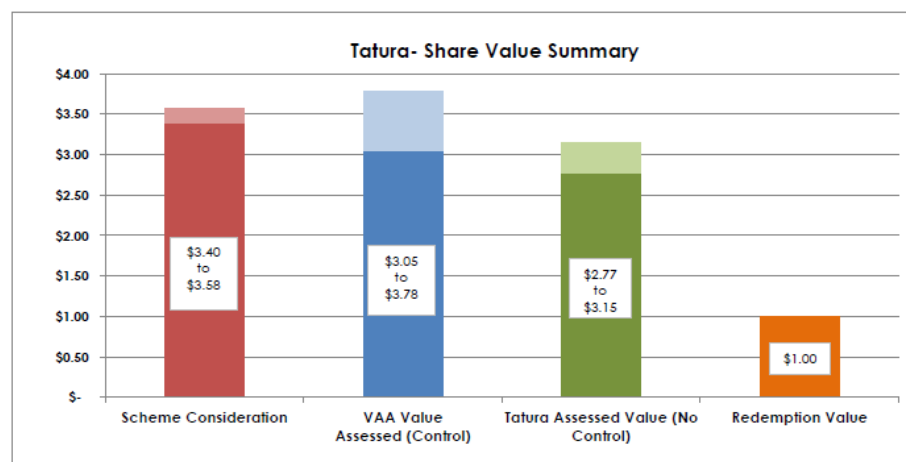
We set out our valuation of Tatura's shares relative to the Proposal below,

6.1.1 Value of the Proposal

The chart below outlines the valuation considerations that have informed VAA's opinion that the proposed scheme is fair and reasonable. As noted, the Proposal is assessed to have a value in the range \$3.40 - \$3.58 per Redeemable Preference share as shown in the first column in the chart. This range falls within the range of assessed values of the Redeemable Preference shares on a fully controlled basis of \$3.05 - \$3.78 per Redeemable Preference share.

If the control premium included in this range is removed then the value of the Redeemable Preference shares represents a 'trading value'. VAA assesses the value per share to be in the range \$2.77 - \$3.15. However since the shares are not listed and can only be redeemed under the current constitution, the only alternative for the Redeemable Preference shareholders is to redeem them for \$1 per share as shown in the last bar in the chart.

GRAPH 4. HISTORICAL PE RATIOS FOR THE AUSTRALIAN SHAREMARKET





The range of values of Redeemable Preference shares places the value of the Proposal, in total, in the range \$40.8 - \$43.0m for the 30% of Tatura. This compares favourably with a value of Tatura without the control premium in the range \$33.3 - \$37.8m. The premium being paid is therefore in the range 14% - 29%.

TABLE 20 SUMMARY OF BEGA PROPOSAL

Valuation Summary	Low	High
Value of Bega Offer		
VWAP of Bega shares since listing	\$ 1.70	\$ 1.79
Conversion ratio	2.0	2.0
Value of Offer per Tatura RPS	\$ 3.40	\$ 3.58
Number of RPS on issue (m)	12.0	12.0
Value of Offer (\$m)	40.8	43.0

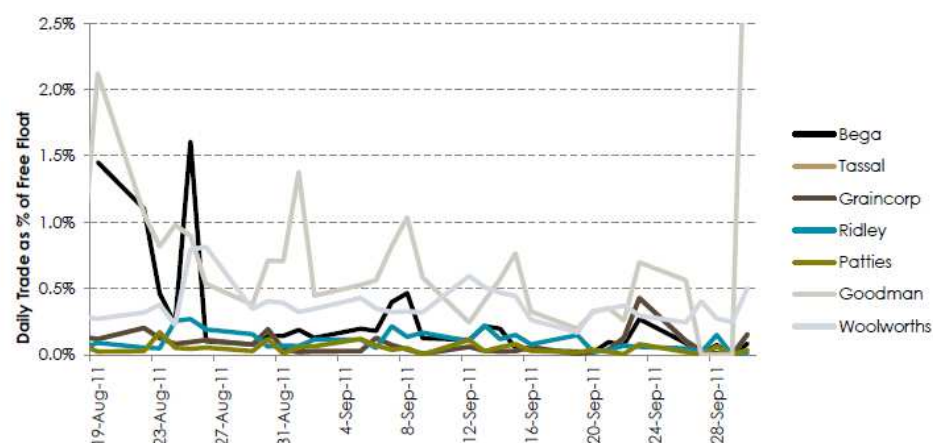
6.1.1.1 Bega share price

Our assessment of the value of the Proposal is based on the assumption that the Bega share price since listing is the best estimate of the value of Bega's shares.

In this regard we note that Bega is only recently listed. As a consequence we have examined relative trading volumes and various market value ratios relative to other companies in its sector and have formed a view that we can reasonably rely on recent trades to represent the value of Bega. We found no impediment to the shares trading in a well informed and well attended market and therefore the price should be representative of the underlying value of Bega.

The chart below illustrates the daily traded volume as a percentage of the free float of Bega versus peers. This highlights that Bega's shares trade with similar liquidity to other similar sized and large comparable companies.

GRAPH 5. DAILY TRADED VOLUMES AS % OF FREE FLOAT – BEGA VERSUS PEERS



Source: Bloomberg



The upper range of the value of Bega's shares was derived from the VWAP for the period of 26 August 2011 through to end of 21 October 2011. We have excluded the first week (5 trading days) of trading in Bega shares post-listing to eliminate any trading 'noise' that may have existed immediately after the listing date, as is usually the case for IPO's. Otherwise the data represents the trading history of Bega.

This resulted in a VWAP of \$1.79.

The chart below shows Bega's share price versus the ASX 200 (which has been re-based to Bega's share price) and Warrnambool Cheese and Butter ["WCB"].

GRAPH 6. BEGA SHARE PRICE 26/08/11 TO 01/11/11 VERSUS ASX200 AND WCB



Source: Bloomberg

Bega's shares were put on a trading halt prior to the announcement of the Merger Implementation Agreement. The price when the halt commenced was \$1.77. The announcement of the agreement was 4th October 2011. While there were trades on that day with a closing price of \$1.77 we cannot be sure whether they reflect the market's assessment of the impact of the agreement on the value of Bega. In any event the share price closed at \$1.70 on the following day (5 October 2011) and has varied around that price up to our last price observation on 21 October 2011. The VWAP from 5 October to 21 October was \$1.70 and this has been used as the lower bound of the price range for Bega's shares when assessing the value of the Proposal.⁹

We are of the view that the price after announcement of the details of the Proposal reflects the likely value of the combined entity post successful completion.

6.1.1.2 EBITDA Multiple Cross-check to the Bega share price

As a cross-check to the share price of Bega post announcement of the Merger Implementation Agreement outlined above, we have also examined the EBITDA multiples of Bega versus its peers.

⁹ Subsequent to completing our analysis we note that the VWAP to 1 November 2011 remained at \$1.70



As discussed in section 5.4.1, Bega's historical (FY11) EBITDA multiple is 5.9x, or 5.8x on FY12 forecast EBITDA. We have also estimated that post implementation of the Merger (i.e. post 100% consolidation of Tatura), the historical multiple of Bega will be slightly lower at 5.8x on a historical basis.

This is in-line with Bega's closest peer WCB, which trades on a historical FY11 EBITDA multiple of 5.6x or 6.1x based on forecast FY12 EBITDA.

Bega's trading multiple is also consistent with other related agricultural / food sector companies in Australia, as highlighted in section 5.4.1. The multiples for Patties, Tassal and Goodman Fielder varied between 4.3x and 7.4x (average of 5.6x) on a historical basis and 4.3x and 6.7x (average of 5.2x) on a forecast basis. This is entirely consistent with the observed multiples for Bega of 5.9x to 5.8x.

Therefore, given that Bega's share price reflects the particularities of Bega, we concluded that the share price was the most appropriate basis for the value of the Bega shares.

6.1.2 Assessment of the Proposal relative to Tatura's value on a control basis

Our assessment of the value of Tatura on a controlling basis is \$3.05 to \$3.78 per Redeemable Preference share.

The Proposal estimate of \$3.58 per share is within our valuation range, and above our mid-point therefore we conclude that the Proposal is fair to Tatura Redeemable Preference shareholders.

In the absence of a higher offer or the expectation of a higher offer, Tatura shares would be valued without a premium for control in the event that the Proposal is not approved. However Redeemable Preference shareholders can only 'sell' their shares at the redeemable value of \$1 per share consequently this value assessment is not realisable currently.

The estimate of value for Tatura is based on the valuation parameters of comparable companies that have liquid and well-attended markets. To realise the assessment of the value of the equity on a going concern basis of \$2.77 to \$3.15 (no control premium), Tatura Redeemable Preference shareholders would need to undertake an IPO process similar to that recently undertaken by Bega shareholders. This process would likely result in Tatura shareholders incurring listing costs which could be of the order of 5-10%. This alternative is not as attractive as the Proposal.

6.2 Reasonableness

ASIC Regulatory Guide 111 states that an offer is reasonable if it is fair. An offer may also be "reasonable" if, despite not being "fair", there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

Notwithstanding that we have assessed the offer as being 'fair', and therefore 'reasonable', we have also given consideration to factors affecting the reasonableness of the Scheme.

ASIC has identified the following as some of the factors which an expert might consider when deciding whether a bid is reasonable:

1. The bidder's pre-existing voting power in securities in the target;
2. Other significant security holding blocks in the target;



3. The liquidity of the market in the target's securities;
4. Taxation losses, cash flow or other benefits through achieving 100 percent ownership of the target;
5. Any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target;
6. The likely market price if the offer is unsuccessful; and
7. The value to an alternative bidder and likelihood of an alternative offer being made.

6.2.1 Assessment

We have considered the specific circumstances of Tatura having experienced improvements in operating performance in recent years. The assessment of the valuation of Tatura reflects the Board approved current strategies and operations. It is evident that all shareholders have benefitted from the changes that have been implemented.

We note that Tatura has potential carry forward losses of \$10m in its balance sheet however we are advised that these can only be accessed by Tatura as a non-tax consolidated entity. As noted earlier, the impact of these has been factored into our assessment of the value of the Tatura business.

We are of the view that the Proposal provides a control premium towards the upper end of a reasonable range and there is unlikely to be any special value beyond this.

Other bidders, in the event they were to emerge, may be able to realise special value from the acquisition of Tatura shares. However an acquisition would require a change in the Tatura constitution. This could be blocked by Bega should it choose to do so.

The intention to acquire the remaining 30% was formally announced in the IPO prospectus issued by Bega and dated 18 July 2011 and appeared in the press. No alternative offer has surfaced in the elapsed time before or since. Further Bega holds a substantive blocking shareholding thereby making it challenging for an alternative bidder to be successful if Bega elected to do so.

Should the Proposal be voted against, Tatura Redeemable Preference shares can be redeemed for \$1. Under the Constitution as it stands, this means the assessed value as a going concern cannot be easily realised.

We understand that Redeemable Preference shareholders who accept the Proposal will be able to obtain scrip for scrip roll-over relief. Value Adviser Associates recommends that if shareholders are in doubt as to the taxation implications relating to the Proposal, shareholders should consult their own financial or taxation adviser.

Having considered the above factors we consider that the Proposal is both fair and reasonable.



Appendix 1 – Statement of qualifications and declarations

Value Adviser Associates is qualified to provide this report. It is the corporate authorised representative of Capital Value Securities, which holds an Australian Financial Services Licence under the Corporations Act. The directors of Value Adviser Associates responsible for this report have not provided financial advice to either Tatura or Bega in relation to this takeover offer.

Prior to accepting this engagement, Value Adviser Associates considered its independence with respect to Tatura and Bega with reference to ASIC Regulatory Guide 112: *Independence of experts*. Prior to this engagement, Value Adviser Associates has not acted for the Tatura Group (and its associated entities) or Bega Group (and its associated entities). In our opinion, we are independent of Tatura and Bega.

This report has been prepared specifically for the Redeemable Preference shareholders of Tatura. Neither Value Adviser Associates nor any member or employee thereof undertakes responsibility to any person, other than a shareholder of Tatura, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Value Adviser Associates has relied upon and considered information believed after due inquiry to be complete, reliable and accurate. Value Adviser Associates has also relied on various responses from enquiries to Tatura management. Value Adviser Associates has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Value Adviser Associates has evaluated the information provided to it by Tatura, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base this report. Value Adviser Associates does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose. The information we have had regard to in the preparation of this report is set out in Appendix 4 – Sources of information.

The information provided to Value Adviser Associates has been evaluated through analysis, enquiry and review to the extent it considered necessary for the purposes of forming an opinion. Value Adviser Associates does not warrant that its enquiries have identified or verified all the matters that a formal audit or due diligence may disclose. Accordingly, this report and the opinions contained in it should be considered more in the nature of a commercial and financial review rather than a comprehensive audit or due diligence.

Tatura has provided an indemnity to Value Adviser Associates for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report. This indemnity does not relieve Value Adviser Associates from liability to employee shareholders who rely on this report.

This report should be read in its entirety to ensure that no isolated statements, analyses or other factors are construed out of context. The preparation of an opinion is a complex process and subject to professional judgement. The overall opinion is not to partial analysis or summary.

Value Adviser Associates provided draft copies of this report to certain directors and management of Tatura for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Value Adviser Associates alone. Changes made to



this report as a result of this review by the certain directors and management of Tatura have not changed the method or conclusions reached by Value Adviser Associates.

Value Adviser Associates will receive a professional fee based on time spent in the preparation of this report, estimated at A\$70,000 (exclusive of GST). This fee is not contingent on the outcome of the Proposal. Value Adviser Associates will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Dr. Steven Bishop, a director of Value Adviser Associates, has assumed overall responsibility for this report. He has over 40 years of relevant academic, commercial and advisory experience and has professional qualifications appropriate to the advice being offered.

Mr. Michael Mileo, an employee of Value Adviser Associates, has also been involved in the preparation of this report. He has over 25 years of commercial and advisory experience in areas such as accounting and providing financial/valuation advice. Michael has professional qualifications appropriate to the advice being offered.

In the preparation of this report Value Adviser Associates has had regard to relevant Regulatory Guides issued by ASIC. It is not intended that the report should be used for any other purpose than to be sent to the Tatura Redeemable Preference shareholders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposal is fair and reasonable for the Tatura Redeemable Preference shareholders.

Value Adviser Associates consents to the issue of this report in the form and context in which it is included in the Explanatory Memorandum to be sent to the Tatura employee shareholders.



Appendix 2 – Valuation methods

There are a number of valuation methods available with which to value a project, a business or the shares in a company. The principal methods used are:

1. Capitalisation of earnings;
2. Discounted cash flow;
3. Net realisable value of assets;
4. Market based assessments; and
5. Recent offers.

Each of these methods is appropriate in certain circumstances. The decision as to which method to utilise generally depends upon the method most commonly adopted in valuing the asset in question and the availability of appropriate information.

Capitalisation of earnings

The capitalisation of earnings method involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects.

This method requires consideration of the following factors:

1. Estimation of future maintainable earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. Future maintainable earnings is generally based on net profit after tax, EBIT, EBITA or EBITDA;
2. Determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors;
3. Earnings multiples applied to net profit after tax are known as price earnings multiples and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT, EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to control gearing;
4. Adjustment for financial debt, in the event maintainable earnings are based on EBIT, EBITA or EBITDA; and
5. Assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings.

This method is appropriate where a company or business is expected to generate a relatively stable record of earnings.



Discounted cash flow

The discounted cash flow method involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in cash flows.

This method is particularly appropriate in valuing projects, businesses and companies that are in a start-up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas fields). The utilisation of this method generally requires management to be able to provide long term cash flows for the subject company, asset or business.

Net realisable value of assets

The net realisable value of assets method involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This method is appropriate where a project, a business or company is not making an adequate return on its assets or where there are surplus non-operational assets.

Market based assessments

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price could, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

An alternative market based assessment is the "merged and acquired company method"¹⁰, which is based on the observed prices at which entire companies or operating units of companies or significant interests in companies have changed hands. This approach is most useful when there are no observable day-to-day trading prices of relevant, comparable securities. It is, however, often harder to find data on mergers and acquisitions.

The key principles to observe when applying the merged and acquired company method include:

1. Identify companies which are reasonably comparable;
2. Consider transactions over a fairly long time; and
3. Relate transaction prices to financial fundamentals that affect the value.

Recent offers

Where a recent genuine offer has been made for a company, business unit or asset, that offer may be used as a basis for valuation of the company, business unit or asset.

¹⁰ Pratt, S. "Valuing a Business". McGraw-Hill, 5th Edition 2008. Chapter 12



Appendix 3 – Description of comparable companies

Below we show the Bloomberg descriptions for each of the comparable companies selected for the analysis. Further detailed description and analysis of the comparable companies is included in section 5 of the report.

TABLE 21 DESCRIPTION OF THE COMPANIES INCLUDED IN THE COMPARABLES ANALYSIS

Security	Name	Country	Description
WCB AU Equity	WARRNAMBOOL CHEESE & BUTTER	Australia	Warrnambool Cheese & Butter Factory Company Holdings Limited manufactures cheese, milk powders, whey protein concentrate, butter, cream and packaged milk in Australia. The Company also operates a retail store and restaurant called CheeseWorld in Victoria.
BGA AU Equity	BEGA CHEESE LTD	Australia	Bega Cheese Ltd. provides dairy food products. The Company offers a variety of cheese products including can, stringers, fingers, slice, whey powder, processed, natural, and reduced fat cheddar cheeses. Bega exports its whey powder to Asian countries. Bega also distributes its cheese products to international commodity markets.
PFL AU Equity	PATTIES FOODS LTD	Australia	Patties Foods Ltd. manufactures, supplies, and markets frozen savoury and dessert products including pies, pasties, sausage rolls, and fruit pies.
TGR AU Equity	TASSAL GROUP LTD	Australia	Tassal Group Limited produces and markets Atlantic salmon and ocean trout. The Company's product is marketed under the Royal Tasman Salmon brand. The products are distributed in Australia, Japan and other international markets.
GFF AU Equity	GOODMAN FIELDER LTD	Australia	Goodman Fielder Limited offers a wide range of food products. The Company offers food products that include packaged baked goods, spreads, dairy products, small goods, sauces, dressings, and condiments and bulk and packaged edible fats and oils and flour products.
RWD LN Equity	ROBERT WISEMAN DAIRIES	United Kingdom	Robert Wiseman Dairies Plc processes and distributes milk. The Company operates dairies in Aberdeen, East Kilbride, Glasgow, Manchester, and Droitwich Spa.
DCG LN Equity	DAIRY CREST GROUP PLC	United Kingdom	Dairy Crest Group plc manufactures and distributes dairy products. The Group provides spreads, cheeses, liquid products, and other fresh dairy products to the retail grocery sector. Dairy Crest's food services division sells dairy products to catering outlets, small businesses, households, and food manufacturers. Brands include Clover, Cathedral City, and Friji.
EMMN SW Equity	EMMI AG	Switzerland	Emmi AG is a Swiss producer of dairy products. The Company markets fresh milk, cream, butter, yogurt, quark, pudding and an assortment of cheeses. Emmi also produces a variety of fruit juices and iced tea.
BH FP Equity	BONGRAIN SA	France	Bongrain SA manufactures and distributes cheese and other dairy products throughout the world under the brand names Caprice des Dieux, Tartare, Alouette, and many others. The Company also produces gourmet food and provides catering services. It operates sales and production subsidiaries in Europe, the Americas, Asia, and Australia.

Source: Bloomberg



Appendix 4 – Sources of information

In preparing this report, we have had regard to the following sources of information:

- Merger Implementation Agreement: Tatura Milk Industries & Bega Cheese Limited
- Tatura Milk Industries Statutory Accounts FY07 to FY11
- Tatura Milk Industries Budget FY11
- Tatura Milk Industries Management Accounts FY08 to FY11
- Tatura Milk Industries Strategic Planning Session February 2010
- Constitution of Tatura Milk Industries
- Discussions with Tatura Senior Management
- Bega Cheese Limited Prospectus
- Bega Cheese Limited Review of Operations and Activities – June 2010-
- Dairy Australia – Dairy 2011 Situation & Outlook – September 2011
- Dairy Australia – Dairy 2011 Situation and Outlook – May 2011
- Dairy Australia – Australian Dairy Industry – In Focus 2010
- Food and Agricultural Policy Research Institute – USA
- Bloomberg
- Comparable company annual reports and website disclosures
- Tatura Milk Industries Independent Expert Report – Pitcher Partners 26 March 2007
- Australian Co-operative Foods Limited Scheme Booklet

In addition, we have examined academic and commercial research including:

Bugeja M & T Walter, "An empirical analysis of some determinants of the target shareholder premium in takeovers", Accounting and Finance, Nov 1995;

Damodaran, A. "Marketability and Value: Measuring the Illiquidity Discount", Stern School of Business, July 2005;

Jansen B, "Discounts and Premiums", The Institute of Chartered Accountants, Valuations Conference March 2008;

Koeplin, Sarin & Shapiro, "The Private Company Discount," Journal of Corporate Finance, 2000;



Officer M, "The price of corporate liquidity: Acquisition discounts for unlisted targets",
Journal of Financial Economics, 83, 2007;

RSM Bird Cameron, "Control Premium Study" 2010



Appendix 5 – Impact of Gaining Liquidity by owning shares in a listed company

Typically valuation multiples used to value a target firm are derived from publicly listed companies where trading in shares is relatively easy and inexpensive. In addition information about the listed company's performance is generally easier to obtain than for unlisted companies. These important differences give rise to a liquidity or marketability discount for unlisted relative to listed companies.

Empirical research shows there is a value discount to unlisted companies compared with their listed counterparts. This is evident in lower multiples in transactions. For example Koeplin, Sarin and Shapiro¹¹ found that private companies in the US were acquired at multiples of 20-30% lower than those paid for publicly listed companies. Officer¹² documents average acquisition discounts for stand-alone private firms and subsidiaries of other firms (unlisted targets) of 15% - 30% relative to acquisition multiples for comparable publicly traded companies in the US.

The amount of discount is likely to be circumstantial and influenced by issues such as trading restrictions in a shareholders' agreement or constitution, lack of any accessible for of market for the shares, the size of the shareholding and the likelihood of events such as an IPO.

Discounts for lack of marketability (or liquidity) have been recognised in court cases in Australia. Jansen¹³ documents four such cases where the discounts range from 10% - 28%. He also notes that the Australian Private Equity and Venture Capital Association has a set of guidelines for the valuation of private equity investments that recommends a discount for lack of liquidity in the range 10% - 30%.

Jansen¹⁴ summarises the evidence and practice in relations to illiquidity discounts as:

	Discount for Lack of Liquidity
US Market Practice	23 – 45%
US restricted stock sales/ IPO studies	40 – 63%
Australian Market Practice	10 – 30%
UK Market Practice	20 – 50%
Singapore Market Practice	10 – 30%

There is therefore a benefit to shareholders of an unlisted company from being taken over by a listed company by a share offer because the listed company's shares are tradeable on the stock exchange and therefore more liquid. Converting the discounts of 10 – 30% in Australia to an equivalent premium leads to the benefit being in the range 11 – 42%.¹⁵

In forming an opinion about whether a takeover scheme is 'in the best interests of the members of the company, Regulatory Guide 111 states describes the independent expert should have regard to whether the offer is 'fair and reasonable. Section RG 111.10 describes fairness as follows:

¹¹ Koeplin, Sarin & Shapiro, 2000, "The Private Company Discount," Journal of Corporate Finance.

¹² M. Officer, "The price of corporate liquidity: Acquisition discounts for unlisted targets", Journal of Financial Economics, 83, 2007.

¹³ B. Jansen, "Discounts and Premiums", The Institute of Chartered Accountants, Valuations Conference March 2008. Also see Damodaran, A. "Marketability and Value: Measuring the Illiquidity Discount", Stern School of Business, July 2005

¹⁴ Jansen, Op cit p 12

¹⁵ The conversion is: premium = $1/(1-\text{discount}) - 1$



Under this convention, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% 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. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares.

VAA has been instructed by ASIC on prior occasions that this interpretation of fairness does not permit the consideration of an unlisted company (or liquidity) discount when valuing a private company target for assessing fairness. Consequently we have not reflected such a discount relative to listed companies multiples used to value Tatura on a stand-alone basis. Instead we have viewed the substantive change in liquidity of the shares as a benefit of the transaction.



Appendix 6 – Control Premium

The capitalisation of earnings approach to assessing the value of a company calls for multiplying maintainable earnings by a multiple considered appropriate.

The value of an offer can be assessed by reference to a transaction multiple or a trading multiple. If a *transaction* multiple is sourced as the multiple then it will reflect a premium for control paid in the transaction over and above a non-control transaction. A particular challenge with this approach is finding comparable transactions with similar change in control implications as the transaction of interest because control premiums are circumstantial. A valuer may consider it appropriate to adjust the resulting valuation to better reflect a premium for control more appropriate for the particular circumstances. On the other hand, if a *trading* or non-control multiple is sourced as the multiple then a premium for control is usually added to inform a view of the fairness of the offer. Either approach requires a view on an appropriate premium for control.

Control Premiums in the context of “Fairness”

An acquisition usually arises because the acquirer improves the value of the target by more than the cost. This can happen for a multitude of reasons which are circumstantial. For example there may be operating improvements, increased revenue, synergies and / or better capacity utilisation from the combination. To institute improvement generally requires control of the Board to enable changes in corporate, business or operating strategy. This in turn requires ownership of a substantial block or all shares.

To gain control, the acquirer has to encourage the target shareholders to sell their shares. This requires an offer above the current value of the target i.e. a control premium. The control premium refers to size of the offer above the prior value of the target.

While there is evidence on the average premium paid in control transactions, it is highly variable across acquisitions reflecting the circumstantial nature of each transaction. Variations can arise from such things as the size of any combined value improvement opportunities, the bargaining power of the parties and the likelihood of another offer.

RSM Bird Cameron report an average premium of 30.7% for successful takeover offers and schemes of arrangements between 1 July 2005 and 30 June 2010 for companies listed on the ASX.¹⁶ The premium is assessed relative to the share price 20 trading days prior to the announcement of the offer. They describe the average control premium as falling in the range of 20% - 30% above the pre-offer share price of the target company.

However there is a wide range of control premiums paid as is evident by the statement in the RSM Bird Cameron report:

“Control premiums ranged significantly with discounts in excess of 100%, to premiums in excess of 100%. However the distribution of control premiums followed a bell shaped curve with the majority of control premiums between 0% and 50 . . .”¹⁷

This wide range makes it challenging to use empirical data as a cross check for assessing fairness of an offer although it appears common for valuers to refer to the average as a cross check.

¹⁶ RSM Bird Cameron “Control Premium Study”,

¹⁷ Op cit p3



Control Premiums in the context of “Reasonableness”

Jansen¹⁸ summarises the literature relating to premiums and discounts associated with transactions in general. He summarised a range of premiums / discounts that would typically be associated with a change in ownership based on academic evidence and his own experience. The analysis was presented in terms of a discount relative to a 100% control transaction and this has been converted to a premium relative to a non-control transaction in the Table below. The premiums are derived on an assumption that the average premium for control is 30%.

The Table typifies the premiums paid when moving from no shareholding to different percentage ownership brackets representing differing levels of control. The Table suggests most of an average 30% premium is paid to gain ownership in the range 50 – 74%. This percentage gives a controlling interest. The additional premium to move from 74% to 100% is quite small in this table i.e. from 0 – 4%.

This outcome is not surprising because most strategic and operational performance improvement initiatives can be achieved with ownership above 50%. Moving above 75% provides the ‘super majority’ ownership necessary to pass special resolutions dealing with matters such as changing the constitution and winding up the company. It is not necessary to bring about strategic an operating improvements.

TABLE 22 PREMIUM FOR CONTROL RELATED TO TARGET OWNERSHIP PERCENTAGE

Type of Interest	Ownership (%)	Discount to Control Transaction		Premium to No Control	
		From	To	From	To
Portfolio Interest	Less than 10%	20%	40%	0%	15%
Strategic Interest					
Where no shareholder is in control	10 to 19%	12.5%	30%	8%	21%
Where one shareholder is in control		25%	40%	0%	11%
Blocking Interest	25.1 to 30%	10%	15%	19%	23%
Dominant Interest	30.1 to 49.9%	5%	10%	23%	26%
Controlling Interest	50.1 to 75%	0%	5%	26%	30%
Power to pass special resolutions	75.1 to 100%	0%	0%	30%	30%

Source: B Jansen, Ernst & Young, Presentation to ICA, March 2008. VAA Analysis

Academic research shows that the premium associated with cash offers is higher than for share offers, largely because cash offers signal strong confidence in potential synergies and accepting shareholders do not bear any downside risk associated with owning shares in the successful bidding company if the implementation goes awry.

TABLE 23 CONTROL PREMIUMS FOR ACQUISITIONS

Consideration	Bird Cameron	Value Adviser Associates	
	All Control Transactions	> 50% to 100%	(65- 74%) to 100%
All Offers	30.7%	24.1%	25.4%
Cash	33.9%	23.2%	31.5%
100% Script	25.0%	11.8%	11.8%
Cash / Script Mixed	23.0%	30.6%	34.3%

The table above captures the RSM Bird Cameron data as well as research undertaken by Value Adviser Associates. RSM Bird Cameron report that the premium on cash offers was 33.9% compared with approximately 25% for script offers. In contrast to the results in Table

¹⁸ B Jansen, “Discounts and Premiums”, The Institute of Chartered Accountants, Valuations Conference March 2008



1 above, these are premiums for offers regardless of the starting and ending shareholding position.

Value Adviser Associates examined the premium for control for all firms that owned at least 50% of the target prior to the offer for offers made in the last 10 years. This was further broken down into offers where the acquirer owned between 65% and 74% prior to the offer and was bidding to take ownership to 100%.

The results of the VAA analysis appear in the last two columns of Table 2. The average control premium for Australian listed firms taking over other listed firms when the pre-offer ownership was at least 50% was 24%¹⁹. The premium on the subset of 100% script offers was 11.8% although the sample was small.

This evidence is consistent with the wider evidence that premiums on script offers are lower than cash offers and that there is a negative relationship between the premium and ownership prior to the acquisition²⁰. It also shows that premiums offered in situations when the bidder had strategic and operating control prior to the bid were lower than the case for all offers.

As has been noted, premiums are circumstantial depending upon the specifics of the transaction, nevertheless the historical record can provide a cross check for assessing whether a particular offer is reasonable given its relative circumstances.

¹⁹ This research was undertaken by VAA using acquisition data for Australian companies from Bloomberg for the period September 2001 to September 2011.

²⁰ Bugeja M & T Walter, "An empirical analysis of some determinants of the target shareholder premium in takeovers", *Accounting and Finance*, Nov 1995



Appendix 7 - Financial Services Guide

Issue Date: September 2010

Value Adviser Associates Pty Ltd ABN 54 131 852 607 ("Value Adviser Associates" or "we" or "us" or "our" as appropriate) provides general advice in relation securities to retail clients as an authorised representative of Capital Value Securities Pty Ltd ABN 46 123 674 886 ("CVS" or "licensee") AFSL No 311705.

Financial Service Guide

In the above circumstances we are required to issue you, as a retail client, with a Financial Services Guide [FSG]. This FSG is designed to help retail clients make a decision as to their use of our general security advice.

This FSG includes information about:

1. Who we are and how we and the licensee can be contacted
2. The services we are authorised to provide under the licensee's Australian Financial Services Licence
3. Remuneration that we, the licensee and any associates receive in connection with our general advice
4. The licensee's complaints handling procedures and how you may access them.

The licensee has authorised this FSG.

Financial services we are authorised to provide

We hold Authorised Representative number 342572 authorising us to provide general security advice on behalf of the licensee.

General advice

We provide general advice, not personal advice because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing general advice. These fees will be agreed with, and paid by, the person who engages us. Fees will be agreed on either a fixed fee or time cost basis. Clients may request particulars within a reasonable time after receiving this Guide (and before any financial service is given).



Except for the fees referred to above, neither Value Adviser Associates, CVS nor any of their directors, employees or related entities receive any pecuniary benefit or other benefit directly or indirectly for or in connection with the provision of financial product advice.

Referrals

We do not pay commissions or provide other benefits to any person for referring customers to CVS or us in connection with the advice that we are authorised to provide.

Associations and relationships

CVS is ultimately controlled and operates as part of Value Adviser Associates professional advisory practice. Our Directors may be executive directors of CVS.

From time to time, we may provide professional services to financial product issuers in the ordinary course of our business.

Complaints resolution

Internal complaints resolution process

As a holder of an Australian Financial Services Licence, CVS is required to have a system for handling complaints from retail clients to whom it and its representatives provide financial product advice. All complaints must be in writing, addressed to: The Complaints Officer, Capital Value Securities Pty Ltd, Level 2, 65 Southbank Boulevard, Southbank, Vic 3006.

When CVS receives a written complaint it will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practicable and not more than 45 days after receiving the written complaint, it will advise the complainant in writing of its determination.

Referral to External Dispute Resolution Proposed Scheme

A complainant not satisfied with the outcome of the above process, or the licensee's determination, has the right to refer the matter to the Financial Ombudsman Service Ltd ["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 from the FOS website www.fos.org.au or by contacting them directly at: Financial Ombudsman Service Ltd, GPO Box 3, Melbourne Victoria 3001 or Toll free 1300 78 08 08 or by facsimile (03) 9613 6399.

Professional Indemnity insurance

Value Adviser Associates has Professional Indemnity insurance in place that covers claims in respect of current and former employees and representatives for services provided on behalf of Value Adviser Associates. This insurance satisfies the requirements under the Corporations Act relating to compensation arrangements.

Contact details

You may contact CVS at level 2, 65 Southbank Boulevard, Southbank Vic, 3006 or by phone (03) 9626 4300 or by facsimile (03) 9626 4301.

Taxation report

TAXATION REPORT

3rd November 2011

The Directors
Tatura Milk Industries Ltd
PO Box 213
TATURA VIC 3616

Dear Sirs,

TAX IMPLICATIONS FOR AUSTRALIAN RESIDENT SHAREHOLDERS OF TATURA MILK INDUSTRIES (TMI)

This letter sets out our view on the main Australian tax consequences for Australian resident individuals, companies and trustees of complying superannuation funds who receive Bega Cheese Ordinary Shares (Bega shares) under the Scheme Proposal.

The discussion contained in this summary is of general nature only and does not take into account the personal circumstances of any shareholder. It is based on the Australian tax laws at the date of this report.

We have summarised the implications for Australian resident shareholders holding shares on capital account.

Our summary does not address the tax considerations applicable to shareholders that may be subject to special tax rules, such as shares held by non-resident shareholders, shares held as trading stock and shares held on revenue account.

Tatura Milk RP Shareholders (TMI shareholders) should seek their own independent advice regarding the tax implications arising from participation in the Scheme in light of current tax laws and their particular circumstances.

Australian Tax Implications

The tax implications will vary depending upon when the TMI shares were acquired, as set out below:

A. Pre Capital Gains Tax (CGT) shares

Where the TMI shares were acquired for tax purposes before 20th September 1985, the following issues arise:

(i) Capital gain or capital loss

No capital gain or loss would arise for a TMI shareholder as the TMI shares are exempt from the CGT rules.



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(ii) Cost base of New Bega shares

The first element of the cost base of each new Bega share will be their market value at the date they are issued.

(iii) Acquisition date of new Bega shares

The shareholder will be taken to have acquired the new Bega shares at the time the shares are issued under the Scheme.

B. Post CGT shares

Where the TMI shares were acquired for tax purposes on or after 20th September 1985, the following issues arise:

Scrip for scrip rollover relief

The requirements for a TMI shareholder to elect for scrip for scrip rollover relief should be met if the Scheme is approved and implemented.

Therefore Australian resident TMI shareholders should be eligible to choose scrip for scrip rollover relief (as they will only receive two (2) new Bega shares in exchange for each of their TMI shares) if they would otherwise have made a capital gain from the exchange.

Consequences of choosing scrip for scrip rollover relief

(i) Deferral of capital gain

The consequences of choosing scrip for scrip rollover relief is that the capital gain made from the disposal of TMI shares is disregarded.

(ii) Cost base of New Bega shares

The first element of the cost base of each new Bega share will be worked out by reference to the cost base of the TMI shares disposed of on exchange. For example where the cost of each TMI shares was \$1.00, the cost base of each of the new Bega shares would be \$0.50.

The cost base of the new Bega shares will be relevant when the shareholder sells those shares in the future and any capital gain or capital loss on disposal of the Bega shares is calculated.

(iii) Acquisition date

A shareholder who elects for scrip for scrip rollover relief is deemed to have acquired the new Bega shares at the same date as the shareholder acquired the original TMI shares.

The acquisition date is relevant in working out the CGT consequences of a future disposal of the new Bega shares.

(iv) How to choose

No formal election is required to be lodged in order to choose scrip for scrip rollover relief. The shareholder's income tax return should be prepared in a manner consistent with electing scrip for scrip rollover relief.

Consequences of not choosing rollover relief

(i) Capital gain or capital loss

A capital gain would arise for a shareholder on disposal of TMI shares if the consideration received (ie. the market value of New Bega shares at the implementation date) exceeds the cost base of the TMI shares (ie generally \$1 per share).

Although it is not expected to be the case, a capital loss would arise where the consideration received is less than the reduced cost base of the TMI shares. Capital losses can be used to offset any capital gain made in the current year or carried forward for offset against any future capital gain, subject to certain tests being satisfied.

(ii) Cost base of New Bega shares

The first element of the cost base of each new Bega share will be the market value of the Bega share at the implementation date. This will be relevant for calculating any capital gain or capital loss on a future disposal of the Bega shares.

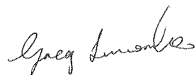
(iii) Acquisition date

The shareholder will be taken to have acquired the new Bega shares at the time the shares are issued under the Scheme.

(iv) CGT Discount

Individuals, trusts and complying superannuation funds who have held TMI shares for at least 12 months prior to disposal of those shares under the Scheme should be eligible to claim the CGT discount when calculating the capital gain. Individuals and trusts will be entitled to a CGT discount of 50%, while superannuation funds will be entitled to a CGT discount of 33 $\frac{1}{3}$ %. Company shareholders are not eligible for the CGT discount.

Yours faithfully,



Greg Luscombe
CA – Chartered Accountant
CPA- Certified Practicing Accountant
FTIA- Fellow of Taxation Institute of Australia
Specialist Taxation Advisor
Partner
MB +M BUSINESS SOLUTIONS

Scheme of arrangement deed

Tatura Milk Industries Limited
ABN 66 006 603 970

and

Bega Cheese Limited
ABN 81 008 358 503

Scheme of arrangement deed

Norton Gledhill
COMMERCIAL LAWYERS

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Australia

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This deed is made on 9 November 2011
between: **Tatura Milk Industries Limited** ABN 66 006 603 970 (**Tatura Milk**)
and: **Bega Cheese Limited** ABN 81 008 358 503 (**Bega Cheese**)

Recitals

- A. Tatura Milk and Bega Cheese have agreed to merge by:
- (a) Bega Cheese acquiring all of the Tatura Milk RP Shares; and
 - (b) the Scheme Shareholders receiving 2 Bega Cheese Shares for every 1 of their Tatura Milk RP Shares acquired by Bega Cheese;
- pursuant to a scheme of arrangement between Tatura Milk and the Scheme Shareholders under part 5.1 of the Corporations Act.
- B. This deed sets out the terms of the proposed scheme of arrangement and merger which, subject to the shareholders of Tatura Milk passing a resolution in favour of, and the court approving, the scheme in accordance with section 411(4) of the Corporations Act, will be binding on the shareholders of Tatura Milk, as well as Tatura Milk and Bega Cheese.

Operative provisions

1. Definitions and interpretation

1.1 Definitions

In this deed, unless the context otherwise requires:

ASX means ASX Limited ACN 008 624 691 or, where appropriate, the market operated by it;

ASX Listing Rules means the listing rules (as defined in chapter 7 of the Corporations Act) of the financial market operated by ASX;

Bega Cheese Share means a fully paid ordinary share in the capital of Bega Cheese;

Business Day means a day which is not a Saturday, Sunday, bank holiday or public holiday:

- (a) for the purpose of sending or receiving a notice, in the city where the notice is received; and
- (b) for all other purposes, in Melbourne or Sydney;

Corporations Act means the Corporations Act 2001 (Cth);

Court means a court of competent jurisdiction under the Corporations Act;

Effective Date means the date an office copy of the Court order approving the Scheme under section 411(4)(b) of the Corporations Act is lodged with ASIC under section 411(10) or such other effective date of the Scheme as Tatura Milk and Bega Cheese may, with the consent of the Court, agree;

Encumbrance means a mortgage, charge, pledge, lien or other encumbrance created in respect of an asset by its owner or by operation of law to secure an obligation of the owner;

First Court Date means the first day on which an application to the Court is made seeking an order pursuant to section 411(1) of the Corporations Act that a meeting of the shareholders of Tatura Milk be convened and held to consider the Scheme;

Implementation Date means the 4th Business Day after the Effective Date;

Merger means the merger between Tatura Milk and Bega Cheese as contemplated under this deed whereby the Tatura Milk RP Shareholders become shareholders of Bega Cheese and Tatura Milk becomes a wholly owned subsidiary of Bega Cheese;

Merger Implementation Agreement means the merger implementation agreement dated 4 October 2011 between Tatura Milk and Bega Cheese;

Register Close Time has the meaning given in clause 3.5(a);

Scheme means the scheme of arrangement between Tatura Milk and its shareholders under part 5.1 of the Corporations Act on the terms set out in this deed which is to implement, or to facilitate implementation of, the Merger;

Scheme Meeting means the meeting of the Tatura Milk RP Shareholders convened by the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act. It includes any adjournment of that meeting;

Scheme Shareholder means a person who is a Tatura Milk RP Shareholder as at 9:00 am on the Implementation Date, other than Bega Cheese or a subsidiary of Bega Cheese;

Sunset Date means 29 February 2012 or such other date as agreed in writing between Bega Cheese and Tatura Milk;

Tatura Milk Nominated Directors means 2 Tatura Milk Supplier Directors who are in office as at the Effective Date and who are selected by or in accordance with an agreement between the Tatura Milk Supplier Directors that is subsisting as at the Effective Date and notified to Bega Cheese to be appointed as directors of Bega Cheese;

Tatura Milk RP Share means an A class redeemable preference share in the capital of Tatura Milk;

Tatura Milk RP Shareholder means a person who is registered in the Tatura Milk Share Register as the holder of Tatura Milk RP Shares, other than Bega Cheese or a subsidiary of Bega Cheese;

Tatura Milk Share Register means the register of members of Tatura Milk kept pursuant to the Corporations Act;

Tatura Milk Supplier means a person who conducts a dairy farming business and supplies milk to Tatura Milk or any of its related bodies corporate that is collected from the farm and delivered directly to the milk processing facility of Tatura Milk (or its related body corporate) located at Tatura, Victoria, including a person who supplies milk in partnership with others or as a sharefarmer; and

Tatura Milk Supplier Director means a Dairy Farmer Director of Tatura Milk, as defined in the constitution of Tatura Milk, who has not been appointed by Bega Cheese or a Subsidiary of Bega Cheese pursuant to its rights as the 'Majority Shareholder' under the Tatura Milk constitution.

1.2 Interpretation

In this deed headings and bold typing are included for convenience only and do not affect interpretation and, unless the context otherwise requires:

- (a) a reference to a word includes the singular and the plural of the word and vice versa;
- (b) a reference to a gender includes any gender;
- (c) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
- (d) a term which refers to a person includes a company, a partnership, an association, a corporation, a body corporate, a joint venture, a sovereign state, a government or a government department or agency;
- (e) a reference to a document includes a reference to that document as amended, novated, supplemented, varied or replaced;
- (f) a reference to a recital, clause, paragraph, schedule, annexure or other part is a reference to an item of that type in this deed;
- (g) a reference to a party is a reference to a Tatura Milk RP Shareholder on or after the Effective Date, Tatura Milk or Bega Cheese and includes a reference to that party's successors and permitted assigns;
- (h) a reference to a statute or regulation or a provision of a statute or regulation is a reference to that statute, regulation or provision as amended or a statute, regulation or provision replacing it, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws made or issued under that statute;
- (i) a reference to a document is a reference to a document of any kind including but not limited to an agreement in writing, a certificate, a notice, or an instrument;

- (j) no provision of this deed will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this deed or that provision;
- (k) a reference to a time is a reference to Melbourne time;
- (l) a monetary reference is a reference to Australian currency;
- (m) a reference to an entity, other than a party to this deed, which ceases to exist or whose powers or functions are transferred to another entity, is a reference to the entity which replaces it or which substantially succeeds to its powers or functions;
- (n) a word or term defined in the Corporations Act 2001 has the same meaning in this deed; and
- (o) a word or term defined in A New Tax System (Goods and Services Tax) Act 1999 (Cth) has the same meaning in this deed where used in connection with the GST imposed under that Act.

1.3 Deed binding on, and for the benefit of, Scheme Shareholders

Subject to clause 2, this deed as amended binds Tatura Milk, Bega Cheese and, on and from the Effective Date, each Tatura Milk RP Shareholder for the benefit of each of the others of them, as if each Tatura Milk RP Shareholder had executed this deed as a party.

1.4 Jurisdiction of registration

Tatura Milk is taken to be registered in Victoria under the Corporations Act.

1.5 Amendments to Merger Implementation Agreement

Tatura Milk and Bega Cheese hereby agree to amend the Merger Implementation Agreement as follows:

- (a) Replace the definition of **Tatura Milk RP Shareholder** in clause 1.1 of the Merger Implementation Agreement with the definition of that term in clause 1.1 of this deed.
- (b) Replace the reference to 'clause 6.1' in clause 3.1(i) of the Merger Implementation Agreement with a reference to 'clause 6.2'.

2. Deed conditional

This deed is conditional on:

- (a) the Merger Implementation Agreement not being terminated under clause 7 of that agreement on or before the Implementation Date; and
- (b) an order of the Court approving the Scheme being made under section 411(4)(b) of the Corporations Act on or before the Sunset Date.

If those conditions are not satisfied this deed will be of no effect, despite anything else contained in this deed.

3. Scheme

3.1 Lodgement of Court orders

Tatura Milk will lodge with ASIC office copies of the Court orders under section 411 of the Corporations Act approving the Scheme by 5pm on the Business Day immediately following the day such office copy is received (or such later date as agreed in writing by Bega Cheese).

3.2 Sale and transfer of Tatura Milk RP Shares

Each Scheme Shareholder in consideration for Bega Cheese's obligation to issue Bega Cheese Shares to the Scheme Shareholder in accordance with clause 3.4, and subject to Bega Cheese satisfying those obligations:

- (a) sells and transfers to Bega Cheese on the Implementation Date all of the Tatura Milk RP Shares held by the Scheme Shareholder at 9:00 am on the Implementation Date, free from Encumbrances to the extent permitted by law, together with all rights and entitlements attaching to the Tatura Milk RP Shares as at that date;
- (b) irrevocably appoints Bega Cheese and each director of Bega Cheese as the attorney of the Scheme Shareholder from the Implementation Date until those Tatura Milk RP Shares are registered in the name of Bega Cheese and authorises the attorney severally on behalf of and in the name of the Scheme Shareholder to do everything that Bega Cheese reasonably considers should be done to:
 - (1) register or otherwise perfect the transfer of those Tatura Milk RP Shares to Bega Cheese; and
 - (2) exercise any rights attached to those Tatura Milk RP Shares; and
- (c) warrants to Bega Cheese that the Scheme Shareholder has the power and capacity to sell and transfer, and sells and transfers, to Bega Cheese full legal and beneficial title to those Tatura Milk RP Shares free of any Encumbrance to the extent permitted by law, subject to the approval and registration of the transfer by Tatura Milk;

without, in each case, the need for any further act or document from that Scheme Shareholder.

3.3 Registration of transfers

- (a) Tatura Milk must register the transfers of Tatura Milk RP Shares made under clause 3.2 on the Implementation Date, subject to:
 - (1) the payment of any applicable duty; and
 - (2) Bega Cheese satisfying its obligations under clause 3.4.

Pending registration, Bega Cheese will be beneficially entitled to those Tatura Milk RP Shares from the Implementation Date.

- (b) The parties agree and acknowledge that Tatura Milk may register the transfers of Tatura Milk RP Shares made under clause 3.2 without the certificates or other title documents for those Tatura Milk RP Shares being provided to Tatura Milk, and upon registration of the transfers any such certificates or other title documents will be taken to be cancelled and will cease to have effect as documents of or evidencing title.
- (c) Bega Cheese agrees to accept the transfer of Tatura Milk RP Shares to be transferred to it under clause 3.2 and agrees to become a member of Tatura Milk in respect of those Tatura Milk RP Shares and, whilst such a member, agrees to be bound by the constitution of Tatura Milk as a member in respect of the Tatura Milk RP Shares held by it for the time being.

3.4 Issue of Bega Cheese Shares

- (a) Bega Cheese must, on the Implementation Date, issue to each Scheme Shareholder 2 Bega Cheese Shares for every 1 Tatura Milk RP Share sold and transferred to Bega Cheese by the Scheme Shareholder under clause 3.2.
- (b) Bega Cheese Shares issued under clause 3.3(a) will rank *pari passu* with all other Bega Cheese Shares then on issue.
- (c) Bega Cheese must apply for quotation on the financial market of ASX of all Bega Cheese Shares issued under clause 3.4(a) as soon as reasonably practicable after their issue, but in any case within the time limit prescribed by the ASX Listing Rules.
- (d) Each Scheme Shareholder applies for the Bega Cheese Shares to be issued to the Scheme Shareholder under clause 3.4(a) and agrees to become a member of Bega Cheese on the date the shares are issued, and authorises the Scheme Shareholder's name and address as it appears on the register of members of Tatura Milk to be entered into the register of members of Bega Cheese and, whilst a shareholder of Bega Cheese, agrees to be bound by the constitution of Bega Cheese in respect of the Bega Cheese Shares held by the Scheme Shareholder for the time being.
- (e) Bega Cheese must not declare or pay a dividend or make any other distribution to its shareholders on or before the Implementation Date, except as follows:
 - (1) Bega Cheese may declare and pay any dividend on the Bega Cheese Shares after 31 January 2012 in respect of the financial performance of Bega Cheese for the 6 months ending 31 December 2011, provided that the dividend does not represent more than 60% of the net profit after tax and non-controlling interests of Bega Cheese for that period and provided further that the record date for determining entitlements to the dividend occurs after 31 January 2012.

- (2) For the avoidance of doubt, if the Bega Cheese Shares comprising the Scheme Consideration have not been issued by the record date applicable to a dividend declared or paid in accordance with clause 3.4(e)(1), Scheme Shareholders will have no rights to participate in the dividend.

3.5 Dealings in Tatura Milk RP Share before and after Implementation Date

- (a) If the Court makes orders under section 411(4) of the Corporations Act approving the Scheme, Tatura Milk must, subject to this clause 3.5, close the Tatura Milk Share Register in accordance with its constitution by 5 pm on the Effective Date (**Register Close Time**).
- (b) Tatura Milk must ensure that all registrable transfers and transmission applications in respect of Tatura Milk RP Shares which are:
- (1) received by Tatura Milk (or its share registrar) before the Register Close Time; and
 - (2) not refused for registration in accordance with Tatura Milk's constitution;
- are registered as soon as reasonably practicable after receipt and, where registration occurs after the Register Close Time, by no later than the Business Day after the Register Close Time and with effect at the Register Close Time.
- (c) A Tatura Milk RP Shareholder (and any person claiming through that Tatura Milk RP Shareholder) must not dispose of or purport to agree to dispose of any Tatura Milk RP Shares or any interest in them after the Register Close Time except for a disposal to Bega Cheese, until the transfers of Tatura Milk RP Share made under clause 3.2 are registered.
- (d) For the avoidance of doubt, a person who is registered as the holder of a Tatura Milk RP Share at 9:00 am on the Implementation Date will be a Scheme Shareholder.
- (e) Tatura Milk must not register any transfer or transmission application in respect of Tatura Milk RP Shares received after the Register Close Time except for a transfer to Bega Cheese, until the transfers of Tatura Milk RP Share made under clause 3.2 are registered.

3.6 Tatura Milk directors to be appointed to Bega Cheese board

Bega Cheese agrees that:

- (a) if Bega Cheese is notified of the Tatura Milk Nominated Directors by the Effective Date, on or before the Implementation Date Bega Cheese will, subject to obtaining the necessary consents to act, appoint the Tatura Milk Nominated Directors to the board of Bega Cheese; and
- (b) Bega Cheese will use its best endeavours, including by the filling of a casual vacancy that may arise, to ensure that 2 individuals who are Tatura Milk Suppliers (or the representative of a body corporate that is a Tatura Milk

Supplier) are on the Bega Cheese board throughout the period of two years from the Implementation Date.

4. Amendment to deed

4.1 Amendment before First Court Date

Before the First Court Date, this deed may be amended or repealed and replaced by supplementary deed between Tatura Milk and Bega Cheese.

4.2 Amendment between First Court Date and Implementation Date

Between the First Court Date and the Implementation Date (both dates inclusive), this deed may be amended or repealed and replaced by supplementary deed between Tatura Milk and Bega Cheese but only if the Court approves the amendment or replacement.

5. General

5.1 Governing law and jurisdiction

This deed is governed by the laws of Victoria. The parties submit to the non-exclusive jurisdiction of the courts exercising jurisdiction there.

5.2 Counterparts

The parties may execute this deed in two or more counterparts and all counterparts together constitute one instrument.

5.3 Consent or approval

Subject to an express provision in this deed, a party may in its absolute discretion give its consent or approval conditionally or unconditionally, or withhold its consent or approval.

5.4 Further assurances

Each party must, at its own expense, do everything reasonably necessary to give effect to this deed and the transactions contemplated by it, including without limitation the execution of documents.

5.5 Notices

- (a) A party may send a notice in connection with this deed by hand delivery, pre-paid post or facsimile transmission to another party at the address details set out below or in such other way as the recipient party may have last notified each other party in writing:

(1) **Tatura Milk**

Address: 236 Hogan Street, Tatura Victoria 3616

Facsimile: 03 5824 2534

Attention: Company Secretary

(2) **Bega Cheese****Address:** 23 – 45 Ridge Street, North Bega New South Wales 2550**Facsimile:** 02 6491 7700**Attention:** Company Secretary(3) **A Tatura Milk RP Shareholder** – at the address or to the facsimile number shown for that person:

(A) in the Tatura Milk Share Register for notices to be sent on or before the Implementation Date; or

(B) in the Bega Cheese share register for notices to be sent after the Implementation Date.

(b) A notice is deemed to be received:

(1) if sent by pre-paid post, on the second Business Day after the date of posting; or

(2) if sent by facsimile transmission, on the next Business Day after the date the facsimile was sent in its entirety as shown by the transmission report produced by the sending machine.

Executed as a deed**Executed by Tatura Milk Industries****Limited by:**

Signature of director

Name of director
Richard Cross

Signature of director/company secretary

Name of director/company secretary
Jason Wells**Executed by Bega Cheese Limited by:**

Signature of director

Name of director
Tom M. D'Arcy

Signature of director/company secretary

Name of director/company secretary
BRETT KELLY

Notice of general meeting

Tatura Milk Industries Limited **ACN 006 603 970**

Notice of general meeting

Notice is given that a meeting of members of Tatura Milk Industries Limited (**Tatura Milk**) will be held at the Sir Ian McLennan Centre, Echuca Road, Mooroopna, Victoria on Wednesday 14 December 2011 at 11:00 am (Melbourne time).

Item 1 — Modification of constitution

To consider and if thought fit pass the following resolution as a **special resolution**:

That the constitution of Tatura Milk be modified as follows:

1. Insert the following new definition in alphabetical order in article 1(1):

““Scheme” means the scheme of arrangement between the Company and the holders of A class shares under part 5.1 of the Act the terms of which are embodied in the scheme of arrangement deed dated 9 November 2011 between the Company and Bega Cheese Limited, as proposed or effected;”

2. Insert the following new paragraph at the end of article 4(2):

‘Article 4(2)(b) does not apply to Bega Cheese Limited in circumstances where it becomes the holder of A class shares due to the acquisition of A class shares under the Scheme. Further, this article 4 shall cease to apply and to have any effect after the Company becomes a wholly-owned subsidiary of Bega Cheese Limited upon the Scheme taking effect.’

3. Insert the following words after the ‘statute’ at the end of article 25(1)(a):

‘or, in the case of the transfer to Bega Cheese Limited under the Scheme, there has been delivered to the Company the scheme of arrangement deed which embodies the terms of the Scheme or such other proper instrument of transfer, duly stamped if necessary’

4. Insert the following after the word ‘Supplier’ at the end of article 25(1)(c):

‘, or the transfer is to Bega Cheese Limited of A class shares acquired by Bega Cheese Limited under the Scheme. This article 25(1)(c) shall cease to apply and to have any effect after the Company becomes a wholly-owned subsidiary of Bega Cheese Limited upon the Scheme taking effect’

5. Insert the following new paragraph at the end of article 65(5):

‘Article 65(5)(b) shall cease to apply and to have any effect after the Company becomes a wholly-owned subsidiary of Bega Cheese Limited upon the Scheme taking effect.’

6. Insert the following words after the word ‘Directors’ at the end of article 66(1)(a):

‘or after the Company becomes a wholly-owned subsidiary of Bega Cheese Limited upon the Scheme taking effect, up to the maximum number of Directors’

7. Insert the following new paragraph (g) in article 72(1):

‘is a Director other than a Majority Shareholder Director and the Company becomes a wholly-owned subsidiary of Bega Cheese Limited upon the Scheme taking effect; or’

and relabel the existing paragraph (g) of article 72(1) as paragraph (h).

Item 2 — selection of 2 Dairy Farmer Supplier Directors to be appointed to Bega Cheese board

To conduct a ballot for the selection of 2 of the Dairy Farmer Supplier Directors (Rick Cross, Ken Wood, Fred De Cicco and Jeff Odgers) that are to be appointed as directors of Bega Cheese Limited in connection with the merger of 100% of Tatura Milk with Bega Cheese Limited.

Dated: 17 November 2011

By order of the board



.....
Paul van Heerwaarden
Company Secretary

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one proxy or, if the member is entitled to cast two or more votes at the meeting, two proxies to attend and vote on behalf and instead of the member.
2. Where two proxies are appointed, each proxy must be appointed to represent a specified proportion or number of the member’s votes. If the appointment does not specify the proportion or number of the member’s votes each proxy may exercise, each proxy may exercise half of the votes.
3. A proxy need not be a member.
4. A proxy form accompanies this notice. To be valid it must be received together with the power of attorney or other authority (if any) under which the form is signed, or a certified copy of that power or authority, not less than 48 hours before the time for holding the meeting, namely by 11:00 am (Melbourne time) on Monday 12 December 2011 at Tatura Milk’s registered office at 236 Hogan Street, Tatura, Victoria, 3616 by hand delivery or post or fax (fax no: (03) 5824 2534).

5. Regulation 7.11.37 determination: A determination has been made by the board of directors of Tatura Milk under regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that those persons who are registered as the holders of shares in Tatura Milk as at 7:00 pm (Melbourne time) on Monday 12 December 2011 will be taken to be the holders of shares for the purposes of determining voting entitlements at the meeting.

Voting exclusion

Tatura Milk will disregard any votes cast in the ballot under item 2 by Bega Cheese Limited or any subsidiary of Bega Cheese Limited.

Defined terms

A word or term defined in section 10 of the scheme booklet of which this notice forms part, has the same meaning in this notice, unless the context otherwise requires.

Notice of Scheme meeting

Tatura Milk Industries Limited **ACN 006 603 970**

Notice of scheme meeting

Notice is given, in accordance with an order of the Supreme Court of Victoria on 17 November 2011, under section 411(1) of the *Corporations Act* 2001 (Cth), that a meeting of members of Tatura Milk Industries Limited (**Tatura Milk**) who hold A class redeemable preference shares in Tatura Milk will be held at the Sir Ian McLennan Centre, Echuca Road, Mooroopna, Victoria on Wednesday 14 December 2011, immediately following the conclusion of the general meeting of Tatura Milk (which is to be held at the same place on that date commencing at 11:00 am (Melbourne time)).

Resolution — Scheme of arrangement

To consider and if thought fit pass the following resolution:

That the scheme of arrangement proposed to be made between Tatura Milk and its members holding A class redeemable preference shares pursuant to the scheme of arrangement deed between Tatura Milk and Bega Cheese Limited, a copy of which has been tabled at the meeting and signed by the chairman for the purposes of identification, be approved.

Dated: 17 November 2011

By order of the board



.....
Paul van Heerwaarden
Company Secretary

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one proxy or, if the member is entitled to cast two or more votes at the meeting, two proxies to attend and vote on behalf and instead of the member.
 2. Where two proxies are appointed, each proxy must be appointed to represent a specified proportion or number of the member's votes. If the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.
 3. A proxy need not be a member.
-

4. A proxy form accompanies this notice. To be valid it must be received together with the power of attorney or other authority (if any) under which the form is signed, or a certified copy of that power or authority, by 11:00 am (Melbourne time) on Monday 12 December 2011 at Tatura Milk's registered office at 236 Hogan Street, Tatura, Victoria, 3616 by hand delivery or post or fax (fax no: (03) 5824 2534).
5. Regulation 7.11.37 determination: A determination has been made by the board of directors of Tatura Milk under regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that those persons who are registered as the holders of A class redeemable preference shares in Tatura Milk as at 7:00pm (Melbourne time) on Monday 12 December 2011, excluding Bega Cheese Limited or any subsidiary of Bega Cheese Limited, will be taken to be the holders of those A class redeemable preference shares for the purposes of determining voting entitlements at the scheme meeting.

Eligibility to attend and vote

This scheme meeting is a meeting of the members of Tatura Milk who hold A class redeemable preference shares in Tatura Milk, excluding Bega Cheese Limited or any subsidiary of Bega Cheese Limited. Only those members are entitled to attend and vote at the scheme meeting.

Convening of this meeting

The Supreme Court of Victoria has ordered the convening of the scheme meeting to consider the proposed scheme of arrangement between Tatura Milk and its members who hold A class redeemable preference shares. The court has directed that Richard Cross or, if he is unable or unwilling to act, Fred De Cicco to act as chair of the scheme meeting and has also directed the chair to report the result of the meeting to the court to the extent it relates to the scheme of arrangement. The scheme of arrangement, if approved by members, will be subject to the subsequent approval of the court. This notice should be read in conjunction with the scheme booklet of which this notice forms part. The scheme booklet contains, among other things, a copy of the scheme of arrangement as contained in the scheme of arrangement deed between Tatura Milk and Bega Cheese Limited. The scheme booklet also provides information about the scheme of arrangement and should be read in its entirety.

Defined terms

A word or term defined in section 10 of the scheme booklet of which this notice forms part, has the same meaning in this notice, unless the context otherwise requires.

Corporate directory

Tatura Milk Industries Limited

ABN 66 006 603 970

Registered office

236 Hogan Street
Tatura VIC 3616

Directors

Barry Irvin AM
Richard Parbery
Colin Griffin
Aidan Coleman
Rick Cross
Ken Wood
Fred De Cicco
Jeff Odgers

Executive general manager

Paul van Heerwaarden

Company secretaries

Colin Griffin
Paul van Heerwaarden
Jason Wells

Corporate adviser

Lawler Corporate Finance Pty Ltd
Level 9, 1 O'Connell Street
Sydney NSW 2000

Independent expert

Value Adviser Associates Pty Ltd
Level 2
65 Southbank Boulevard
Southbank VIC 3006

Merger inquiry contact details

Stuart Brown
Tatura Milk
(03) 5824 6200

Lawyers

Norton Gledhill
Commercial Lawyers
Level 23, 459 Collins Street
Melbourne VIC 3000

Taxation adviser

MB+M Business Solutions
Chartered Accountants
23 Nixon Street
Shepparton VIC 3630